

FRANCIS MARION UNIVERSITY

Independent Auditors' Report

**Financial Statements and Schedules
For the Year Ended June 30, 2009**

FRANCIS MARION UNIVERSITY

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Independent Auditors' Report

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

We have audited the accompanying financial statements of Francis Marion University (the University), a department of the State of South Carolina, as of and for the year ended June 30, 2009. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Francis Marion University Foundation. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for the Francis Marion University Foundation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Francis Marion University Foundation were not required to be audited in accordance with *Government Auditing Standards*. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the University are intended to present the financial position, changes in net assets and cash flows, where applicable, of only that part of the business type activities that are attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of South Carolina, as of June 30, 2009, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Francis Marion University, as of June 30, 2009, and the results of its operations and the changes in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 15, 2009 on our consideration of Francis Marion University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

A handwritten signature in blue ink that reads "Clint Brantley & Co. PA". The signature is written in a cursive style.

September 15, 2009

FRANCIS MARION UNIVERSITY

Management's Discussion and Analysis

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of Francis Marion University for the year ended June 30, 2009 with selected comparative information for the year ended June 30, 2008. This discussion is presented along with financial statements and related footnote disclosures of the University and its component unit. The discussion and analysis is limited to the University and its focus is on current activities, resulting changes, and current known facts and should be read in conjunction with the financial statements and footnotes. Separately issued financial statements of the component unit are available from management of the component unit. The report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Government Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a consolidated basis to focus on the University as a whole.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement and its purpose is to present to the readers of the financial

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

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

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

Condensed Statement of Net Assets

	2009	2008	Increase/ (Decrease)	Percent Change
Assets:				
Current assets	\$ 21,647,747	\$ 32,427,092	\$ (10,779,345)	(33.24%)
Capital assets, net of accumulated depreciation	41,180,062	38,429,902	2,750,160	7.16%
Other noncurrent assets	16,583,366	9,981,592	6,601,774	66.14%
Total assets	79,411,175	80,838,586	(1,427,411)	(1.77%)
Liabilities:				
Current liabilities	4,094,277	3,978,918	115,359	2.90%
Noncurrent liabilities	5,166,966	5,064,849	102,117	2.02%
Total liabilities	9,261,243	9,043,767	217,476	2.40%
Net assets:				
Invested in capital assets, net of debt	41,083,650	38,533,620	2,550,030	6.62%
Restricted - nonexpendable	200,000	200,000	-	0.00%
Restricted - expendable	25,114,971	28,488,153	(3,373,182)	(11.84%)
Unrestricted	3,751,311	4,573,046	(821,735)	(17.97%)
Total net assets	\$ 70,149,932	\$ 71,794,819	\$ (1,644,887)	(2.29%)

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

- Total assets of the University decreased by \$1.4 million.
- The decrease in current assets was primarily attributable to the reduction in accounts receivable due to receipt of funds gifted for construction projects. These funds also account for the substantial increase in other noncurrent assets as it is now included in restricted cash.
- The completion of the Center for the Child, as well as initial construction on the Center for Performing Arts encompasses the majority of the increase in capital assets.
- Total liabilities increased by \$217,500.
- An increase in current liabilities is largely due to an increase in accounts payable. The amount is primarily composed of amounts for

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

- The increase in noncurrent liabilities is largely due to an increase in accrued compensated absences because less leave was paid during the fiscal year. New capital leases also account for a portion of the increase.
- Total net assets decreased by \$1.6 million, which was largely attributable to decreases in unrestricted funds due to state-wide budget cuts. There was also a decrease in restricted funds attributable to a decrease in capital project funding through both gifts and appropriations.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the

University, operating and nonoperating, and any other revenue, expenses, gains, and losses received or spent by the University. Operating revenues are those that are earned in exchange for goods or services provided while carrying out the mission of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature

directly receiving commensurate goods and services for those revenues.

