

FRANCIS MARION UNIVERSITY

Independent Auditor's Report

**Financial Statements and Schedules
For the Year Ended June 30, 2008**

FRANCIS MARION UNIVERSITY

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FINANCIAL INFORMATION

Independent Auditors' Report

To the Honorable Mark Sanford,
Governor of the State of South Carolina
And the Board of Trustees of
Francis Marion University
Florence, South Carolina

We have audited the accompanying financial statements of Francis Marion University (the University), a department of the State of South Carolina, as of and for the year ended June 30, 2008. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Francis Marion University Foundation. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the Francis Marion University 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 the standards applicable to financial audits contained in *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 financial statements are free of material misstatement. The financial statements of the Francis Marion University Foundation were not required to be audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, the financial statements of the University are intended to present the financial position, changes in net assets and cash flows, where applicable, of only that part of the business type activities that are attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2008, and the 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Francis Marion University, as of June 30, 2008, and the results of its operations and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 11, 2008 on our consideration of Francis Marion University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 result 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the accompanying Table of Contents is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards listed in the single audit section of the table of contents is presented for purposes of additional analysis as required by the 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 of Francis Marion University. 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.

A handwritten signature in blue ink, reading "Clint Brantley, CPA". The signature is fluid and cursive, with the initials "C.B." and "CPA" clearly visible.

September 11, 2008

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, 2008 with selected comparative information for the year ended June 30, 2007. 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

	2008	2007	Increase/ (Decrease)	Percent Change
Assets:				
Current assets	\$ 32,427,092	\$ 26,634,393	\$ 5,792,699	21.75%
Capital assets, net of accumulated depreciation	38,429,902	33,669,727	4,760,175	14.14%
Other noncurrent assets	9,981,592	8,425,987	1,555,605	18.46%
Total assets	80,838,586	68,730,107	12,108,479	17.62%
Liabilities:				
Current liabilities	3,978,918	3,123,568	855,350	27.38%
Noncurrent liabilities	5,064,849	6,112,034	(1,047,185)	(17.13%)
Total liabilities	9,043,767	9,235,602	(191,835)	(2.08%)
Net assets:				
Invested in capital assets, net of debt	38,533,620	32,513,795	6,019,825	18.51%
Restricted - nonexpendable	200,000	200,000	-	0.00%
Restricted - expendable	28,488,153	21,283,850	7,204,303	33.85%
Unrestricted	4,573,046	5,496,860	(923,814)	(16.81%)
Total net assets	\$ 71,794,819	\$ 59,494,505	\$ 12,300,314	20.67%

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

- Total assets of the University increased by \$12.1 million.
- The increase in current assets was mainly attributable to additional gifts receivable for the construction of the Performing Arts Center.
- The increase in construction in progress for the completed portions of the Center for the Child, as well as architectural fees for the Performing Arts Center 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 decreased by \$192,000.
- An increase in current liabilities is largely due to an increase in accounts payable. The amount is primarily composed of amounts for

construction that was completed but not yet paid for at year end.

- The significant decrease in noncurrent liabilities is largely due to the defeasement of the University's 2005C state institutional bonds outstanding balance of \$945,000. Please see note 13 of the financial statements for further details.
- Total net assets increased by \$12.3 million, which was largely attributable to restricted funds for construction projects as well as the completed portions of these 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

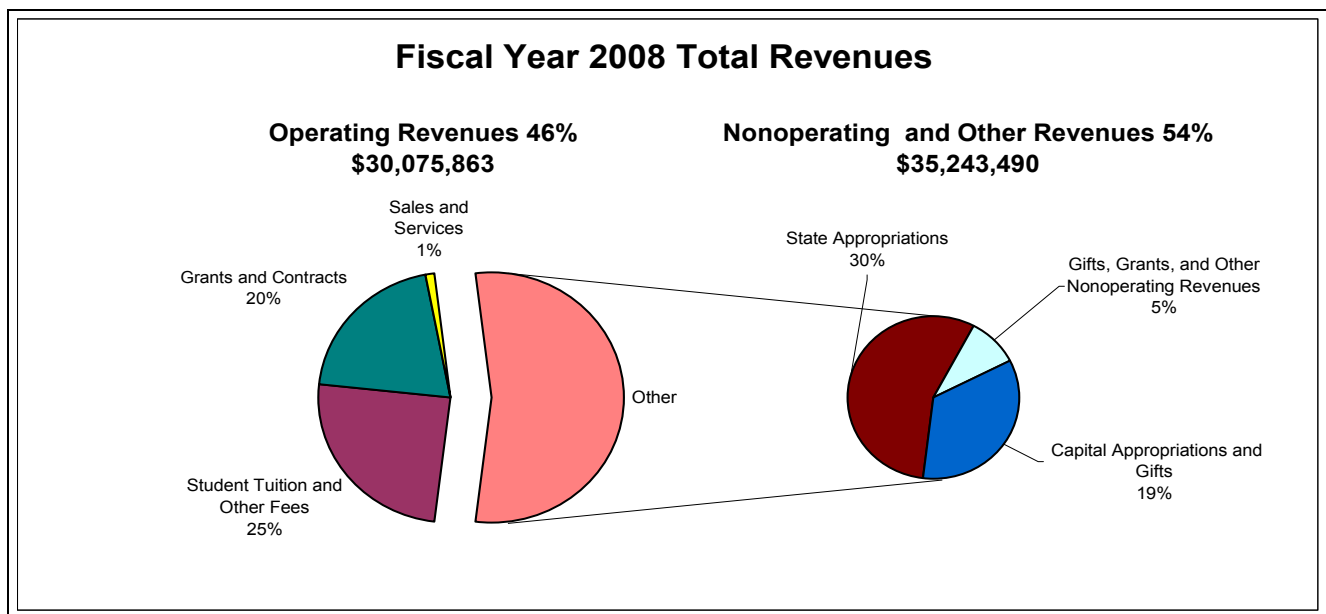
	2008	2007	Increase/ (Decrease)	Percent Change
Revenues:				
Student tuition and fees	\$ 15,690,033	\$ 15,161,205	\$ 528,828	3.49%
Grants and contracts	13,082,011	11,794,796	1,287,215	10.91%
Sales and services	772,118	807,370	(35,252)	(4.37%)
Other operating revenues	531,701	475,696	56,005	11.77%
Total operating revenues	30,075,863	28,239,067	1,836,796	6.50%
State appropriations	19,710,768	16,627,375	3,083,393	18.54%
Research infrastructure bonds	651,305	407,987	243,318	59.64%
Grants	536,467	533,190	3,277	0.61%
Gifts	1,308,090	893,008	415,082	46.48%
Investment income	722,120	587,302	134,818	22.96%
Other nonoperating revenues	209,911	176,890	33,021	18.67%
Total nonoperating revenues	23,138,661	19,225,752	3,912,909	20.35%
Total revenues	53,214,524	47,464,819	5,749,705	12.11%
Expenses:				
Compensation and employee benefits	35,261,212	32,156,847	3,104,365	9.65%
Services and supplies	9,885,226	8,080,613	1,804,613	22.33%
Utilities	1,849,363	1,636,094	213,269	13.04%
Depreciation	1,984,052	2,018,323	(34,271)	(1.70%)
Scholarships	3,953,692	3,832,884	120,808	3.15%
Total operating expenses	52,933,545	47,724,761	5,208,784	10.91%
Interest expense	63,390	66,554	(3,164)	(4.75%)
Total nonoperating expenses	63,390	66,554	(3,164)	(4.75%)
Total expenses	52,996,935	47,791,315	5,205,620	10.89%
Income (loss) before other revenues, expenses, gains, losses, and transfers	217,589	(326,496)	544,085	(166.64%)
State capital appropriations	4,000,000	7,000,000	(3,000,000)	(42.86%)
Capital improvement bond revenue	104,829	-	104,829	100.00%
Loss on defeasance of bond	(22,104)	-	(22,104)	100.00%
Capital gifts	8,000,000	13,231,753	(5,231,753)	(39.54%)
Increase (decrease) in net assets	12,300,314	19,905,257	(7,604,943)	(38.21%)
Net assets - beginning of year	59,494,505	39,589,248	19,905,257	50.28%
Net assets - end of year	\$ 71,794,819	\$ 59,494,505	\$ 12,300,314	20.67%

