State of South Carolina

Office of the State Auditor
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STATE AUDITOR

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October 16, 2000

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

This report on the audit of the financial statements of Francis Marion University for the fiscal year ended June 30, 2000, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

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

Respectfully submitted,

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

FRANCIS MARION UNIVERSITY

FLORENCE, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2000

FRANCIS MARION UNIVERSITY

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YEAR ENDED JUNE 30, 2000

ROGERS & LABAN, PA
CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Francis Marion University (the University) as of June 30, 2000, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying financial statements of the University are intended to present the financial position, changes in fund balances and current funds revenues, expenditures, and other changes and the results of operations and cash flows of its component unit of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of the University, an institution of the State of South Carolina. These financial statements do not include other agencies, institutions, departments, or component units of the State of South Carolina primary government. These financial statements include the financial activities of the Francis Marion University Center for Research and Professional Services, a component unit of the University.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the University at June 30, 2000, and the changes in fund balances and current funds revenues, expenditures, and other changes and the results of operations and cash flows of its component unit for the year then ended in conformity with generally accepted accounting principles.

These financial statements exclude the related entity described in Note 15 from the reporting entity because the University is not financially accountable for this entity. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

As discussed in Note 21, effective July 1, 1999 the University implemented accounting changes regarding functional category classification of certain expenditures and the revenue classification for amounts received from private/nongovernmental sources and began capitalizing internal-use computer software costs.

Rogers & Laban, P.A.

August 31, 2000

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FRANCIS MARION UNIVERSITY

BALANCE SHEET - UNIVERSITY FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT
JUNE 30, 2000

	CURRENT FUNDS				PLANT FUNDS					
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	of Indebtedness	Investment in Plant	Agency Funds	Component Unit	Totals (Memorandum Only)
ASSETS										
Cash & cash equivalents	$ 1,305,106	$ 394,793	$ 196,705	$	$ 898,477	$ 3,928,534	$	$ 104,624	$ 17,769	$ 6,846,008
Accounts receivable, net of provision for doubtful accounts $14,656	375,209	22,745	12,063					1,472		411,489
Interest and investment income receivable			1,786		5,610	67,870				75,266
Endowment income receivable		14,503								14,503
Prepaid items	408,445	13,175								421,620
Inventories	444,452									444,452
Loans to students			1,570,584							1,570,584
Capital improvement bonds proceeds receivable					413,000					413,000
Note receivable				238,400						238,400
Land							632,392			632,392
Non-structural improvements							5,944,658			5,944,658
Buildings							53,561,863			53,561,863
Equipment							2,824,518			2,824,518
Library books and materials							10,646,229			10,646,229
Computer software							18,020			18,020
Less, accumulated amortization							(1,802)			(1,802)
Construction in progress					175,047					175,047
TOTAL ASSETS	$ 2,533,212	$ 445,216	$ 1,781,138	$ 238,400	$ 1,492,134	$ 3,996,404	$ 73,625,878	$ 106,096	$ 17,769	$ 84,236,247
LIABILITIES AND FUNDS EQUITIES										
Accounts payable	$ 34,538	$ 1,437	$	$	$ 151	$	$	$ 46	$	$ 36,172
Accrued payroll and related liabilities	151,343									151,343
Deferred revenues	292,671								17,768	310,439
Student deposits	164,679									164,679
Compensated absences payable and related liabilities	1,222,997									1,222,997
Deposits held for others								106,050		106,050
Accrued interest payable						62,608				62,608
Obligations under capital leases							113,138			113,138
Bonds payable							6,360,000			6,360,000
Fund balances	666,984	443,779	1,781,138	238,400	1,491,983	3,933,796				8,556,080
Net investment in plant							67,152,740			67,152,740
Retained earnings									1	1
TOTAL LIABILITIES AND FUND EQUITIES	$ 2,533,212	$ 445,216	$ 1,781,138	$ 238,400	$ 1,492,134	$ 3,996,404	$ 73,625,878	$ 106,096	$ 17,769	$ 84,236,247

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2000

	CURRENT FUNDS				PLANT FUNDS			
	Unrestricted	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Retirement of Indebtedness	Investment in Plant	Totals (Memorandum Only)
REVENUES AND OTHER ADDITIONS:								
Unrestricted current funds revenues	$ 33,349,627	$	$	$	$	$	$	$ 33,349,627
State appropriations - restricted		1,250,121						1,250,121
Student fees - restricted						303,829		303,829
Federal grants and contracts - restricted		2,459,842	15,924					2,475,766
State grants and contracts - restricted		196,895						196,895
Local grants and contracts - restricted		6,456						6,456
Private gifts - restricted		928,558			6,997		15,785	951,340
Capital improvement bond proceeds					525,000			525,000
Interest/investment income - restricted		7,034	5,608		11,988	292,445		317,075
Endowment income - restricted		52,630						52,630
Interest on loans to students			25,734					25,734
U.S. government advances			49,197					49,197
Expended for plant facilities (including $705,343 charged to current fund expenditures							1,669,283	1,669,283
Addition from capital lease							69,865	69,865
Retirement of indebtedness							906,185	906,185
Other additions			1,474				2,545	4,019
TOTAL REVENUES AND OTHER ADDITIONS	33,349,627	4,901,536	97,937	0	543,985	596,274	2,663,663	42,153,022
EXPENDITURES AND OTHER DEDUCTIONS								
Educational and general expenditures	28,628,437	4,742,555						33,370,992
Auxiliary enterprises expenditures	3,702,348	28,407						3,730,755
Indirect cost recovered		40,984						40,984
Loan cancellations and write-offs			33,990					33,990
Expended for plant facilities (including non-capitalized expenditures of $175,387)					1,139,327			1,139,327
Addition from capital lease							69,865	69,865
Retirement of indebtedness						906,185		906,185
Interest, executory and other costs on indebtedness						290,915		290,915
Amortization of computer software							1,802	1,802
Disposals of plant assets							298,979	298,979
Refunds to grantors		16,160						16,160
Other deductions						2,563		2,563
TOTAL EXPENDITURES AND OTHER DEDUCTIONS:	32,330,785	4,828,106	33,990	0	1,139,327	1,199,663	370,646	39,902,517

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

STATEMENT OF CHANGES IN FUND BALANCES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2000