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

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

	2009	2008	Increase/ (Decrease)	Percent Change
Revenues:				
Student tuition and fees	\$ 17,309,190	\$ 15,690,033	\$ 1,619,157	10.32%
Grants and contracts	13,574,978	13,082,011	492,967	3.77%
Sales and services	1,131,661	772,118	359,543	46.57%
Other operating revenues	876,747	531,701	345,046	64.89%
Total operating revenues	<u>32,892,576</u>	<u>30,075,863</u>	<u>2,816,713</u>	9.37%
State appropriations	14,693,807	19,710,768	(5,016,961)	(25.45%)
Research infrastructure bonds	-	651,305	(651,305)	(100.00%)
Grants	525,596	536,467	(10,871)	(2.03%)
Gifts	1,150,850	1,308,090	(157,240)	(12.02%)
Investment income	1,081,672	722,120	359,552	49.79%
Other nonoperating revenues	257,905	209,911	47,994	22.86%
Total nonoperating revenues	<u>17,709,830</u>	<u>23,138,661</u>	<u>(5,428,831)</u>	(23.46%)
Total revenues	<u>50,602,406</u>	<u>53,214,524</u>	<u>(2,612,118)</u>	(4.91%)
Expenses:				
Compensation and employee benefits	35,865,286	35,261,212	604,074	1.71%
Services and supplies	7,778,818	9,885,226	(2,106,408)	(21.31%)
Utilities	1,889,550	1,849,363	40,187	2.17%
Depreciation	2,111,486	1,984,052	127,434	6.42%
Scholarships	4,573,478	3,953,692	619,786	15.68%
Total operating expenses	<u>52,218,618</u>	<u>52,933,545</u>	<u>(714,927)</u>	(1.35%)
Interest expense	28,675	63,390	(34,715)	(54.76%)
Total nonoperating expenses	<u>28,675</u>	<u>63,390</u>	<u>(34,715)</u>	(54.76%)
Total expenses	<u>52,247,293</u>	<u>52,996,935</u>	<u>(749,642)</u>	(1.41%)
Income (loss) before other revenues, expenses, gains, losses, and transfers	<u>(1,644,887)</u>	217,589	(1,862,476)	(855.96%)
State capital appropriations	-	4,000,000	(4,000,000)	(100.00%)
Capital improvement bond revenue	-	104,829	(104,829)	(100.00%)
Loss on defeasance of bond	-	(22,104)	22,104	(100.00%)
Capital gifts	-	8,000,000	(8,000,000)	(100.00%)
Increase (decrease) in net assets	<u>(1,644,887)</u>	<u>12,300,314</u>	<u>(13,945,201)</u>	(113.37%)
Net assets - beginning of year	<u>71,794,819</u>	<u>59,494,505</u>	<u>12,300,314</u>	20.67%
Net assets - end of year	<u>\$ 70,149,932</u>	<u>\$ 71,794,819</u>	<u>\$ (1,644,887)</u>	(2.29%)

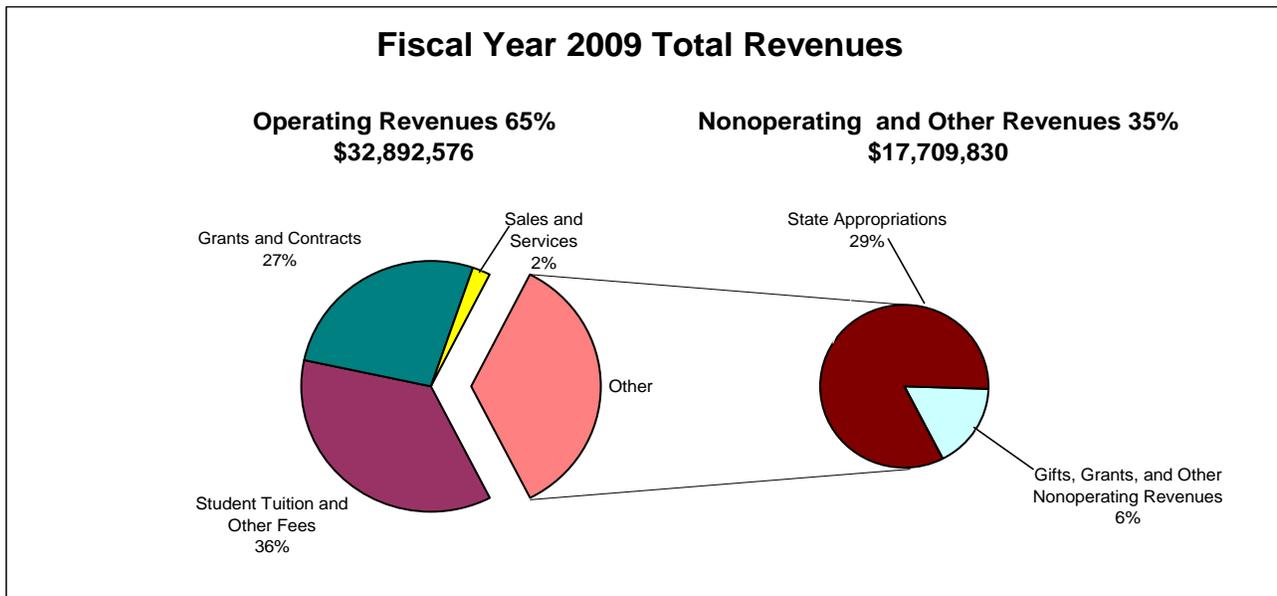
The Statement of Revenues, Expenses and Changes in Net Assets reflects a decrease in net assets for the year. Some highlights of the information presented on the Statement of Revenues, Expenses, and Changes in Net Assets are as follows:

- The University experienced a \$2.8 million increase in operating revenues. This is primarily comprised of fee increases for student tuition, increases in federal grants, increases in

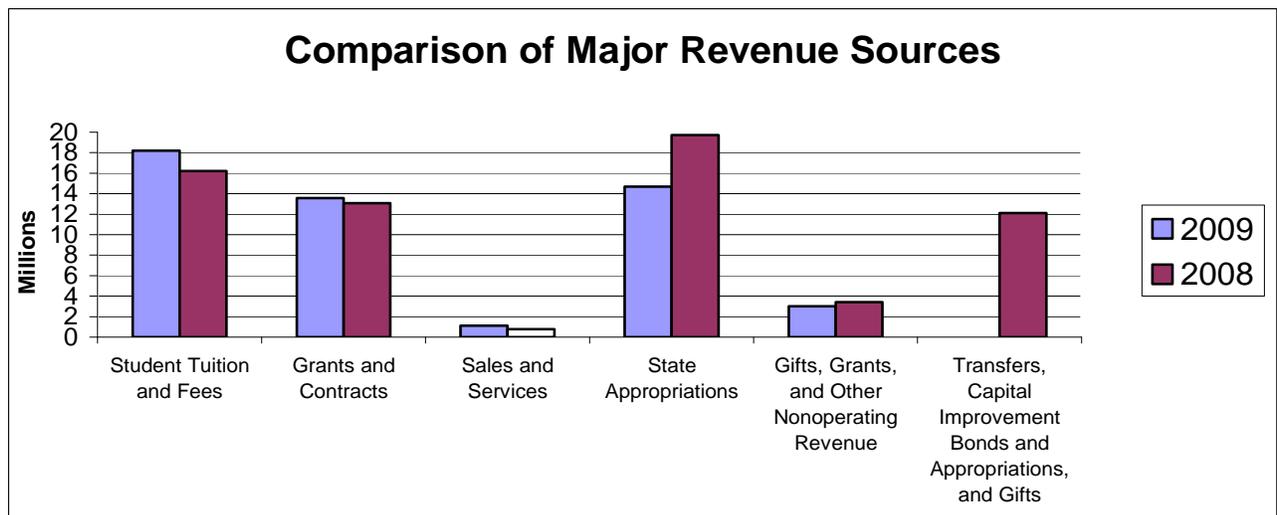
auxiliary sales and services, and the collection of fees from the Center for the Child.

- The decrease in nonoperating revenue is due to the \$5 million decrease in state appropriations attributable to state budget cuts.
- The decrease in other revenues was primarily caused by the decrease in funding for capital projects received through both gifts and appropriations.

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

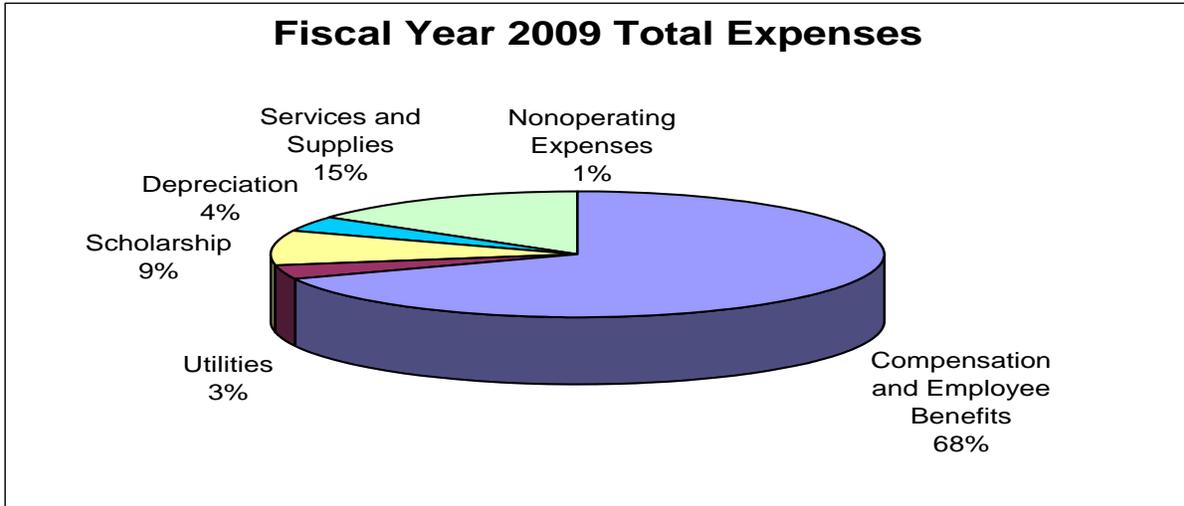


The graph below, comparing 2009 revenue sources to 2008, illustrates the changes in major revenue sources.