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:

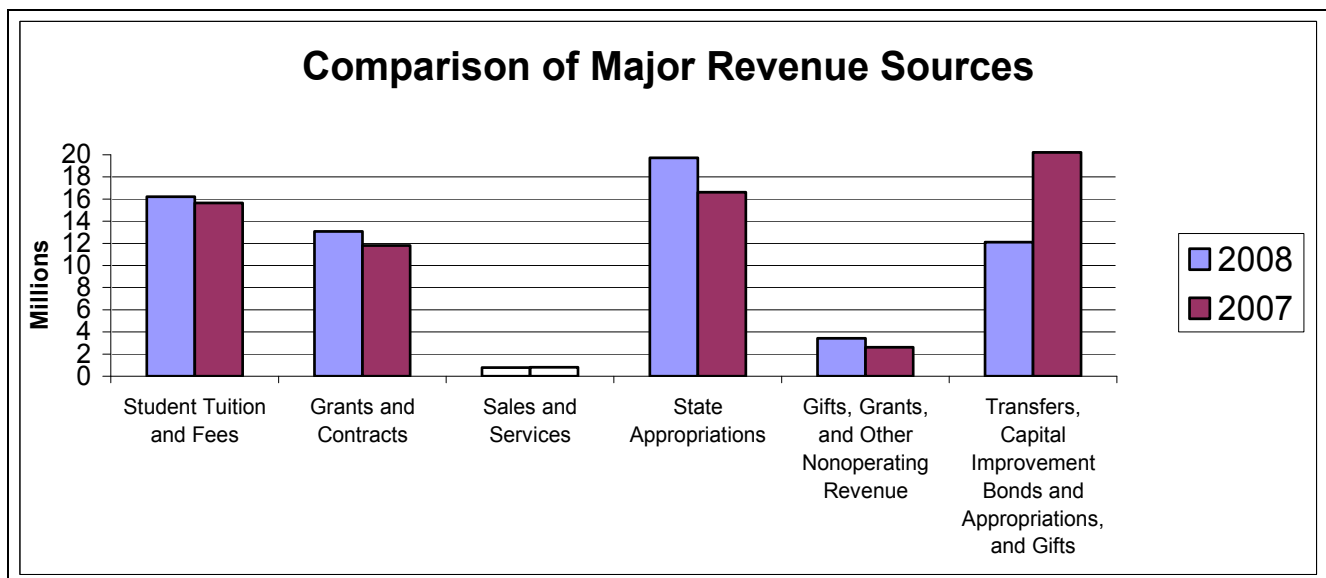
- The University experienced a \$1.8 million increase in operating revenues. This is primarily comprised of fee increases for student tuition and increases in federal and state grants.

- The increase in nonoperating revenue is due to the \$3 million increase in state appropriations and moderate increases in gifts and investment income.
- The decrease in other revenues was attributable to a \$3 million decrease in capital appropriations and a decrease in capital gifts of approximately \$5 million.

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

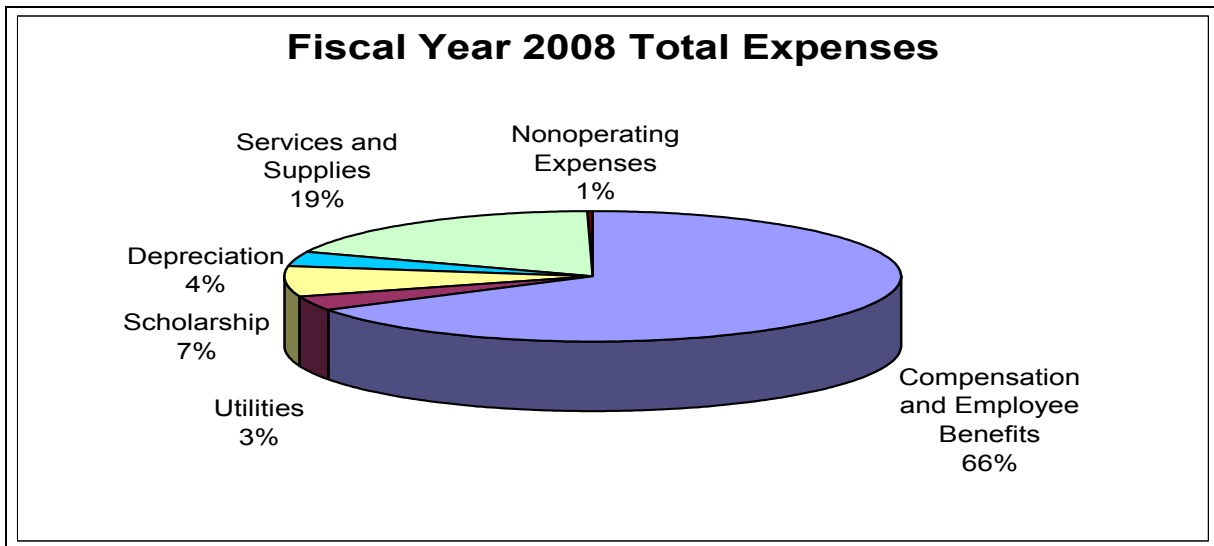


The graph below, comparing 2008 revenue sources to 2007, illustrates the changes in major revenue sources.