	CURRENT FUNDS		Loan Funds	Endowment and Similar Funds	PLANT FUNDS			Totals (Memorandum Only)
	Unrestricted	Restricted			Unexpended	Retirement of Indebtedness	Investment in Plant	
TRANSFERS AMONG FUNDS - ADDITIONS/(DEDUCTIONS)								
Mandatory transfers for:								
Principal, interest, executory and other costs	(3,056,518)					3,056,518		
Loan fund matching grant	(16,399)		16,399					
Nonmandatory Transfers:								
Establish quasi-endowment for investment		(38,400)		38,400				
From Unrestricted Current Fund	(607,648)				408,415	199,233		
From Retirement of Indebtedness Fund	2,188,063				353,920	(2,541,983)		
From Unexpended Plant Fund	192,096				(192,096)			
TOTAL TRANSFERS AMONG FUNDS - ADDITIONS (DEDUCTIONS)	(1,300,406)	(38,400)	16,399	38,400	570,239	713,768	0	0
NET INCREASE (DECREASE) FOR THE YEAR	(281,564)	35,030	80,346	38,400	(25,103)	110,379	2,293,017	2,250,505
FUND BALANCES - BEGINNING OF YEAR	948,548	408,749	1,700,792	200,000	1,517,086	3,823,417	64,859,723	73,458,315
FUND BALANCES - END OF YEAR	$ 666,984	$443,779	$ 1,781,138	$238,400	$ 1,491,983	$ 3,933,796	$ 67,152,740	$ 75,708,820

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES

FOR THE YEAR ENDED JUNE 30, 2000

	Unrestricted	Restricted	Totals
REVENUES:			
Student fees	$ 11,855,874		$ 11,855,874
State appropriations	16,045,090	$ 1,234,342	17,279,432
Federal grants and contracts	40,984	2,409,542	2,450,526
State grants and contracts	46,000	202,277	248,277
Local grants and contracts	38,487		38,487
Nongovernmental grants and contracts	370,727		370,727
Private gifts	37,985	906,367	944,352
Interest/investment income		6,820	6,820
Endowment income		11,614	11,614
Sales and services of auxiliary enterprises	4,668,886		4,668,886
Other sources	245,594		245,594
TOTAL CURRENT REVENUES	33,349,627	4,770,962	38,120,589
EXPENDITURES AND MANDATORY TRANSFERS:			
Educational and general:			
Instruction	12,871,605	312,474	13,184,079
Research	294	4,133	4,427
Public service	207,272	209,166	416,438
Academic support	3,259,206	10,772	3,269,978
Student services	2,962,125	58,568	3,020,693
Institutional support	3,620,398	51,859	3,672,257
Operation and maintenance of plant	4,213,543	13,663	4,227,206
Scholarships and fellowships	1,493,994	4,081,920	5,575,914
TOTAL EDUCATIONAL AND GENERAL EXPENDITURES	28,628,437	4,742,555	33,370,992
Mandatory transfer for:			
Loan fund matching grant	16,399		16,399
Principal, interest, executory and other costs	30,212		30,212
TOTAL EDUCATIONAL AND GENERAL	28,675,048	4,742,555	33,417,603
Auxiliary enterprises:			
Expenditures	3,702,348	28,407	3,730,755
Mandatory transfer for principal and interest	3,026,306		3,026,306
TOTAL AUXILIARY ENTERPRISES	6,728,654	28,407	6,757,061
TOTAL EXPENDITURES AND MANDATORY TRANSFERS	35,403,702	4,770,962	40,174,664
OTHER TRANSFERS AND ADDITIONS/(DEDUCTIONS):			
Nonmandatory Transfers from Plant Funds	2,380,159		2,380,159
Nonmandatory Transfers to Plant Funds	(607,648)		(607,648)
Establish quasi-endowment for investment		(38,400)	(38,400)
Refunds to grantors		(16,160)	(16,160)
Excess of restricted receipts over transfers to revenues		89,590	89,590
TOTAL TRANSFERS AND OTHER ADDITIONS (DEDUCTIONS)	1,772,511	35,030	1,807,541
NET INCREASE/(DECREASE) IN FUND BALANCES	$ (281,564)	$ 35,030	$ (246,534)

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY
CENTER FOR RESEARCH AND PROFESSIONAL SERVICES -
A COMPONENT UNIT OF FRANCIS MARION UNIVERSITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30, 2000

Revenues:	$	0
Expenses:		
General and administrative		12
Operating income (loss)		(12)
Nonoperating revenue:		
Interest/investment income		13
Net Income		1
Retained earnings - beginning of year		0
Retained earnings - end of year	$	1

See accompanying Notes to Financial Statements.

FRANCIS MARION UNIVERSITY
CENTER FOR RESEARCH AND PROFESSIONAL SERVICES -
A COMPONENT UNIT OF FRANCIS MARION UNIVERSITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2000

Cash Flows from Operating Activities:	
Cash received from grants	$ 17,768
Cash paid to suppliers and others	(12)
Net cash provided by operating activities	17,756
Cash Flows from Investing Activities:	
Interest/investment income	13
Net cash provided by investing activities	13
Net increase in cash and cash equivalents	17,756
Cash and cash equivalent, beginning of year	0
Cash and cash equivalents, end of year	$ 17,769
Reconciliation of cash flows from operating activities:	
Operating income (loss)	$ (12)
Adjustments to reconcile change in net assets to net cash provided for operating activities:	
(Increase) decrease in deferred revenue	17,768
Net cash provided by operating activities	$ 17,756

See accompanying Notes to Financial Statements

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2000

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Governmental Accounting Standard Board (GASB) is the recognized standard-setting body for generally accepted accounting principles (GAAP) for all state governmental entities including colleges and universities. The financial statements of Francis Marion University have been prepared in accordance with GAAP, as outlined in Governmental Accounting Standards Board (GASB) Statement No. 15. That statement permits the entity to use the American Institute of Certified Public Accountants (AICPA) College Guide model. The AICPA College Guide model is the accounting and financial reporting guidance as defined by the AICPA Industry Audit Guide, *Audits of Colleges and Universities,* as amended by the AICPA Statement of Position (SOP) 74-8, *Financial Accounting and Reporting by Colleges and Universities,* as modified by applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, and as modified by all applicable GASB pronouncements.

A summary of significant accounting policies follows.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the University (a primary entity) and its component unit.

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) <u>and</u> (1) it is able to impose its will on that organization <u>or</u> (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

(1) Determines its budget without another government's having the authority to approve and modify that budget.
(2) Levies taxes or sets rates or charges without approval by another government.
(3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined this financial reporting entity includes the University and its component unit.

Primary Entity

The University is a State-supported, coeducational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Primary Entity (Continued)

higher education by Section 59-101-10 of the Code of Laws of South Carolina. The University, located in Florence, South Carolina, is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The University is governed by a Board of Trustees which is composed of the Governor of the State or his designee, who is an ex officio member of the board, and sixteen other members. Fifteen of the members are elected by the General Assembly and one member is appointed from the State at large by the Governor. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, changes in fund balances, and current funds revenues, expenditures, and other changes and the results of operations and cash flows of its discretely presented component unit of 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.

Based on the application of the above criteria, the component unit is included in the reporting entity because of the significance of its operational or financial relationship with the University. The following identifies the University's component unit and the methods of reporting it in these financial statements.