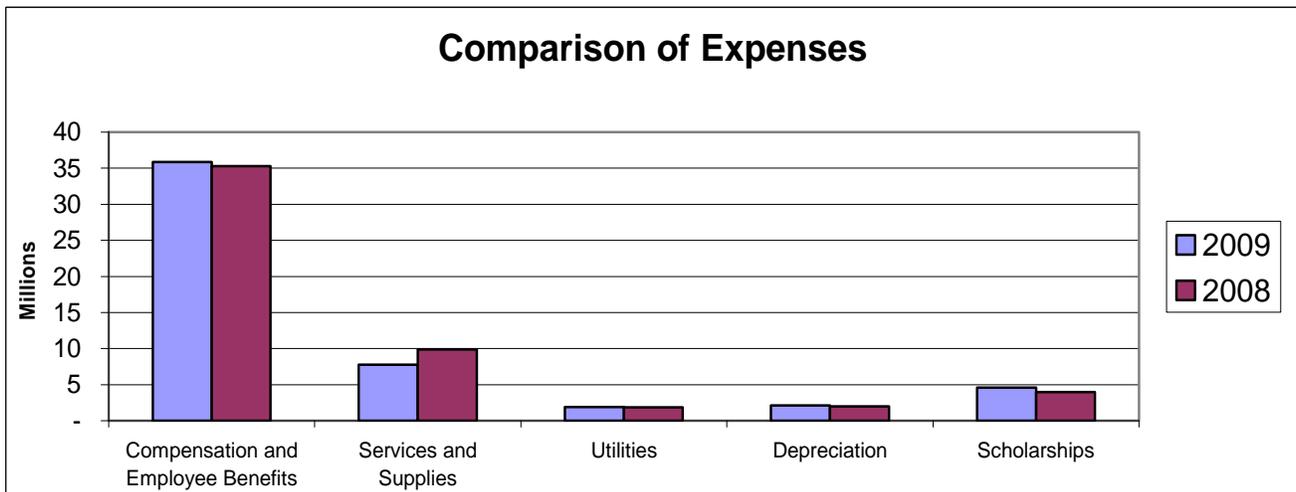


- Total operating expenses have decreased \$715,000.
- The decrease in supplies and services expense is due the decrease in spending caused by the state budget cuts implemented throughout the year.
- A decrease in interest expense occurred because several of the leases were at the end of their term.

The following graph displays expense categories.



The graph below compares 2009 expenses to the subsequent year and illustrates the changes in major expense types.



Statement of Cash Flows

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

Capital Assets and Debt

Total assets net of depreciation for the University is \$41,180,062 at June 30, 2009. Construction in progress of \$7,057,316 consists of payments for architect fees for the School of Education and Business and the Performing Arts Center. Please see note 6 of the financial statements for further details.

During the year the construction on the Gail & Terry Richardson Center for the Child was completed at a total cost of approximately \$4,600,000. The 15,000 square foot facility includes a child-care wing of two infant rooms, two toddler rooms, two rooms for the

three- and four-year-olds, and two rooms for four- and five-year-olds; an office area for psychology and education faculty members; a central lobby and library that will function as a family waiting area; observation and assessment rooms; and an outdoor play area.

Debt on capital assets is approximately \$96,400. Details of the bonds and capital leases are available in notes 12, 13, and 14.

Economic Outlook

Francis Marion University is one of the state-supported universities of South Carolina and is, therefore, closely tied to the economic position of the state. During the 2009 fiscal year, the public colleges and universities received a 22.5% reduction in state funds; but, despite the reduction in funding, Francis Marion University was able to use revenues from student paid tuition and reductions in operating budgets to continue operations without forced furloughs, loss of jobs, or reduction in mission accomplishment. In August 2009, the University received a 4% reduction in fiscal year 2010 funding, but the University had planned for such a reduction in its 2009-10 budget. The American Recovery and Reinvestment Act of 2009 (stimulus funds) is providing \$2,588,272 in funds for the year ending June 30, 2010. Enrollment continues to grow with a substantial increase in new freshman for Fall 2009.

The University's financial position is good and current appropriations and tuition are adequate to fund the operations for the ensuing year. The University does not plan to materially reduce operations or curtail any planned improvements.