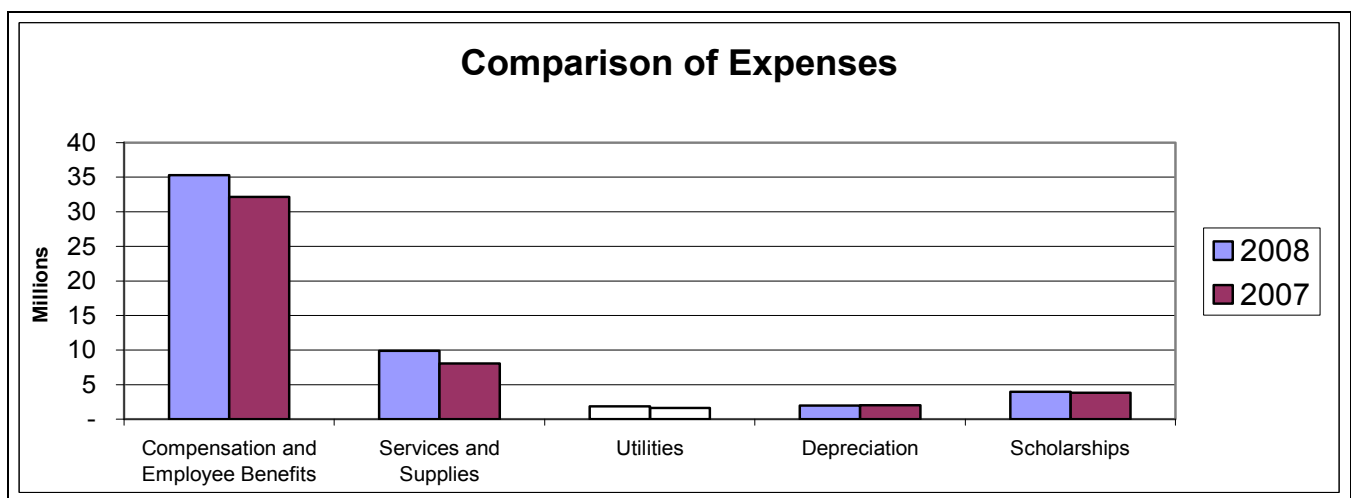


- Total operating expenses have increased \$5.2 million.
- The 2007 – 2008 Appropriations Act approved a 3% cost of living salary increase and the Board of Trustees approved an additional 3% salary increase. These increases, coupled with hiring new faculty and staff, accounted for \$3.1 million of the increase.
- An increase in utilities attributed to the operations of the new Grille and Nursing Building accounted for a \$200,000 increase.
- A \$1.8 million increase in supplies and other services was mainly attributable to maintenance and capital projects.

The following graph displays expense categories.



The graph below compares 2008 expenses to the subsequent year and illustrates the changes in major expense types.



Statement of Cash Flows

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

Capital Assets and Debt

Total assets net of depreciation for the University is \$38,429,902 at June 30, 2008. Construction in progress of \$7,462,959 consists primarily of payments for architect fees for the School of Education and Business and the Performing Arts Center, as well as construction costs for the Center

for the Child. Please see note 6 of the financial statements for further details.

The Series 2005C State Institution Bonds outstanding balance of \$945,000 was defeased during the year. Details are available in note 13.

Debt on capital assets is approximately \$64,000. Details of the bonds and capital leases are available in notes 12, 13, and 14.

Economic Outlook

Francis Marion University is one of the state-supported universities of South Carolina and is, therefore, closely tied to the economic position of the state. During the 2008 fiscal year, the State of South Carolina incurred a \$250 million deficit. As the 2009 fiscal year started, agency budgets showed few cuts; however, revenue collections continued to fall short of needs and the Budget Board voted a 3% reduction for agencies in August 2008.

The University's overall financial position is strong despite the cuts. Appropriations, along with tuition and fees, are adequate to fund the operations for the coming year and the University does not expect the current reductions to materially affect its operation or to curtail any planned improvements.

Francis Marion University
Statement of Net Assets
June 30, 2008

ASSETS

Current Assets

Cash and cash equivalents	\$ 8,745,608
Accounts receivable (net of allowance for doubtful accounts \$159,921)	22,508,832
Accrued interest receivable	127,344
Due from Francis Marion University Foundation	55,969
Prepaid expenses	989,339
Total current assets	32,427,092

Noncurrent Assets

Restricted cash and cash equivalents	8,181,824
Notes receivable - due from Francis Marion University Foundation	225,460
Perkins loans receivable	1,574,308
Capital assets, net of accumulated depreciation	38,429,902
Total noncurrent assets	48,411,494
Total assets	80,838,586

LIABILITIES

Current Liabilities

Accounts payable	1,358,382
Accrued payroll and related liabilities	147,320
Accrued compensated absences - current portion	1,245,781
Student deposits - current portion	73,200
Deferred revenues and unearned student revenues	803,565
Capital leases payable - current portion	22,296
Deposits held for others	328,374
Total current liabilities	3,978,918

Noncurrent Liabilities

Accrued compensated absences	588,400
Student deposits	66,475
Deferred revenue	2,719,342
Capital leases payable	41,434
Perkins liability	1,649,198
Total noncurrent liabilities	5,064,849
Total liabilities	9,043,767

NET ASSETS

Invested in capital assets, net of related debt	38,533,620
Restricted for	
Nonexpendable	
Scholarships and fellowships	200,000
Expendable	
Scholarships and fellowships	96,498
Instructional department uses	424,647
Loans	472,700
Capital projects	27,456,764
Other	37,544
Unrestricted	4,573,046
Total net assets	\$ 71,794,819

The accompanying notes are an integral part of the financial statements.