Component Unit

The Francis Marion University Center for the Research and Professional Services (FMU Center) is a separately chartered corporation. FMU Center was formerly known as the South Carolina Environmental Education Consortium (Consortium). The Consortium discontinued its activities during the fiscal year ended June 30, 1997.

The entity's name was changed pursuant to an amendment adopted March 1, 2000 and filed with the South Carolina Secretary of State April 11, 2000. FMU Center's current purpose is to assist in furthering the research, service and outreach initiatives of the University's mission by providing professional consultative services, performing contract research and data analysis for clients in the State and region and to engage in other charitable, educational or other lawful activities permitted by an organization which qualifies as exempt under section 501 (c) (3) of the Internal Revenue Code or the corresponding section of any future federal tax code, and comparable South Carolina law provisions, including, for such purposes, the making of distributions to other organizations that qualify as exempt organizations under such code sections. FMU Center is governed by a Board of Directors all of which are employees of the University or the Francis Marion University Foundation. This relationship allows the University to impose its will on the Board of Directors resulting in a presentation of FMU Center in a discrete column of the University's financial statements.

Separate financial statements on the FMU Center were not prepared.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Presentation of Component Unit

Some component units, despite being legally separate from the University (the primary entity), are so intertwined with it that they are, in substance, the same as the primary entity. Such component units' balances and transactions are blended with those of the primary entity, i.e., reported in the applicable University fund groups as if they were balances and transactions of the primary entity or in discrete columns and included in the "primary entity totals.

Discrete presentation entails reporting aggregated component unit financial data which has not been converted to the AICPA college and university model in separate columns or on financial statements separate from the primary entity. In both situations, the information is labeled "component unit".

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenues from tuition and student fees for summer sessions are reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and expenditures are reported when materials or services are received or when incurred. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance physical plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment, computer software developed or obtained for internal use and library books and materials; (2) mandatory transfers in the case of required provisions; and, (3) transfers of a nonmandatory nature in all other cases.

Basis of Accounting – Discretely Presented Component Unit

The financial statements of the FMU Center are prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenue and related assets are recognized when earned and expenses are recognized when the obligation is incurred.

The University's discretely presented component unit conducts business-like activities similar to those found in the private sector. The measurement focus of these entities is on the flow of economic resources and the determination and presentation of financial position, net income and cash flows.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Basis of Accounting – Discretely Presented Component Unit (Continued)

The accounting policies of the component unit conforms to GAAP applicable to governmental proprietary activities as prescribed by GASB. The component unit applies all applicable GASB pronouncements and, in accordance with GASB Statement 20, has elected to apply only those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

Fund Accounting – University Funds

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

All realized gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment funds which is accounted for in the fund to which it is restricted except for certain quasi-endowment income which is required by the Board of Trustees to be added to the principal.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

The *Current Funds* group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations in the unrestricted and restricted current funds. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

The *Current Funds Auxiliary Enterprises* are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted and restricted current funds. Assets, liabilities, and fund balances are combined with other current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities,

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fund Accounting – University Funds (Continued)

and fund balance. Auxiliary enterprise activities include housing, bookstore, food services, and telecommunications operations. Auxiliary enterprise expenditures charged to restricted current funds were for the Federal Work Study program, which is federally funded, and, is therefore subject to federal restrictions.

The *Loan Funds* group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations, uncollectible loan write-offs, and administrative costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers.

The *Endowment and Similar Funds* group includes permanent endowment funds and funds functioning as endowments (quasi-endowments). The University does not have any term endowment funds. Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. All of the University's endowments require the income to be used for specified purposes. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the happening of a particular event, all or a part of the principal may be expended. While quasi-endowment funds are established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions.

The *Plant Funds* group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets, all construction in progress, and debt related to expended or unexpended resources included in this fund subgroup. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University, construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities.

The *Agency Funds* group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts for Francis Marion University Foundation, a related party, and other organizations and groups directly associated with the University.

Use of Estimates

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Indirect Cost Recoveries

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Also, after January 1, 1999, federal grants and contracts whose annual award is two hundred thousand dollars or less are exempted from the requirement to remit recoveries to the State General Fund. For fiscal year 2000, the University retained all indirect cost recoveries.

Compensated Absences

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave except that faculty member do not accrue annual leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory overtime leave earned for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payment at termination. The liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

Investment in Plant

Physical plant and equipment, except for plant assets acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest and other related charges. Equipment acquired under capital leases is stated at the lower of the present value of minimum lease payments, including the down payment, at the beginning of the lease term or fair value at the inception of the lease. Resources for the payments of principal, interest and other related costs on such contracts are recorded as transfers from the current funds group and the debt service expenditures are reported in the retirement of indebtedness plant fund as the installments are paid.

Infrastructure assets are valued at cost and include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University. These assets are reported in the nonstructural improvements asset category.

Construction in progress is valued at total cost less noncapitalized costs in the unexpended plant funds subgroup when the costs are incurred. Upon completion of the project, the capitalized costs are recorded as expenditures in the unexpended plant funds and the asset and any associated debt simultaneously are transferred to the investment in plant funds subgroup and recorded in the appropriate asset and liability accounts.

Library books, periodicals, microfilms and other library materials on computer data storage devices are recorded at cost when purchased and fair market value at the date of donation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Investment in Plant (Continued)

Computer software includes the external direct costs of materials and services consumed in developing or obtaining internal-use computer software; payroll and payroll-related cost for employees who are directly associated with and who devote time to the internal-use computer software project; interest costs incurred when developing computer software; and costs to develop or obtain software that allows for access or conversion of old data by new systems. These costs are incurred during the application development stage. The costs of computer software developed or obtained for internal use is amortized on a straight-line basis.

Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of various operating departments and in the investment in plant funds subgroup.

The University capitalizes major additions and renovations to plant assets; qualifying equipment with a unit value in excess of $5,000 and a useful life in excess of one year; computer software with a unit value of $5,000 and an expected useful life of one year or more; and all library books and materials which include books, periodicals, microfilms, and materials on computer data storage devices regardless of cost.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, fair market value at date of gift, or the unamortized balance of software costs where applicable, is removed from the investment in plant subgroup. Library books and materials are disposed of when they become obsolete, duplicated, worn or no longer support the purpose of the University. The disposal value used for the library books and materials is the average cost at the beginning of each fiscal year. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

Capitalized Interest

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Asset values in the investment in plant subgroup include such interest costs.

Deferred Revenues

In unrestricted current funds, deferred revenues primarily consist of receipts collected in advance for tuition, housing for the summer and fall academic terms and other fees which amounts have not been earned. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the term or semester for which the fees are applicable and earned. For the component unit, deferred revenues represent amounts received for which the services have not been preformed.