Francis Marion University
Statement of Net Assets
June 30, 2009

ASSETS

Current Assets

Cash and cash equivalents	\$ 7,875,856
Accounts receivable (net of allowance for doubtful accounts \$174,405)	12,608,146
Accrued interest receivable	154,289
Due from Francis Marion University Foundation	6,633
Prepaid expenses	1,002,823
Total current assets	<u>21,647,747</u>

Noncurrent Assets

Restricted cash and cash equivalents	14,550,198
Notes receivable - due from Francis Marion University Foundation	213,974
Perkins loans receivable	1,819,194
Capital assets, net of accumulated depreciation	41,180,062
Total noncurrent assets	<u>57,763,428</u>
Total assets	<u>79,411,175</u>

LIABILITIES

Current Liabilities

Accounts payable	1,571,418
Accrued payroll and related liabilities	233,648
Accrued compensated absences - current portion	1,235,657
Student deposits - current portion	73,400
Deferred revenues and unearned student revenues	657,372
Capital leases payable - current portion	25,768
Deposits held for others	297,014
Total current liabilities	<u>4,094,277</u>

Noncurrent Liabilities

Accrued compensated absences	745,743
Student deposits	74,450
Deferred revenue	2,610,930
Capital leases payable	70,644
Perkins liability	1,665,199
Total noncurrent liabilities	<u>5,166,966</u>
Total liabilities	<u>9,261,243</u>

NET ASSETS

Invested in capital assets, net of related debt	41,083,650
Restricted for	
Nonexpendable	
Scholarships and fellowships	200,000
Expendable	
Scholarships and fellowships	90,659
Instructional department uses	235,373
Loans	478,800
Capital projects	24,276,304
Other	33,835
Unrestricted	3,751,311
Total net assets	<u>\$ 70,149,932</u>

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

Francis Marion University
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2009

OPERATING REVENUES

Student tuition and fees (net of scholarship allowances of \$9,884,500)	\$ 17,309,190
Federal grants and contracts	6,736,522
State grants and contracts	6,764,683
Local grants and contracts	65,953
Non-governmental grants and contracts	7,820
Sales and services of educational and other activities	146,939
Sales and services of auxiliary enterprises	984,722
Other operating revenues	876,747
Total operating revenues	<u>32,892,576</u>

OPERATING EXPENSES

Salaries and wages	27,962,124
Benefits	7,903,162
Supplies and other services	7,778,818
Utilities	1,889,550
Scholarships	4,573,478
Depreciation	2,111,486
Total operating expenses	<u>52,218,618</u>
Operating income (loss)	<u>(19,326,042)</u>

NONOPERATING REVENUES (EXPENSES)

State appropriations	14,693,807
State grants	525,596
Gifts	1,150,850
Investment income	1,081,672
Interest and other fees on capital asset related debt	(28,675)
Other nonoperating revenues	257,905
Net nonoperating revenue	<u>17,681,155</u>
Increase (decrease) in net assets	(1,644,887)

Net assets - beginning of year	<u>71,794,819</u>
Net assets - end of year	<u>\$ 70,149,932</u>

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

Francis Marion University
Statement of Cash Flows
For the Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 17,196,440
Grants and contracts	13,711,701
Sales and services of educational and other activities	142,416
Sales and services of auxiliary enterprises	894,587
Receipts for reimbursements	1,712,095
Payments to suppliers	(10,297,497)
Payments to employees	(28,396,671)
Payments for benefits	(8,069,691)
Payments for scholarships	(4,573,017)
Loans to students	(456,726)
Collection of loans	163,063
Inflows from Stafford loans	24,615,432
Outflows from Stafford loans	(24,632,853)
Inflows from agency funds	8,062,112
Outflows from agency funds	(8,061,809)
Other receipts	1,229,679
Net cash (used) by operating activities	<u>(16,760,739)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	14,693,807
State grants	525,596
Gifts	877,044
Net cash flow provided by noncapital financing activities	<u>16,096,447</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

State capital appropriations	3,400,403
Capital grants and gifts received	6,125,000
Purchases of capital assets	(4,386,504)
Proceeds from sale of capital assets	3,400
Principal paid on capital leases	(27,276)
Interest and fees	(28,675)
Net cash provided by capital and related financing activities	<u>5,086,348</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	1,076,566
Net cash flows provided by investing activities	<u>1,076,566</u>

Net change in cash	5,498,622
Cash and cash equivalents - beginning of year	<u>16,927,432</u>
Cash and cash equivalents - end of year	<u><u>\$ 22,426,054</u></u>

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

Francis Marion University
Statement of Cash Flows (Continued)
For the Year Ended June 30, 2009

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

Operating (loss)	\$ (19,326,042)
Adjustments to reconcile net (loss) to net cash (used) by operating activities:	
Nonoperating revenues	254,505
Noncash gifts	295,196
Depreciation expense	2,111,486
Bad debts	62,428
Loan cancellations	61,604
Changes in asset and liabilities:	
Receivables net	327,974
Loans to students	(293,663)
Deferred charges and prepayments	(13,484)
Accounts payable	(202,148)
Accrued payroll and related liabilities	86,328
Deferred revenues and unearned student revenues	(254,605)
Perkins liability	5,648
Deposits held for others	(23,185)
Accrued compensated absences	147,219
Net cash (used) by operating activities	<u><u>\$ (16,760,739)</u></u>

Noncash capital and related financing activities:

The University disposed of equipment with costs and accumulated depreciation of \$199,539.
The University acquired new equipment with a cost of \$59,958 with capital lease financing.