Francis Marion University
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2008

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$9,268,762)	\$ 15,690,033
Federal grants and contracts	6,155,043
State grants and contracts	6,846,359
Local grants and contracts	68,783
Non-governmental grants and contracts	11,826
Sales and services of educational and other activities	170,180
Sales and services of auxiliary enterprises	601,938
Other operating revenues	531,701
Total operating revenues	30,075,863

OPERATING EXPENSES

Salaries and wages	27,630,980
Benefits	7,630,232
Supplies and other services	9,885,226
Utilities	1,849,363
Scholarships	3,953,692
Depreciation	1,984,052
Total operating expenses	52,933,545
Operating income (loss)	(22,857,682)

NONOPERATING REVENUES (EXPENSES)

State appropriations	19,710,768
Research infrastructure bond proceeds	651,305
State grants	536,467
Gifts	1,308,090
Investment income	722,120
Interest and other fees on capital asset related debt	(63,390)
Other nonoperating revenues	209,911
Net nonoperating revenue	23,075,271
Income (loss) before other revenues, expenses, gains, losses, and transfers	217,589
State capital appropriations	4,000,000
Capital improvement bonds revenue	104,829
Loss on defeasance of bonds	(22,104)
Capital gifts	8,000,000
Increase in net assets	12,300,314

Net assets - beginning of year	59,494,505
Net assets - end of year	\$ 71,794,819

The accompanying notes are an integral part of the financial statements.

Francis Marion University
Statement of Cash Flows
For the Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 15,672,025
Grants and contracts	13,215,888
Sales and services of educational and other activities	143,799
Sales and services of auxiliary enterprises	516,693
Receipts for reimbursements	2,427,703
Payments to suppliers	(12,774,907)
Payments to employees	(28,297,875)
Payments for benefits	(7,785,872)
Payments for scholarships	(3,935,289)
Loans to students	(167,609)
Collection of loans	214,061
Inflows from Stafford loans	19,859,291
Outflows from Stafford loans	(19,845,621)
Inflows from agency funds	7,506,544
Outflows from agency funds	(7,508,585)
Other receipts	752,993
Net cash (used) by operating activities	<u>(20,006,761)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	19,710,768
Research infrastructure bond proceeds	967,272
State grants	536,466
Gifts	1,138,604
Net cash flow provided by noncapital financing activities	<u>22,353,110</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State capital appropriations	3,981,338
Capital grants and gifts received	2,000,000
Purchases of capital assets	(6,266,944)
Proceeds from sale of capital assets	3,325
Principal paid on bond payable	(1,060,000)
Principal paid on capital leases	(32,203)
Fees paid on defeasance of bonds	(22,104)
Interest and fees	(63,390)
Net cash provided by capital and related financing activities	<u>(1,459,978)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	716,270
Net cash flows provided by investing activities	<u>716,270</u>

Net change in cash	1,602,641
Cash and cash equivalents - beginning of year	15,324,791
Cash and cash equivalents - end of year	<u>\$ 16,927,432</u>

The accompanying notes are an integral part of the financial statements.

Francis Marion University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2008

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

Operating (loss)	\$ (22,857,682)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:	
Nonoperating revenues	206,586
Noncash gifts	128,018
Depreciation expense	1,984,052
Bad debts	30,748
Loan cancellations	72,895
Changes in asset and liabilities:	
Receivables net	1,833
Loans to students	46,452
Deferred charges and prepayments	(27,698)
Accounts payable	241,036
Accrued payroll and related liabilities	(85,841)
Deferred revenues and unearned student revenues	(103,023)
Perkins liability	(16,674)
Deposits held for others	202,041
Accrued compensated absences	170,496
Net cash (used) by operating activities	<u>\$ (20,006,761)</u>

Noncash capital and related financing activities:

The University disposed of equipment with costs and accumulated depreciation of \$46,862.

The accompanying notes are an integral part of the financial statements.

Francis Marion University Foundation
Statement of Financial Position
June 30, 2008

ASSETS

Cash and cash equivalents	\$ 3,622,284
Investments	10,807,473
Contributions receivable, net	1,164,187
Accrued interest receivable	27,062
Assets held in trust by others	1,226,627
Property and equipment, net	1,228,260
Other assets	589,658
Total assets	<u>18,665,551</u>

LIABILITIES

Accounts payable	32,126
Due to Francis Marion University	55,969
Note payable - Francis Marion University	225,460
Bonds payable	1,400,000
Total liabilities	<u>1,713,555</u>

NET ASSETS

Unrestricted	2,904,947
Temporarily restricted	3,606,117
Permanently restricted	10,440,932
Total net assets	<u>\$ 16,951,996</u>

The accompanying notes are an integral part of the financial statements.

Francis Marion University Foundation
Statement of Activities
For the Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Gifts and bequests	\$ 456,424	\$ 1,184,239	\$ 1,362,939	\$ 3,003,602
Trust income	55,000	44,116	-	99,116
Investment income	31,753	463,331	3,312	498,396
Management fees	31,250	170,000	-	201,250
Rent and other income	45,413	-	-	45,413
Net unrealized and realized gains (losses) on investments	(1,240,328)	-	-	(1,240,328)
Net assets released from program restrictions	1,091,255	(1,153,673)	62,418	-
Total revenues, gains and other support	<u>470,767</u>	<u>708,013</u>	<u>1,428,669</u>	<u>2,607,449</u>
EXPENSES				
Program Expenses	1,369,016			1,369,016
General and administrative	412,769	-	-	412,769
Fundraising	29,374	-	-	29,374
Total expenses	<u>1,811,159</u>	<u>-</u>	<u>-</u>	<u>1,811,159</u>
Change in net assets	(1,340,392)	708,013	1,428,669	796,290
Net assets - beginning of year	<u>4,245,339</u>	<u>2,898,104</u>	<u>9,012,263</u>	<u>16,155,706</u>
Net assets - end of year	<u>\$ 2,904,947</u>	<u>\$ 3,606,117</u>	<u>\$ 10,440,932</u>	<u>\$ 16,951,996</u>

The accompanying notes are an integral part of the financial statements.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 market value. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses and changes in net assets.

The Foundation's investment securities and donated negotiable assets are stated at market value. Investment income, net of external and internal

FRANCIS MARION UNIVERSITY
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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.

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 of two years or greater 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 prorata share of net earnings on the loans under this program that would have to be repaid to the federal government if the University ceases to participate in the program. The University recognizes as revenue and expenses only the portion attributable to its matching contribution.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt:

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

FRANCIS MARION UNIVERSITY
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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 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.

FRANCIS MARION UNIVERSITY
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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)	\$ 8,745,608	Cash on hand	\$ 26,025
Restricted cash and cash equivalents (noncurrent):		Deposits held by State Treasurer	16,901,407
Exchange grants	547,146		
Perkins loan funds	504,701		
Capital projects	7,129,977		
Total	<u>\$ 16,927,432</u>	Total	<u>\$ 16,927,432</u>

Deposits Held by State Treasurer

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

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

Other Deposits

The Foundation maintains its cash balances in various financial institutions. As of June 30, 2008, there were uninsured amounts at the institutions of \$1,530,934.