Student Deposits

Student deposits represent housing room deposits, security deposits for possible facility damage and key loss, other deposits, and student fee refunds. Student deposits are recognized as revenue in the unrestricted current funds during the term or semester for which the fees are applicable and earned or when the deposits are nonrefundable to students under the forfeit terms of the agreements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Fee Waivers

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

Prepaid Items

Expenditures for goods and services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of advance payments for insurance, subscriptions and periodicals, and maintenance and service agreements.

Cash and Cash Equivalents

The amounts shown in the financial statements in University funds as "cash and cash equivalents" represent petty cash, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost, and records and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to the University's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University's accumulated daily interest receivable to the total income receivable of the pool. Reported interest/investment income includes interest earnings at the stated rate, realized gains/losses, and unrealized gains/losses arising from changes in the fair value on investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the University's percentage ownership in the pool.

For credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 14.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less at the time of acquisition.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash and Cash Equivalents (Continued)

The FMU Center funds consist of a demand deposit checking account and a certificate of deposit. The certificate of deposit at the time of purchase had a maturity of less than three months and is considered to be a cash equivalent.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the Federal Government under certain circumstances if they issue no more than $5 million in total of all such debt in a calendar year or if they meet specified targets for expenditures of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the liability is calculated annually. The arbitrage expenditures are valued using the rebate method. The expenditure and liability, if any, are recorded in the Retirement of Indebtedness subgroup and a reserve fund to liquidate the liability is established.

Information Technology Costs

Non-capitalized information technology (IT) costs related to the University's mission of instruction, research and public service are budgeted and reported in the academic support functional expenditure category. All other non-capitalized IT costs are not budgeted and the related costs are reported in the institutional support functional expenditure category.

Capitalized IT costs are reported in the applicable functional expenditure categories in the unrestricted current funds.

Intraentity Transactions and Balances

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds. Reimbursement transactions for expenditures initially made by one fund that are applicable to another are recorded as expenditures in the reimbursing fund. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated. Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset.

Totals (Memorandum Only) Columns

Amounts in the "Totals (*Memorandum Only*)" columns of the Balance Sheet and the Statement of Changes in Fund Balances represent an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data. Current amounts due to/from the same funds are reported net on the balance sheet only if there is a legal right to the offset.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Income Taxes

The University is a political subdivision of the State of South Carolina and is exempt from federal and state income taxes.

NOTE 2. CAPITAL IMPROVEMENT BONDS:

In fiscal year 2000, the State authorized funds for improvements and expansion of university facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue in the unexpended plant funds subgroup. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The University is not obligated to repay these funds to the State. The total balance for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable.

A summary of the activity from this authorization during the year ended June 30, 2000 follows:

Act	Total Authorized	Amounts Drawn in Prior Years	Amount Drawn in Fiscal Year Ended June 30, 2000	Undrawn Balance June 30, 2000
28 of 1999	$ 525,000	$ - 0 -	$ 112,000	$ 413,000

NOTE 3. STATE APPROPRIATIONS:

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

NOTE 3. STATE APPROPRIATIONS: (CONTINUED)

The original appropriation is the University's base budget amount presented in the General Funds columns of Section 5G of Part IA of the 1999-2000 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 2000:

Original Appropriation	$ 13,632,991
Supplemental Appropriations from fiscal year 1999 Surplus State General Fund Revenues (Part IV of fiscal year 2000 Appropriation Act) for Satellite Nursing Program	547,022
State Budget and Control Board Allocations:	
Employee Base Pay Increases and Related Employee Benefits (Proviso 63C.10.)	413,819
401K Matching Funds (Proviso 72.48)	21,261
Appropriation Allocations from the State Commission on Higher Education:	
From the Children's Education Endowment Fund for:	
Palmetto Fellows Scholarships	103,033(A)
Need Based Grants	367,450(A)
For Access and Equity Desegregation Funding (Proviso 5A.6.)	19,749
For Performance Funding (Proviso 5A.19.)	439,130
For Performance Improvement Award	52,161
Supplemental appropriations for Performance Funding (Part IV of fiscal year 2000 Appropriation Act)	87,191
For LIFE Scholarships (1998 Act 418)	765,359(A)
From Capital Reserve Fund Appropriations (August 1999 Joint Resolution R201, H369) for Institutional Funding	830,190
For Higher Education Awareness Program	1,576
From the State Higher Education Matching Gift Fund for Academic Endowment Match (Code of Laws 59-118-40)	13,779(A)
For STAR Scholarships	500(A)
Revised Appropriations - Legal Basis	17,295,211
(A) Less, Higher Education Grant/Scholarship Funding Reported in Restricted Current Funds	(1,250,121)
Funding Reported in Unrestricted Current Funds	$ 16,045,090

Proviso 72.44. of the 2000-2001 Act authorizes agencies to carry forward unspent appropriations up to a maximum of ten percent of its original appropriation less any appropriation reductions. However, the University did not carry forward any appropriations pursuant to this proviso.

NOTE 4. BONDS PAYABLE:

At June 30, 2000, bonds payable consisted of the following liability which is reported in the investment in plant subgroup:

	Interest Rates	Maturity Dates	June 30, 2000 Balance	Fiscal Year 2001 Maturities
Revenue Refunding Bonds, Series 1999	3.75 - 4.40%	2001-2011	$6,360,000	$ 930,000

NOTE 4. BONDS PAYABLE: (CONTINUED)

Bonds issued by the University include certain restrictive covenants. The Series 1999 Bonds are payable from and secured by a pledge of the net revenues derived by the University from the operation of various facilities after first paying the costs and expenses of operating and maintaining those facilities. Facilities include dormitories; apartment buildings; dwelling houses; bookstores and other University-operated stores; laundry; dining halls; cafeterias; parking facilities; student recreational; entertainment; and fitness-related facilities; inns; conference and other nondegree educational facilities; similar auxiliary facilities of the University; and other facilities which are auxiliary to any of the foregoing. The bond rate covenant requires the University to maintain and collect rates and charges for the use of the facilities at amounts necessary to maintain certain specified earnings levels at all times after providing for the payment of expenses for administration and the operation and maintenance of the facilities as may be necessary to preserve the same in good repair and condition. The University is required to generate net revenues available for debt service of not less then 100% of the debt service payments due in each applicable bond year.

The University is required to maintain a debt service reserve fund on deposit with an independent bond trustee to fund debt service payments of principal and interest. The fund is to be equal to the lesser of 100% of the maximum remaining annual principal and interest payment or 10% of the gross proceeds from the sale of the Series 1999 Bonds at the time of issuance. At June 30, 2000 the University elected to satisfy the requirements by funding the debt service reserve in the amount of $724,500 which is 10% of the outstanding bond proceeds. The University had $725,080 on deposit to satisfy these reserve requirements (before the adjustment of $7,113 to fair value at June 30, 2000). Monies on deposit in the reserve in excess of the minimum balance required may be expended at the discretion of the University. Also, the University purchased a bond insurance policy in favor of the bond trustee for the Series 1999 bonds to cover the payment of principal and interest for a period equal to the final maturity of the bonds in case of default.