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

Francis Marion University Foundation
Statement of Financial Position
June 30, 2009

ASSETS

Cash and cash equivalents	\$ 2,779,844
Investments.....	10,765,291
Contributions receivable, net	1,651,497
Other receivables	44,000
Accrued interest receivable	26,909
Assets held in trust by others	970,692
Property and equipment, net	1,196,018
Other assets	582,053
Total assets	<u>18,016,304</u>

LIABILITIES

Accounts payable	21,849
Due to Francis Marion University	6,633
Note payable - Francis Marion University	213,974
Bonds payable	1,346,131
Total liabilities	<u>1,588,587</u>

NET ASSETS

Unrestricted	1,500,743
Temporarily restricted	4,294,761
Permanently restricted	10,632,213
Total net assets	<u>16,427,717</u>
Total liabilities and net assets	<u>\$ 18,016,304</u>

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

Francis Marion University Foundation
Statement of Activities
For the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Gifts and bequests	\$ 644,780	\$ 1,387,396	\$ 189,143	\$ 2,221,319
Trust income	44,000	41,214	-	85,214
Investment income	26,038	308,596	2,138	336,772
Management fees	-	25,000	-	25,000
Rent and other income	70,432	-	-	70,432
Net unrealized and realized gains (losses) on investments	(1,471,160)	-	-	(1,471,160)
Net assets released from program restrictions	1,073,562	(1,073,562)	-	-
Total revenues, gains and other support	<u>387,652</u>	<u>688,644</u>	<u>191,281</u>	<u>1,267,577</u>
EXPENSES				
Program Expenses	1,317,676			1,317,676
General and administrative	380,334	-	-	380,334
Fundraising	93,846	-	-	93,846
Total expenses	<u>1,791,856</u>	<u>-</u>	<u>-</u>	<u>1,791,856</u>
Change in net assets	(1,404,204)	688,644	191,281	(524,279)
Net assets - beginning of year	<u>2,904,947</u>	<u>3,606,117</u>	<u>10,440,932</u>	<u>16,951,996</u>
Net assets - end of year	<u>\$ 1,500,743</u>	<u>\$ 4,294,761</u>	<u>\$ 10,632,213</u>	<u>\$ 16,427,717</u>

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

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education enterprise funds in the Comprehensive Annual Financial Report of the State of South Carolina.

Reporting Entity

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

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

financial statements of the Foundation can be obtained by sending a request to Francis Marion University Foundation, Post Office Box 100547, Florence, South Carolina 29501

Basis of Accounting

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

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

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

Cash and Cash Equivalents

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

Investments

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

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

FRANCIS MARION UNIVERSITY
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management expenses and fees, gains and losses arising from the sale or other disposition of investments and other non-cash assets are distributed to the various funds using a pooled income approach. This approach distributes income following the market value unit method, which is based on the number of units each fund owns in the managed investment pool.

Accounts Receivable

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

Contributions Receivable

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

Capital Assets

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

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements, 3 years for

computer software, and 2 to 25 years for machinery, equipment, and vehicles.

Deferred Revenues and Deposits

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

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

Accrued Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated absences in the statement of net assets, and as components of salaries and wages and benefits expenses in the statement of revenues, expenses, and changes in net assets.

Perkins Loans Receivable and Related Liability

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

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt:

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

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

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

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

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

The net assets of the Foundation are classified as follows:

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

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

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

Income Taxes

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

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

Classification of Revenues

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

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

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

Sales and Services of Educational and Other Activities

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

FRANCIS MARION UNIVERSITY
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Sales and Services of Auxiliary Enterprises and Internal Service Activities

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

Scholarship Discounts and Allowances

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

charges, the University has recorded a scholarship discount and allowance.

Use of Estimates

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

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

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. The following schedule reconciles deposits and investments within the footnotes to the statement of net assets amounts:

<u>Statement of Net Assets</u>		<u>Footnotes</u>	
Cash and cash equivalents (current)	\$ 7,875,856	Cash on hand	\$ 26,025
Restricted cash and cash equivalents (noncurrent):		Deposits held by State Treasurer	22,400,029
Exchange grants	367,327		
Perkins loan funds	293,229		
Capital projects	13,889,642		
Total	\$ 22,426,054	Total	\$ 22,426,054

Deposits Held by State Treasurer

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

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

Other Deposits

The Foundation maintains its cash balances in various financial institutions. As of June 30, 2009, there were uninsured amounts at the institutions of \$951,067.