FRANCIS MARION UNIVERSITY
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Investments

The Foundation investments as of June 30, 2008, are summarized as follows:

Certificates of deposit	\$ 575,887
Mutual funds - debt	4,403,935
Mutual funds - equity	2,856,233
Equity securities	595,334
Corporate bonds	2,141,350
Government and agency	102,563
Mortgage-backed securities	132,171
Total	<u><u>\$ 10,807,473</u></u>

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 objectives and policies, as adopted by its Board of Directors.

NOTE 3 – RECEIVABLES

Accounts Receivable

The University accounts receivable as of June 30, 2008, are summarized as follows:

Current:	
Student tuition and fees	\$ 458,822
Allowance for doubtful accounts	(159,921)
Federal grants and contracts	249,613
State and local grants and contracts	63,106
Sales and services of education departments	13,726
Auxiliary services	801,658
Capital gifts	12,000,000
Capital appropriation	8,956,802
Other	125,026
Net accounts receivable	<u><u>\$ 22,508,832</u></u>

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

allowance for uncollectible student accounts is valued at \$159,921.

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, 2008, the

The University is reimbursed for contractual services provided to outsourced auxiliary contractors. Reimbursements due for these services at June 30,

FRANCIS MARION UNIVERSITY
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2008, are \$484,049 and are included in accounts receivable – auxiliary services.

The University advanced \$200,000 to Sodexho, the food service contractor and is included in accounts receivable – auxiliary enterprises. The advance is for

the term of the contract, which ends on August 15, 2008.

Contributions Receivable

The Foundation contributions receivable as of June 30, 2008, are summarized as follows:

Unconditional promises expected to be collected in:	
Less than one year	\$ 114,329
One year to five years	<u>1,373,639</u>
	1,487,968
 Less discounts to net present value	 44,639
Less allowance for uncollectible contributions	<u>279,142</u>
Net contributions receivable	<u><u>\$1,164,187</u></u>

The receivables from six donors accounts for approximately 82.2% 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, 2008. 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 Foundation is the named beneficiary of a charitable lead annuity trust under which the Foundation receives quarterly payments of \$11,000 through 2014.

The Foundation's ownership in these trusts was valued at \$1,226,627 at June 30, 2008.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 – CAPITAL ASSETS

Capital assets activity of the University for the year ended June 30, 2008, is summarized as follows:

	Beginning Balance July 1, 2007	Increases	Decreases	Ending Balance June 30, 2008
Capital assets not being depreciated:				
Land and improvements	\$ 2,956,222	\$ -	\$ -	\$ 2,956,222
Construction in progress	959,695	6,503,264	-	7,462,959
Art work and historical treasures	180,948	-	-	180,948
Total capital assets not being depreciated	4,096,865	6,503,264	-	10,600,129
Other capital assets:				
Land improvements	2,808,506	-	-	2,808,506
Buildings and improvements	64,098,412	-	-	64,098,412
Computer software	131,895	-	-	131,895
Machinery, equipment, and other	2,633,362	240,963	46,862	2,827,463
Vehicles	254,979	-	-	254,979
Total other capital assets at historical cost	69,927,154	240,963	46,862	70,121,255
Less accumulated depreciation for:				
Land improvements	2,055,578	66,002	-	2,121,580
Buildings and improvements	35,806,612	1,729,194	-	37,535,806
Computer software	131,895	-	-	131,895
Machinery, equipment, and other	2,126,957	175,434	46,862	2,255,529
Vehicles	233,250	13,422	-	246,672
Total accumulated depreciation	40,354,292	1,984,052	46,862	42,291,482
Other capital assets, net of accumulated depreciation	29,572,862	(1,743,089)	-	27,829,773
Capital assets, net of accumulated depreciation	\$ 33,669,727	\$ 4,760,175	\$ -	\$ 38,429,902

FRANCIS MARION UNIVERSITY
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Property and Equipment

Property and equipment of the Foundation as of June 30, 2008, consists of the following:

Land	\$ 120,900
Building	1,109,009
Furniture and equipment	<u>67,033</u>
	1,296,942
Less accumulated depreciation	<u>68,682</u>
Property and equipment, net	<u><u>\$ 1,228,260</u></u>

Depreciation expense of \$30,294 was recognized for the year ended June 30, 2008.

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 a carrying value of \$557,561 as of June 30, 2008.

In addition, the Foundation has ownership in the cash surrender value of various life insurance policies valued at \$32,097 as of June 30, 2008.

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, 2006, employees participating in the SCRS were required to contribute 6.50 percent of all compensation. Effective July 1, 2008, the employer contribution rate increased to 12.48 percent which included a 3.42 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, 2008, 2007, and 2006, were approximately \$1,678,000, \$1,416,000, \$1,290,000, respectively, and equaled the required contributions of 9.06 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$27,800 in the current fiscal year at the rate of .15 percent of compensation. The University

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paid the employer's 9.06 percent share, included in the amount above, of approximately \$2,500 of pension costs for employees on educational leave with employees paying approximately \$1,800.

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, 2008, the employer contribution rate increased to 13.72 percent that, as for the SCRS, included the 3.42 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2008, 2007, and 2006, were approximately \$51,300, \$48,600, and \$43,100, respectively, and equaled the required contributions of 10.3 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$1000 and accidental death insurance contributions of approximately \$1000 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, 9.06 percent plus the retiree surcharge of 3.42 percent from the employer in fiscal year 2008.

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 \$731,300 (excluding the surcharge) from the University as employer and approximately \$524,800 from its employees as plan members. 4.06 percent of the total contributions were remitted to the Retirement Division of the State Budget and Control Board and 5.00 percent was remitted directly to the respective annuity policy holders. Also, the University paid employer group life insurance contributions of approximately \$12,100 in the current fiscal year at the rate of .15 percent of compensation. Included in the total contribution, the University paid the employer's 9.06 percent share of approximately \$7,900 of pension costs for employees on educational leave with employees paying \$5,700. 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.

FRANCIS MARION UNIVERSITY
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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

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The University contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to active state, public school district and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for

its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.42% and 3.35% of annual covered payroll for 2008 and 2007, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The University paid approximately \$926,000 and \$836,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2008 and 2007, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal years ended June 30, 2008 and 2007.

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.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

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.

FRANCIS MARION UNIVERSITY
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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 \$848,600 at June 30, 2008, of which all 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 \$255,932 of authorized undrawn state capital improvement bonds.