The Series 1999 revenue funding bonds are not subject to redemption prior to maturity.

All of the bonds are payable in semiannual installments plus interest. Amounts including interest required to complete payment of the revenue bond obligations as of June 30,2000, are as follows:

Year Ending June 30,	Principal	Interest	Total
2001	$ 930,000	$ 250,435	$1,180,435
2002	980,000	215,560	1,195,560
2003	1,000,000	178,810	1,178,810
2004	370,000	141,310	511,310
2005	385,000	127,435	512,435
2006 through 2011	2,695,000	416,063	3,111,063
Total Obligations	$6,360,000	$1,329,613	$7,689,613

Receipts from a campus development fee and a plant fee designated solely for the purpose of debt retirement are recorded directly in the funds for retirement of indebtedness as student fees. Mandatory transfers from auxiliary enterprises revenue for debt retirement are reflected as transfers from unrestricted current funds to the funds for retirement of indebtedness subgroup of the plant funds group.

The University reported interest expenditures of $281,888 related to bonds payable for the year ended June 30, 2000 and retired $885,000 of bonds payable during the fiscal year.

NOTE 5. LEASE OBLIGATIONS:

The University is obligated under operating leases for the use of copier equipment which expire in fiscal years 2003 and 2004. In addition, the University is obligated under capital leases for the acquisition of various equipment.

Future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 2000 were as follows:

Year ending June 30,	Capital Leases/ Equipment	Operating Leases/ Equipment
2001	$ 43,206	$ 52,186
2002	43,206	52,186
2003	42,862	46,160
2004	24,410	13,306
Total minimum lease payments	$ 153,684	$ 163,838
Less: Interest	(11,352)	
Executory and other costs	(29,194)	
Principal outstanding present	$ 113,138	

Capital Leases

During the current year the University entered into a capital lease for mail system equipment in the total amount of $69,865. Capital leases are payable in monthly installments from unrestricted current funds resources and have terms expiring in fiscal years 2003 and 2004. Capital lease expenditures for fiscal year 2000 were $30,212, of which $21,185 represented principal and $9,027 represented interest, executory and other costs. Interest rates range from 5.1% to 5.2%. The following is a summary of the carrying values of assets held under capital lease at June 30, 2000.

Copier and stapler	$73,412
Mail system equipment	69,865
Total	$143,277

Certain capital leases provide for renewal and/or purchase options. Generally purchase options at bargain prices of one dollar are exercisable at the expiration of the lease terms.

Operating Leases

The University's noncancelable operating leases having remaining terms of more than one year expire in various fiscal years from 2003 through 2004. Certain operating leases provide for renewal options for periods from one to three years at their fair rental value at the time of renewal. All agreements are cancelable if the State of South Carolina does not provide adequate funding. In the normal course of business, operating leases are generally renewed or replaced by other leases and are generally payable on a monthly basis.

Total operating lease expenditures for fiscal year 2000 were approximately $104,000 for copier equipment, including maintenance and additional copy charges. The University reports these costs in the applicable current funds functional expenditure categories.

NOTE 6. NONMANDATORY TRANSFERS:

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service and facility operating costs as required by bond indentures and law. Tuition, fees and other revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness fund subgroup until they are transferred by the State Treasurer into the general capital improvements funding accounts. For plant improvement bonds issued by the University, a written request for the transfer of funds in excess of required minimum balance is submitted by the University to the State Treasurer. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, institutions are authorized to make transfers for specific projects with notification to the State Treasurer.

The University reports its general capital funding account in the retirement of indebtedness subgroup and the unexpended balance thereof as unrestricted fund balance. $2,160,000 was transferred into the general capital improvements funding accounts during the fiscal year ended June 30, 2000.

In fiscal year 2000, the University transferred $353,920 from the general capital improvements funding account to the unexpended plant funds subgroup to finance specific capital projects. That transaction is reported as a nonmandatory transfer and the unexpended balances in all such project accounts are reported in the unexpended plant funds as restricted fund balances.

The University transferred $2,188,063 from the retirement of indebtedness funds subgroup in accordance with bond covenant terms to the unrestricted current funds for operating expenditures of food services and housing auxiliary enterprises.

The University transferred from the unrestricted current funds $408,415 to the unexpended plant funds to fund current and future construction projects and $199,233 from student fees to the retirement of indebtedness fund for debt service.

The University transferred $192,096 from the unexpended plant fund to the unrestricted current fund for scholarships. Student fees that were credited to a renovation reserve fund and not spent came available for transfer pursuant to a resolution by the University's Board of Trustees which designated these fees for a Programs Enhancement Fund to be used to enhance existing or future programs of the University.

In accordance with the investing and spending policy of the University's Board of Trustees, endowment derived restricted current fund revenues which may be spent in a fiscal year are limited to 7% of the initial amount of invested assets. The University's policy requires the excess to be transferred to a quasi-endowment fund. For fiscal year 2000, $38,400 was transferred from the restricted current funds to the quasi-endowment funds.

NOTE 7. PENSION PLANS:

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

NOTE 7. PENSION PLANS: (CONTINUED)

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 of the State Budget and Control Board, 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.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 9.50 percent which included a 1.95 percent surcharge to fund retiree health and dental insurance coverage and effective January 1, 2000, the employer contribution rate became 9.71 percent which included a 2.16 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent years ended June 30, 2000, 1999 and 1998 were approximately $980,000, $958,000 and, $950,000 respectively, and equaled the required contributions of 7.55 percent (excluding the surcharge) for each year. Also, the University paid in the current fiscal year employer group-life insurance contributions of approximately $19,500 at the rate of .15 percent of compensation. In addition, the University paid the employer's 7.55 percent share of approximately $3,900 of pension costs for employees on educational leave with the employees paying approximately $3,100.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and 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.

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or 25 years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55 can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is 2.14 percent of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50 percent of the member's budgeted compensation at the time of death.

NOTE 7. PENSION PLANS: (CONTINUED)

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 1999, the employer contribution rate became 12.25 percent which, as for the SCRS, included the 1.95 percent surcharge and effective January 1, 2000, the employer contribution rate became 12.46 percent which included a 2.16 percent surcharge. The University's actual contributions to the PORS for the three most recent years ended June 30, 2000, 1999 and 1998 were approximately $30,600, $29,300 and $31,200, 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 $600 and accidental death insurance contributions of approximately $600 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

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 retirement plan. Employee and employer contribution rates to SCRS (and PORS) are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in plans.

At retirement, employees participating in the SCRS or PORS may receive additional service credit (at a rate of 20 days equal to one month of service) for up to 90 days for accumulated unused sick leave.