FRANCIS MARION UNIVERSITY
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Investments

The Foundation investments as of June 30, 2009, are summarized as follows:

Certificates of deposit	\$ 2,860,488
Mutual funds - debt	3,307,756
Mutual funds - equity	2,240,766
Equity securities	60,207
Corporate bonds	1,981,719
Government and agency	100,938
Mortgage-backed securities	<u>213,417</u>
Total	<u><u>\$ 10,765,291</u></u>

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

NOTE 3 – RECEIVABLES

Accounts Receivable

The University accounts receivable as of June 30, 2009, are summarized as follows:

Current:	
Student tuition and fees	\$ 487,526
Allowance for doubtful accounts	(174,405)
Federal grants and contracts	130,889
State and local grants and contracts	6,689
Sales and services of education departments	20,149
Auxiliary services	598,869
Capital gifts	5,875,000
Capital appropriation	5,556,399
Other	<u>107,030</u>
Net accounts receivable	<u><u>\$ 12,608,146</u></u>

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

The allowance for doubtful accounts for student accounts receivable is established based upon actual losses experienced in prior years and evaluations of

the current account portfolio. At June 30, 2009, the allowance for uncollectible student accounts is valued at \$174,405.

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

FRANCIS MARION UNIVERSITY
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Reimbursements due for these services at June 30, 2009, are \$483,791 and are included in accounts receivable – auxiliary services.

Contributions Receivable

The Foundation contributions receivable as of June 30, 2009, are summarized as follows:

Unconditional promises expected to be collected in:	
Less than one year	\$ 685,560
One year to five years	<u>1,122,723</u>
	1,808,283
Less discounts to net present value	63,652
Less allowance for uncollectible contributions	<u>93,134</u>
Net contributions receivable	<u><u>\$1,651,497</u></u>

The receivables from five donors accounts for approximately 83.5% of the total contributions receivable.

NOTE 4 – LOANS RECEIVABLE

Student loans made through the federal Perkins loan program comprise substantially all of the loans receivable as of June 30, 2009. The Perkins loan program provides various repayment options; students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise. As the University determines that loans are uncollectible, the loans are written off and assigned to the US Department of Education.

NOTE 5 – ASSETS HELD IN TRUST BY OTHERS

The Foundation has a 30% interest in a trust created by an estate.

The Foundation is the named beneficiary of a charitable lead annuity trust under which the Foundation receives quarterly payments of \$11,000 through 2014.

The Foundation's ownership in these trusts was valued at \$970,692 at June 30, 2009.

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

Capital assets activity of the University for the year ended June 30, 2009, is summarized as follows:

	Beginning Balance July 1, 2008	Increases	Decreases	Ending Balance June 30, 2009
Capital assets not being depreciated:				
Land and improvements	\$ 2,956,222	\$ -	\$ -	\$ 2,956,222
Construction in progress	7,462,959	4,554,513	4,960,156	7,057,316
Art work and historical treasures	180,948	-	-	180,948
Total capital assets not being depreciated	<u>10,600,129</u>	<u>4,554,513</u>	<u>4,960,156</u>	<u>10,194,486</u>
Other capital assets:				
Land improvements	2,808,506	468,112	-	3,276,618
Buildings and improvements	64,098,412	4,642,168	-	68,740,580
Computer software	131,895	-	-	131,895
Machinery, equipment, and other	2,827,463	157,009	171,470	2,813,002
Vehicles	254,979	-	28,069	226,910
Total other capital assets at historical cost	<u>70,121,255</u>	<u>5,267,289</u>	<u>199,539</u>	<u>75,189,005</u>
Less accumulated depreciation for:				
Land improvements	2,121,580	108,648	-	2,230,228
Buildings and improvements	37,535,806	1,821,442	-	39,357,248
Computer software	131,895	-	-	131,895
Machinery, equipment, and other	2,255,529	177,243	171,470	2,261,302
Vehicles	246,672	4,153	28,069	222,756
Total accumulated depreciation	<u>42,291,482</u>	<u>2,111,486</u>	<u>199,539</u>	<u>44,203,429</u>
Other capital assets, net of accumulated depreciation	<u>27,829,773</u>	<u>3,155,803</u>	<u>-</u>	<u>30,985,576</u>
Capital assets, net of accumulated depreciation	<u>\$ 38,429,902</u>	<u>\$ 7,710,316</u>	<u>\$ 4,960,156</u>	<u>\$ 41,180,062</u>

FRANCIS MARION UNIVERSITY
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Property and Equipment

Property and equipment of the Foundation as of June 30, 2009, consists of the following:

Land	\$ 120,900
Building	1,109,009
Furniture and equipment	67,033
	1,296,942
Less accumulated depreciation	100,924
Property and equipment, net	\$ 1,196,018

Depreciation expense of \$32,242 was recognized for the year ended June 30, 2009.