The Foundation is a 50% residuary beneficiary of a marital trust, which has a value of approximately \$2,215,049 as of June 30, 2008. The Foundation will receive its share of any remaining assets of the trust upon the death of the primary beneficiary.

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

Deferred revenues and unearned student revenues as of June 30, 2008, are summarized as follows:

Current:

Student tuition and fees	\$ 516,713
Grants and contracts	163,587
Sales and services of education activities	3,700
Housing rentals	108,412
Other	11,153
Net deferred revenues and unearned student revenues	<u>\$ 803,565</u>

Noncurrent:

Housing rental	<u>\$ 2,719,342</u>
Net deferred revenues and unearned student revenues	<u>\$ 2,719,342</u>

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NOTE 12 – LEASE OBLIGATIONS

Future commitments for leases as of June 30, 2008, are as follows:

	Year Ending June 30,	Capital Lease Payments
	2009	\$ 42,816
	2010	27,346
	2011	27,346
	2012	20,509
	2013	-
Total minimum lease payment		<u>118,017</u>
Less: Interest		4,966
Executory and other costs		49,321
Principal outstanding		<u><u>\$ 63,730</u></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 \$157,547 as of June 30, 2008. Accumulated amortization of the leases on this equipment totaled \$114,413 at June 30, 2008, resulting in a book value of \$43,134. Current year amortization expense on capital leases was \$31,509 and is included in depreciation expense. Interest expense on capital leases was \$3,485. The capital leases are with external parties.

Approximately \$40,750 was with other State agencies and the remainder was with external parties.

The Foundation entered into leases of space within its office building for a seven month period ending June 30, 2008. The lease allows automatic renewal unless notification is provided by the tenant. The University leases the largest portion of the space for which \$20,413 was paid by the University during the year. The Foundation recognized \$45,413 in rent revenue from these lease obligations.

Operating Leases

During fiscal year 2008, the University paid \$84,061 for copier leases on a cost per copy basis to external parties. The University also paid \$58,864 on equipment under cancelable operating leases.

The Foundation is obligated under non-cancellable operating leases for two vehicles. The leases require monthly payments in total of \$1,587. The future minimum lease payments required under the leases are as follows:

Year Ending June 30,	
2009	\$ 19,046
2010	<u>9,523</u>
	<u><u>\$ 28,569</u></u>

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Capital Leases – Lessor

During the 2006 fiscal 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

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 year. Tuition fees, as defined by code section 59-107-30, of \$212,305 were collected during fiscal year 2007, which results in a legal annual debt service at June 30, 2007 of \$191,074.

The University made a principal payment of \$115,000 and interest payments of \$37,419 on the series

2005C State Institution Bonds. The outstanding balance of \$945,000 was defeased when the University placed \$950,209 on deposit to pay the bonds as they mature. The University recorded a loss on early refunding of bonds in the amount of \$22,104.

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, 2008, \$1,430,000 of bonds outstanding are considered defeased

During the current year, the Foundation issued JEDA Bonds, in the amount of \$1,400,000, requiring quarterly interest at Prime plus 2% through August 2008. After August 2008, monthly installments of principal and interest are due with the principal due on demand at the August 1, 2022 maturity date.

Maturities on the bonds payable are scheduled as follows:

Year Ending June 30,		
2009	\$	269,488
2010		61,464
2011		65,043
2012		68,646
2013		72,827
Thereafter		1,087,992
	\$	<u>1,625,460</u>

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 14 – LONG-TERM LIABILITIES

Long-term liability activity of the University for the year ended June 30, 2008, is as follows:

	June 30, 2007	Additions	Reductions	June 30, 2008	Due within One year
Bonds, note, and capital leases payable:					
Bonds payable	\$ 1,060,000	\$ -	\$ 1,060,000	\$ -	\$ -
Capital leases payable	95,933	-	32,203	63,730	22,296
Total payables	<u>1,155,933</u>	<u>-</u>	<u>1,092,203</u>	<u>63,730</u>	<u>22,296</u>
Other liabilities:					
Accrued compensated absences	1,663,683	1,409,492	1,238,994	1,834,181	1,245,781
Perkins federal capital contributions	1,650,822	-	1,624	1,649,198	-
Student deposits	146,625	73,350	80,300	139,675	73,200
Deferred housing rentals	2,936,167	-	108,413	2,827,754	108,412
Total other liabilities	<u>6,397,297</u>	<u>1,482,842</u>	<u>1,429,331</u>	<u>6,450,808</u>	<u>1,427,393</u>
Total long-term liabilities	<u>\$ 7,553,230</u>	<u>\$ 1,482,842</u>	<u>\$ 2,521,534</u>	<u>\$ 6,514,538</u>	<u>\$ 1,449,689</u>

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, 2008, and for the year then ended follows.

- | | | |
|----|--|------------|
| a) | Scholarships awarded by the University and funded by the Foundation. (Includes \$44,000 owed to the University at June 30, 2008 and included in accounts receivable.) The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense. | \$ 544,751 |
| b) | Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Foundation. (Includes \$81 owed to the University at June 30, 2008, and included in amount due from the Foundation.) The University recorded these awards as gift revenue and the applicable operating expense. | \$ 228,607 |
| 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. | \$ 80,646 |
| 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 | |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

- | | |
|---|-----------|
| recorded these reimbursements as reductions of the applicable operating expenses. | \$ 83,058 |
| | |
| e) Group life insurance premium payments made by the University and funded by the Foundation. (Includes \$570 owed to the University at June 30, 2008, and included in amount due from Foundation.) The University recorded these amounts as gift revenue and benefits expense. | \$ 7,262 |
| | |
| f) Rent for a motor vehicle used by the University's President in the amount of \$12,646 was paid by the Foundation. Other payments by the Foundation for the benefit of the University and its staff included \$17,898 for club memberships, \$18,514 for other goods and services, \$3,847 for furniture and appliances, \$19,780 for special events and \$12,754 for travel. The University recorded these amounts as gift revenue and the applicable operating expense. | |
| | |
| g) The University paid the Foundation \$31,250 to manage the faculty-alumni facility. The Foundation owes the University \$3,455 for revenue and taxes collected which is included in due from Foundation. | |
| | |
| h) The University paid the Foundation \$80,000 for the administration of the Rural Leadership Capacity Building Program and \$95,833 for the management of the Non-Profit Leadership Institute. | |
| | |
| 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 2008, the endowment lost \$7,930 which was reduced from principal. As of June 30, 2008, the outstanding principal balance is \$225,460. 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 is owed \$7,863 for reimbursement of various expenses paid by the University. | |
| | |
| k) The University paid the Foundation \$20,413 for rental of office space. The University provided janitorial services, refuse disposal, and ground maintenance. | |

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 1112 beds and 8.96 acres of land for their 427 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 2008 is \$108,413, 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, 2008, are \$248,356 and are included in accounts payable.