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

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

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55 percent plus the retiree surcharge of 1.95 percent from July 1, 1999 – December 31, 1999 and 2.16 percent from January 1, 2000 – June 30, 2000 from the employer in fiscal year 2000.

NOTE 7. PENSION PLANS: (CONTINUED)

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 $304,000 (excluding the surcharge) from the University as employer, and approximately $241,000 from its employees as plan members. In addition, the University paid approximately $6,000 for group-life insurance coverage for these employees. All amounts were remitted to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

An Act passed in the last General Assembly session which had not been signed by the Governor as of June 30, 2000 will amend Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2000, with some provisions effective January 1, 2001. The amendment will enact the Teacher and Employee Retention Incentive Program, reduce from thirty to twenty-eight the years of creditable service required to retire at any age without penalty and make other changes to the SCRS.

NOTE 8. POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

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

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 20,000 state retires met these eligibility requirements as of June 30, 1999.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of approximately $1,116,000 for the year ended June 30, 2000. As discussed in Note 7, the University paid approximately $357,000 applicable to the 1.95 percent surcharge for July 1, 1999 – December 31, 1999 and 2.16 percent surcharge for January 1, 2000 – June 30, 2000 included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

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

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

NOTE 9. 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 employees. 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.

The State appropriated funds from unspent fiscal year 1998-1999 State General Fund appropriations above the ten percent set aside, for contributions to 401(k) accounts of eligible state employees whose salaries are funded from State General Fund appropriations. In addition, the 2000 Appropriation Act required State institutions and agencies to match certain 401(k) contributions by employees whose salaries are funded from its other applicable revenue sources. The appropriated 401(k) match was limited to $300. To be eligible an employee must have met the following eligibility requirements:

(1) The employee was a permanent full-time State employee for 24 continuous months as of July 1, 1999 and employed on the date of distribution, and;
(2) The employee established a 401(k) account with annual contributions equal to the match (this requirement is not required for employees earning less then $20,000).

In April, 2000 the University made contributions from State appropriations of $118 in total to the 401(k) account of each eligible State employee for a total of $21,261 for all of its employees

NOTE 10. INVENTORIES:

Inventories for internal use (postage and fuel) are valued at cost. Bookstore and dining services inventories for resale are valued at the lower of cost or market. A summary of inventories by category, cost determination method and value at June 30, 2000 follows:

Category	Method	Value
Bookstore	Weighted average	$402,068
Dining Services	First-in, first-out	14,240
Postage	First-in, first-out	22,010
Fuel	First-in, first-out	6,134
Totals		$444,452

NOTE 11. INTERFUND LIABILITIES AND BORROWINGS:

For the most part, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report interfund liabilities for deficit cash balances in the State's cash management pool accounts by fund. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest. There were no interfund liabilities resulting from this type borrowing as of June 30,2000.

NOTE 12. ACCOUNTS RECEIVABLE AND LOANS TO STUDENTS:

The accounts receivable in the unrestricted current funds consist primarily of amounts due from students and sponsors of various contract courses and bookstore credit memos.

The accounts receivable in the loan funds consist primarily of June, 2000 collections due from the third party servicing organization.

A provision for doubtful accounts of $14,656 was established for the unrestricted current fund student accounts receivable based on credit losses experienced in prior years and evaluations by management of current portfolios.

With minor exceptions, losses for loans to students and other accounts receivables are not estimated or recorded in the provision for doubtful accounts. At the time a loan to student is considered uncollectible, it is charged to the principal of the fund from which the loan was made. Any other account receivable balance that is written off is recognized in the period in which the receivable is considered uncollectible. Based on past experience, potential losses are not deemed to be material.

NOTE 13. CONSTRUCTION IN PROGRESS AND COMMITMENTS:

The University has obtained the necessary funding for the construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available to satisfactorily complete the construction of such projects which are expected to be completed over the next year at an estimated total cost of approximately $1,122,900. Of the total approximate cost, approximately $947,900 was unexpended at June 30, 2000. The University had commitment balances of approximately $448,000 with certain vendors related to these projects.

The capital projects at June 30, 2000, which constitutes construction in progress that is to be capitalized when completed are listed below:

Project	Total Budgeted Cost	Total Expended Amount
Energy Facility Upgrade 1999	$ 525,000	$ 83,586
University Center	57,500	
New communications	15,400	
Student housing internet	175,000	23,489
Wallace Cottage	350,000	3,188
Totals	$1,122,900	$ 175,047

At June 30, 2000, the University had in progress other capital projects which are not to be capitalized when completed. These projects are for replacements, repairs, and/or renovations to existing facilities and certain non-capital technical support. Costs incurred to date on these projects amount to approximately $90,000 at June 30, 2000, and the estimated costs to complete are approximately $26,000. At June 30, 2000, there were no outstanding commitment balances.

NOTE 13. CONSTRUCTION IN PROGRESS AND COMMITMENTS: (CONTINUED)

The University's funding for the capitalized and non-capitalized projects includes capital improvement bonds proceeds and other resources.

NOTE 14. CASH AND DEPOSITS:

All deposits of the University are under the control of the State treasurer who, by law, has sole authority for investing State funds. Deposits of the FMU Center, the University's discretely presented component unit, are deposited in a financial institution and are not under the control of the State Treasurer.

The following schedule reconciles cash and deposits within the footnotes to the balance sheet amounts:

Balance Sheet		Footnotes	
Cash and cash equivalents	$6,828,239	Cash on hand	$ 29,650
		Deposits held by State Treasurer	6,798,589
Total before component unit	6,828,239	Total before component unit	6,828,239
FMU Center – Cash and cash equivalents	17,769	FMU Center – Other deposits	17,769
Total including component unit	$6,846,008	Total including component unit	$6,846,008

NOTE 14. CASH AND DEPOSITS: (CONTINUED)

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. Cash and cash equivalents balances reported on the balance sheet reflect $42,819 in unrealized depreciation as of June 30, 2000. As disclosed in Note 4, retirement of indebtedness funds include restricted cash of $717,967 (after deducting the fair value adjustment of $7,113) held by the State Treasurer for debt service reserve funds as required by the bond indenture.

Other Deposits

The deposits of the FMU Center at year-end were entirely covered by federal depository insurance.

NOTE 15. RELATED PARTY:

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

NOTE 15. RELATED PARTY: (CONTINUED)

In conjunction with its implementation of GASB Statement No. 14, the University annually reviews its relationship with the Foundation and has excluded this entity from the reporting entity because it is not financially accountable for it. As part of its affiliated organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, the Foundation may become a component unit of the University and/or part of the financial reporting entity.

Various financial activity occurs between the University and the Foundation A summary of these transactions and/or balances at June 30, 2000 and for the year then ended follows:

a)	Scholarships awarded by the University and funded by the Foundation. (Includes $9,569 owed the University at June 30, 2000 that is included in accounts receivable.) The University recorded these amounts as private gifts revenue in the restricted current funds.	$339,968
b)	Awards for lectures, retreats, competitions, and certain other expenditures paid by the University and funded by the Foundation. The University recorded these awards as private gifts revenue in restricted current funds.	$ 58,098
c)	Personal service payments to professors holding endowed chairs made by the University and funded by the Foundation. The University recorded these amounts as private gifts revenue in the restricted current funds. The expenditures were reported under the instruction category in the restricted current funds.	$ 49,000
d)	Reimbursements for University employee time and other costs paid by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as a reduction of institutional support expenditures in unrestricted current funds.	$ 44,104

e) Group life insurance premium payments of $9,306 were made from the University's agency fund that are reimbursable by the Foundation; reimbursements in the amount of $10,238 were received from the Foundation during the current fiscal year; $1,472 was due for premiums in excess of reimbursements from the Foundation as of year end. The University recorded these amounts as private gifts revenue and as expenditures under the instruction category in the unrestricted current funds.

f) Rent for a motor vehicle used by the University's President in the amount of $7,226 was paid by the Foundation. Also, the Foundation is the lessee. Other payments made for the benefit of the President by the Foundation included $3,500 for an endowed chair and $4,218 for club memberships.

g) Moving expenses for the University's Provost in the amount of $1,353 were voluntarily paid by the Foundation.

NOTE 15. RELATED PARTY: (CONTINUED)

h) The University continued a loan agreement with the Foundation. In the fiscal year 1999 agreement, the University initially lent the Foundation $200,000, all of its endowment fund assets, to invest with a guarantee of a minimum annual return of 7%. The University policy requires that endowment derived earnings of the restricted current funds in excess of 7% must be transferred to a quasi-endowment fund. Interest earned and a receivable from the Foundation to the University's restricted current funds on the loan, as of year end is $14,230 and is based on the 7% guaranteed return and may be spent in the fiscal year earned. Total restricted current fund earnings on the endowment fund assets were $52,630 in fiscal year 2000. The note receivable is due on demand. In accordance with University policy, the $38,400 of excess earnings was transferred to a quasi-endowment fund and added to the note receivable from the Foundation in the endowment and similar funds. Also, see Note 6 regarding this transaction. This transaction was authorized by Section 59-101-410 of the South Carolina Code of Laws which allows the governing boards of state-supported universities to lend their endowment and auxiliary enterprise funds on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose existence is primarily providing financial assistance and other support to the institution and its educational program.

The unaudited financial statements of the Foundation as of and for the year ended June 30, 2000 are presented on the next two pages.

NOTE 15. RELATED PARTY (CONTINUED)

STATEMENT OF FINANCIAL POSITION - UNAUDITED
JUNE 30, 2000

ASSETS	
Cash and investments	$ 10,616,867
Receivables:	
Contributions, net	4,031
Assets held in trust by others	902,666
Cash surrender value of life insurance	29,598
Other assets	58,246
Land held for resale	28,000
TOTAL ASSETS	$ 11,639,408
LIABILITIES AND NET ASSETS	
Liabilities:	
Accounts payable	$ 29,852
Note payable	200,000
TOTAL LIABILITIES	229,852
Net Assets:	
Unrestricted	5,562,191
Temporarily restricted	993,538
Permanently restricted	4,853,827
TOTAL NET ASSETS	11,409,556
TOTAL LIABILITIES AND NET ASSETS	$ 11,639,408

FRANCIS MARION UNIVERSITY

NOTES TO FINANCIAL STATEMENTS
June 30, 2000

NOTE 15. RELATED PARTY (CONTINUED)

STATEMENT OF ACTIVITIES - UNAUDITED
FOR YEAR ENDED JUNE 30, 2000

	Unrestricted	Temporarily Restricted	Permanently Restricted	Totals
Revenues, gains and other support:				
Gifts and bequests	$ 46,051	$ 157,904	$ 711,190	$ 915,145
Estate trust income		23,631		23,631
Net income on investments	10,416	113,153	1,086	124,655
Net realized and unrealized gains on investments	1,036,442		42,772	1,079,214
Total	1,092,909	294,688	755,048	2,142,645
Net assets realized from restrictions	383,506	(383,506)		
Total revenues, gains and other support	1,476,415	(88,818)	755,048	2,142,645
Expenses and losses::				
Program services	463,523			463,523
Supporting services:				
Management and general	62,074			62,074
Fundraising	49,146			49,146
Total expenses	574,743	0	0	574,743
Change in net assets	901,672	(88,818)	755,048	1,567,902
Net assets, July 1, 1999	4,660,519	1,082,356	4,098,779	9,841,654
Net assets, June 30, 2000	$ 5,562,191	$ 993,538	$ 4,853,827	$ 11,409,556

NOTE 16. TRANSACTIONS WITH STATE ENTITIES:

The University had significant transactions with the State of South Carolina and various State agencies.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking bond trustee and investment services from the State Treasurer; and, legal services from the Attorney General.

Other services received at no cost from the various offices of the State Budget and Control Board include pension plans administration, insurance plans administration, audit services, grant services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for pension and insurance plans, employee and employer contributions, surplus property disposal fees, insurance coverage, and telephone and interagency mail services. Significant payments were also made for unemployment to the South Carolina Employment Security Commissions and workers' compensation coverage for employees to the State Accident Fund. The amounts of 2000 expenditures applicable to these transactions are not readily available.

The University purchased only nominal amounts of goods and services from other State agencies during fiscal year 2000 except for a payment of $394,757 to the Medical University of South Carolina for a cooperative nursing program which is reported in the instruction expenditure category in the unrestricted current fund.

As a subrecipient, the University received federal grants from other State agencies, primarily the State Department of Education. Also, the University received State funds for providing contract courses to school districts and other entities.

The University provided no services free of charge to other State agencies during the fiscal year.

NOTE 17. CONTINGENCIES AND LITIGATION:

The various federal programs administered by the University for fiscal year 2000 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the University's management believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimate has not been recorded.

The University is a defendant in litigation arising from the conduct of its normal business. Although any litigation has an element of uncertainty, it is management's and legal counsel's opinions that the outcome of the litigation pending or threatened, or the combination thereof, will not have a materially adverse effect on the financial position of the University. The risk of material loss in excess of insurance coverage is unlikely and there is no evidence to indicate that a loss expenditure and liability should be recorded at year-end.

NOTE 18. RISK MANAGEMENT:

Insurance Coverage

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks except for collision and comprehensive coverage on certain motor vehicles. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. The costs of settled claims and claim losses have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits.