During the year, the LLC advanced the University \$293,226 for reimbursements of summer housing

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

repairs. At June 30, 2008 the unspent portion of \$162,063 was recorded as deposits held for others. Reimbursements for University employee time paid by the University on behalf of the Real Estate Foundation were \$20,304. The University recorded these reimbursements as reductions of the applicable operating expenses. The Real Estate Foundation also paid the University \$231,000 for building renovations. The University recorded these amounts as gift revenue and the applicable operating expenses.

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, 2008, are summarized as follows:

	Salaries and Wages	Benefits	Supplies and other Services	Utilities	Scholarships	Depreciation	Total
Instruction	\$ 15,423,340	\$ 4,343,747	\$ 971,863	\$ 40,593	\$ -	\$ -	\$ 20,779,543
Research	61,404	9,605	25,728	-	-	-	96,737
Public service	733,971	333,169	919,945	5,808	-	-	1,992,893
Academic support	2,016,199	587,933	2,322,134	8,100	-	-	4,934,366
Student services	2,563,670	717,591	1,742,533	27,799	-	-	5,051,593
Institutional support	3,615,072	730,673	744,961	31,164	-	-	5,121,870
Operation and maintenance of plant	3,213,110	907,244	3,074,259	1,658,627	-	-	8,853,240
Depreciation	-	-	-	-	-	1,984,052	1,984,052
Scholarships	-	-	-	-	3,953,692	-	3,953,692
Auxiliary Enterprises	4,214	270	83,803	77,272	-	-	165,559
Total operating expenses	<u>\$ 27,630,980</u>	<u>\$ 7,630,232</u>	<u>\$ 9,885,226</u>	<u>\$ 1,849,363</u>	<u>\$ 3,953,692</u>	<u>\$ 1,984,052</u>	<u>\$ 52,933,545</u>

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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, 2008:

NON-CAPITAL APPROPRIATIONS

Current year's appropriations:	
Original appropriations per Annual Appropriations Act	\$ 18,382,030
Supplemental Appropriations	
Pay Plan Reimbursement	416,796
Health and Dental Insurance	111,272
I-95 Corridor Study	250,000
From Commission on Higher Education:	
Academic Incentive Endowment Match	11,270
Faculty Salary Supplemental Funds	22,038
MRR Parity Award	487,362
EEDA Teacher Training	30,000
Total non-capital appropriations recorded as current year revenue	<u>\$ 19,710,768</u>

CAPITAL APPROPRIATIONS

Supplemental Appropriations	
Center for the Performing Arts Construction	<u>\$ 4,000,000</u>
Total capital appropriations recorded as current year revenue	<u>\$ 4,000,000</u>

CAPITAL IMPROVEMENT BOND PROCEEDS

Proceeds drawn for capital projects	<u>\$ 104,829</u>
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RESEARCH INFRASTRUCTURE BOND PROCEEDS

Proceeds drawn for deferred maintenance projects	<u>\$ 651,305</u>
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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
June 30, 2008

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,	
	2008	2007
Charges for services	\$ 29,544,162	\$ 27,763,371
Operating grants and contributions	3,308,289	2,666,086
Capital grants and contributions	8,000,000	13,231,753
Less: expenses	(53,019,039)	(47,791,315)
Net program revenues (expenses)	(12,166,588)	(4,130,105)
Transfers:		
State appropriations	19,710,768	16,627,375
Capital appropriations	4,000,000	7,000,000
Capital improvement bond proceeds	104,829	-
Research infrastructure bond proceeds	651,305	407,987
Total transfers	24,466,902	24,035,362
Changes in net assets	12,300,314	19,905,257
Net assets - beginning	59,494,505	39,589,248
Net assets - ending	\$ 71,794,819	\$ 59,494,505

SINGLE AUDIT SECTION

FRANCIS MARION UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDED JUNE 30, 2008

Federal Grantor/Program Title	Federal CFDA Number	Grant/Contract Number	Total Expenditures
Direct Programs:			
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grant	84.007	PO07A073784	131,613
Federal Family Education Loans	84.032		16,096,955
Federal Work-Study Program	84.033	PO33A073784	169,166
Federal Perkins Loan Program - Federal Capital Contributions	84.038	PO38A053784	1,857,050
Federal Pell Grant Program - 2007	84.063	PO63P063163	10,390
Federal Pell Grant Program - 2008	84.063	PO63P073163	4,632,279
Federal Academic Competitiveness Grant - 2007	84.375	P375A063163	375
Federal Academic Competitiveness Grant - 2008	84.375	P375A073163	389,860
Federal SMART Grant - 2007	84.376	P376S063163	2,000
Federal SMART Grant - 2008	84.376	P376S073163	125,722
National Science Foundation			
Mathematical and Physical Sciences	47.049	CHE-0714555	71,119
Education and Human Resources	47.076	DUE-0536797	9,576
Total Direct Programs			23,496,105
Indirect Programs:			
U.S. Department of Education			
Passed Through National Writing Project Corp.			
National Writing Project	84.928A	00-SC10	48,347
Passed Through South Carolina Commission on Higher Education			
Improving Teacher Quality State Grants	84.367B		62,258
Passed Through South Carolina Commission on Higher Education			
Passed Through South Carolina Department of Education			
Mathematics and Science Partnerships	84.366B	08-MS-304-01	164,383
Passed Through South Carolina Department of Education			
Mathematics and Science Partnerships	84.366B	07-MS-304-01	53,813
Passed Through South Carolina Department of Education			
Special Education - Grants to States	84.367A	08-TQ-304-01	15,026
Passed Through South Carolina Department of Education			
Special Education - Grants to States	84.027A	08-CO-304-01	112,553
Passed Through South Carolina Department of Education			
Special Education - Grants to States	84.027A	08-CO-304-02	66,523
National Science Foundation			
Passed through the Mathematical Association of America			
Mathematical and Physical Sciences	47.049	DMS-536991	1,000
Passed through the SC Research Authority and USC			
Education and Human Resources	47.076	EPS-0447660	10,267
Passed through the SC EPSCoR and USC			
Education and Human Resources	47.076	08-1506	12,480
National Aeronautics and Space Administration			
Passed through the College of Charleston			
Space Grant Management Award	43.001	NNG05GI68G	1,866
Total Indirect Programs			548,516
Total Federal Assistance			<u>\$ 24,044,621</u>

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

FRANCIS MARION UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2008

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Francis Marion University and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A – 133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARD EXPENDITURES

Expenditures for student financial aid programs include the federal share of students' Federal Supplemental Educational Opportunity Grant (FSEOG) program grants and Federal Work Study (FWS) program earnings, certain other federal financial aid for students and administrative cost allowances, where applicable.