State management 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 risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and,
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

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

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles, including non-owned;
4. Torts;
5. Business interruptions;
6. Natural disasters; and
7. Medical malpractice claims against covered employees.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. Also, the IRF purchases reinsurance for catastrophic property and medical professional liability insurance. Reinsurance permits partial recovery of losses from reinsurers, but the IRF remains primarily liable. The IRF's rates are determined actuarially.

State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in the IRF.

NOTE 18. RISK MANAGEMENT: (CONTINUED)

Insurance Coverage (Continued)

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The fidelity coverage has policy limits and deductibles, some of which vary for regular and peak periods.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories for its unrestricted current funds.

The University has not transferred the portion of the risk of loss related to insurance policy deductibles and policy limits for real property, its contents and other equipment, business interruption, and tort deductibles for employee fidelity bond coverage to a State or commercial insurer. The University reported expenditures of $1,000 in the current year for actual claims payments related to such retained risks of loss. The University has not reported an estimated claims loss expenditure, and the related liability at June 30, 2000, based on the requirements of GASB Statement No. 10 and No. 30 which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 2000 and the amount of the loss is reasonably estimable. Liabilities include an amount for incurred but not reported (IBNR) losses when it is probable a claim will be asserted. Claims liabilities when recorded are based on estimates of the ultimate cost of settling known but not paid claims and IBNR claims at June 30 using past experience adjusted for factors that would modify past experience.

In management's opinion, claims losses in excess of insurance coverage, are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year end. Therefore, no loss accrual has been recorded.

Self-Insurance

The University's management believes for risks of loss the occurrence of which it considers a remote likelihood (i.e., collision and comprehensive coverage on certain motor vehicles), it is more economical to manage such risks internally and fund such losses, should they occur, from unrestricted current funds and government disaster assistance.

Claims liabilities for such uninsured risks of loss and for the uninsured portions of other risks are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities when recorded include a provision for unsettled claims, claims in the process of review reported in unrestricted current funds, and claims that have been incurred but not reported (IBNR claims) which are reported separately. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are estimated based on the estimated ultimate costs of settling the claims including the effects of inflation and other societal and economic factors and using past experience adjusted for current trends and other factors that would modify past experience. The claims liability includes deductions for estimated recoveries on settled and unsettled claims and includes estimated costs of specific, incremented claim adjustment expenditures. They are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and the economic and societal factors.

In management's opinion, claims losses in excess of coverage are unlikely, and if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded for underinsured and uninsured losses.

NOTE 19. FUND BALANCES:

The balances of the unrestricted current funds at June 30, 2000 are as follows:

Educational and general funds	$ 226,408
Auxiliary funds	440,576
	$ 666,984

The balances of the restricted current funds at June 30, 2000 are as follows:

Grants and contracts	$ 44,225
Scholarships and student aid	119,907
Restricted for departments and other specified purposes	279,647
	$ 443,779

The balances of the loan funds at June 30, 2000 are as follows:

U.S. Government grants refundable	$1,760,646
Donor restricted	20,492
	$1,781,138

The balances in the endowment and similar fund at June 30, 2000 is restricted.

Endowment:	
Restricted	$ 200,000
Quasi-endowment:	
Restricted	38,400
	$ 238,400

The balances of the plant funds at June 30, 2000 are as follows:

Unexpended plant fund:	
Restricted	$ 966,572
Unrestricted - designated	525,411
	$1,491,983
Retirement of Indebtedness fund:	
Restricted	$1,026,304
Unrestricted – designated for capital projects funding	2,907,492
	$3,933,796

NOTE 20. GIFTS AND PLEDGES:

Gifts include resources donated to the University for unrestricted or restricted institutional purposes except those gifts received as additions to permanently restricted net assets which are recorded in other support. Gifts are non-exchange transactions.

Pledges of gifts for the benefit of the University are received and managed by the Francis Marion University Foundation (Foundation) and are reported herein as a related party.

Pledges to the Foundation will be recorded as revenue to the University only after payment conditions for scholarships, construction and other costs have been met. Accordingly, it is not practible to estimate the net realizable value of uncollected pledges to the Foundation.

NOTE 21. ACCOUNTING CHANGES:

Accounting principles include not only accounting principles and practices but also the methods of applying them.

Effective July 1, 1999 the University adopted NACUBO Advisory Report 99-1 *Accounting and Reporting for Nongovernmental Grants and Contracts and Gifts,* which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM).* In previous years revenues from private gifts and grants and contracts were reported together in one revenue account in all affected fund groups/subgroups. The two classifications have been separated to provide better disclosure and accountability for resources that are a result of donor activity and of resources that are a result of acquiring grants and contracts from nongovernmental entities including individuals. This change did not have an effect on the fund balance for the year for the fiscal year ending June 30, 2000 or June 30, 1999, but did result in the following restatement of revenues and other additions:

	FY 1999		
	As Previously Reported	As Restated	FY 2000
Statement of Current Funds Revenues, Expenditures, and Other Changes:			
Private gifts, grants and contracts – unrestricted	$ 262,281	$	$
Nongovernmental grants and contracts - unrestricted		229,946	370,727
Private gifts – unrestricted		32,335	37,985
Private gifts, grants and contracts – restricted	814,508		
Private gifts – restricted		814,508	906,367
Statement of Changes in Fund Balances:			
Private gifts, grants and contracts – restricted	888,280		
Private gifts - restricted		888,280	928,558

Effective July 1, 1999 the University adopted NACUBO Advisory Report 99-6 *Reporting Safety and Security Expenses by Higher Education* which modifies the *Financial Accounting and Reporting Manual for Higher Education (FARM).* Safety and security expenses are reported in operation and maintenance of plant. In previous years those expenses were reported as institutional support. Such expenditures were $394,363 for fiscal year 2000 and $372,757 for fiscal year 1999. This change did not have an effect on the fund balance for the year.

NOTE 21. ACCOUNTING CHANGES: (CONTINUED)

Effective July 1, 1999 the University adopted NACUBO Advisory Report 99-7 *Accounting and Reporting for Capitalization of Software* which modified the *Financial Accounting and Reporting Manual for Higher Education (FARM).* This report adopted AICPA Statement of Position 98-1 *Accounting for Costs of Computer Software Developed or Obtained for Internal Use* for public not-for-profit higher education institutions. In previous years all information technology (IT) costs including computer software costs were reported in the fund group/subgroup from which the expenditures were made in the applicable functional expenditure category. That expenditure reporting treatment is unchanged but the University now capitalizes the costs of computer software for internal use. This statement does not require restatement of prior costs. Note 1 describes the University's policy for capitalizing computer software developed or obtained for internal use in a separate capital asset account in the investment in plant fund subgroup; for reporting a deduction for the annual amortization of the capitalized costs; .and, for reporting both capitalized and uncapitalized software costs. $18,020 of computer software was capitalized for the fiscal year ended June 30, 2000 and $1,802 in amortization was charged for the year.