NOTE 3 – LOAN PROGRAMS

The Federal Educational Loan program provides loans to students and their parents. The loans are made directly from the federal government; therefore there is no loan balance recorded at the University. The totals of loans processed for the current fiscal year are:

Stafford Student Loan - Subsidized	\$ 8,249,276
Stafford Student Loan - Unsubsidized	7,095,363
PLUS	<u>752,316</u>
Total	\$ 16,096,955

The Federal Perkins Loan Program is administered directly by the University and balances and transactions relating to the program are included in the University's financial statements. The balance of loans outstanding under the Federal Perkins Loan program was \$1,574,308 as of June 30, 2008.

Independent Auditors' 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

To the Honorable Mark Sanford,
Governor of the State of South Carolina
And to the Board of Trustees of
Francis Marion University
Florence, South Carolina

We have audited the financial statements of Francis Marion University, a department of the State of South Carolina, as of and for the year ended June 30, 2008, and have issued our report thereon dated September 11, 2008. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the Francis Marion University Foundation as described in our report on Francis Marion University's report. The Francis Marion University Foundation's financial statements were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Francis Marion University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Francis Marion University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Francis Marion University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Francis Marion University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Francis Marion University's financial statements that is more than inconsequential will not be prevented or detected by the Francis Marion University's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Francis Marion University's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the audit committee, management, others within the organization and the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink that reads "Clint Brantley, CPA". The signature is written in a cursive style with a long horizontal line extending from the end.

September 11, 2008

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133

To the Honorable Mark Sanford,
Governor of the State of South Carolina
And to the Board of Trustees of
Francis Marion University
Florence, South Carolina

Compliance

We have audited the compliance of Francis Marion University, a department of the State of South Carolina, 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 each of its major federal programs for the year ended June 30, 2008. Francis Marion 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 each of its major federal programs is the responsibility of Francis Marion University's management. Our responsibility is to express an opinion on Francis Marion 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 Francis Marion 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 Francis Marion University's compliance with those requirements.

In our opinion Francis Marion 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, 2008. The results of our auditing procedures disclosed two instances of noncompliance with those requirements, SD 08-01 and SD 08-02.

Internal Control Over Compliance

The management of Francis Marion 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 Francis Marion 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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Francis Marion University's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the organization and the federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than those specified parties.

A handwritten signature in blue ink, appearing to read "C. Brantley E. Co. RA". The signature is fluid and cursive, with the initials "C. Brantley" followed by "E. Co. RA".

September 11, 2008

FRANCIS MARION UNIVERSITY
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

There were no prior year findings.

FRANCIS MARION UNIVERSITY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Summary of Auditors' Results:

An unqualified opinion was issued on Francis Marion University's general purpose financial statements dated September 11, 2008. No instances of noncompliance were disclosed by the audit of their financial statements.

An unqualified opinion was also issued on compliance of major programs at Francis Marion University dated September 11, 2008. Our audit disclosed two audit findings that are required to be reported under OMB Circular A-133.

The major program at Francis Marion University is the Financial Aid Cluster with the Department of Education. Type A programs are defined as those that expended \$300,000 or more and type B programs are those that expended less than \$300,000. Francis Marion University's total federal awards expended for the year ended June 30, 2008 were between \$10 million and \$100 million.

Francis Marion University qualified as a low risk auditee according to the criteria in OMB Circular A-133.

Findings Relating to Financial Statements:

There were no findings relating to financial statements.

Findings and Questioned Costs: Major Federal Awards Programs Audit:

<u>Financial Aid Cluster</u>	<u>Federal CFDA Number</u>
U.S. Department of Education	
Federal Supplemental Educational Opportunity Grant	84.007
Federal Family Educational Loans	84.032
Federal Work-Study Program	84.033
Federal Perkins Loan Program - Federal Capital Contributions	84.038
Federal Pell Grant Program	84.063
Federal Academic Competitiveness Grant	84.375
Federal SMART Grant	84.376

FRANCIS MARION UNIVERSITY

Schedule of Findings and Questioned Costs, Continued

Year Ended June 30, 2008

Findings and Questioned Costs: Major Federal Awards Programs Audit:, Continued

SD 08-01

Conflicting Information

- Condition: The student submitted documents during the verification process that raised questions about the accuracy or applicability of the FAFSA data. The specifics involved a married couple filing omitting the husband's disability income and the wife filing as head of household.
- Criteria: The school is required to identify and resolve discrepant information. [34 CFR 668.16(f)]
- Cause: The verifier assumed that the inclusion of the disability income would not affect the student's EFC calculation.
- Effect: We are unable to determine the impact that the tax return changes would have on the \$3,410 in PELL and ACG assistance that the student received.
- Recommendation: Utilization of IRS Publication 17 should help identify instances where information is conflicting. We recommend that the conflicting information be resolved.

SD 08-02

PELL

- Condition: One student in our sample received Pell disbursements that exceeded the maximum allowed award by \$400; the University has returned the funds. The audit tested 40 students within the Financial Aid Cluster totaling \$352,707 in disbursed aid.
- Criteria: Congress sets both minimum awards and absolute limits on the maximum grant for a given award year. [Section 401(b)].
- Cause: The University had identified the overpayment but as of the date of the audit had not yet corrected it.
- Effect: An over award of the maximum Pell grant is in violation of Federal statutes.
- Recommendation: Pell awards should be reviewed to avoid an over award situation from occurring.



John J. Kispert
Vice President for
Business Affairs

MANAGEMENT RESPONSES TO AUDIT FINDINGS CORRECTIVE ACTION PLAN

Audit Ref No.

SD 08-01

Conflicting Information

This student's mother filed as head of household but stated in her verification information that she was married. To improve the process we have changed the checklist completed by our counselors to include a review of filing status. If it is determined that the tax filing status is inaccurate then, additional information will be required before an award is made.

SD 08-02

PELL

We believe that this finding represents a random, isolated incident. There are procedures in place that are being followed to ensure the accuracy of the awards process. However, as a result of this finding, we will meet with the staff and review the procedures thoroughly to make sure that this error will not be repeated. In addition, the supervisory staff will increase the number of counselor files that are randomly reviewed as an additional effort to ensure that the procedures are being correctly utilized.

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