NOTE 7 – OTHER ASSETS

Included in the Foundation's other assets is the ownership in various parcels of real estate that are held with the intent to sell. The property is reported at a carrying value of \$557,561 as of June 30, 2009.

In addition, the Foundation has ownership in the cash surrender value of various life insurance policies valued at \$24,492 as of June 30, 2009.

NOTE 8 – PENSION PLAN

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

Article X, Section 16, of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and

employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

South Carolina Retirement System

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

Effective July 1, 2006, employees participating in the SCRS were required to contribute 6.50 percent of all compensation. Effective July 1, 2009, the employer contribution rate increased to 12.74 percent which included a 3.50 percent surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2009, 2008, and 2007, were approximately \$1,708,000, \$1,678,000, \$1,416,000, respectively, and equaled the required contributions of 9.24 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$27,800 in the current fiscal year at the rate of .15 percent of compensation. The University

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paid the employer's 9.24 percent share, included in the amount above, of approximately \$6,800 of pension costs for employees on educational leave with employees paying approximately \$4,800.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2009, the employer contribution rate increased to 14.15 percent that, as for the SCRS, included the 3.50 percent surcharge. The University's actual contributions to the PORS for the years ending June 30, 2009, 2008, and 2007, were approximately \$53,300, \$51,300, and \$48,600, respectively, and equaled the required contributions of 10.65 percent (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of approximately \$1000 and accidental death insurance contributions of approximately \$1000 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

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

payment of contributions to designated insurance companies.

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

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24 percent plus the retiree surcharge of 3.50 percent from the employer in fiscal year 2009.

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 \$794,00 (excluding the surcharge) from the University as employer and approximately \$558,400 from its employees as plan members. 4.24 percent of funds from 2008-2009 wages and 4.06% from 2007-2008 wages were remitted to the Retirement Division of the State Budget and Control Board and 5.00 percent was remitted directly to the respective annuity policy holders. Also, the University paid employer group life insurance contributions of approximately \$12,900 in the current fiscal year at the rate of .15 percent of compensation. Included in the total contribution, the University paid the employer's 9.24 percent share of approximately \$5,700 of pension costs for employees on educational leave with employees paying \$4,000. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

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

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Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period.

NOTE 9 – POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS

Plan Description

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

Funding Policies

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

its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.50% and 3.42% of annual covered payroll for 2009 and 2008, respectively. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The University paid approximately \$965,000 and \$926,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal years ended June 30, 2009 and 2008, respectively. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal years ended June 30, 2009 and 2008.

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

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

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

NOTE 10 – CONTINGENCIES, LITIGATION, AND COMMITMENTS

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

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

The University had outstanding commitments under construction contracts of approximately \$25,251,800 at June 30, 2009, of which all will be capitalized. The University anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds. The State has issued capital improvement bonds to fund improvements and expansion of state facilities. The University is not obligated to repay these funds to the State.

Authorized funds can be requested as needed once State authorities have given approval to begin specific projects and project expenditures have been incurred. The University has \$255,932 of authorized undrawn state capital improvement bonds.

The Foundation is a 50% residuary beneficiary of a marital trust, which has a value of approximately \$1,739,000 as of June 30, 2009. The Foundation will receive its share of any remaining assets of the trust upon the death of the primary beneficiary.

NOTE 11 – DEFERRED REVENUES AND UNEARNED STUDENT REVENUES

Deferred revenues and unearned student revenues as of June 30, 2009, are summarized as follows:

Current:	
Student tuition and fees	\$ 418,192
Grants and contracts	125,168
Sales and services of education activities	5,600
Housing rentals	108,412
Net deferred revenues and unearned student revenues	<u>\$ 657,372</u>
Noncurrent:	
Housing rental	<u>\$ 2,610,930</u>
Net deferred revenues and unearned student revenues	<u>\$ 2,610,930</u>

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NOTE 12 – LEASE OBLIGATIONS

Future commitments for leases as of June 30, 2009, are as follows:

	<u>Year Ending June 30,</u>	<u>Capital Lease Payments</u>
	2010	\$ 49,076
	2011	49,076
	2012	42,240
	2013	21,731
	2014	<u>12,089</u>
Total minimum lease payment		174,212
Less: Interest		7,923
Executory and other costs		<u>69,877</u>
Principal outstanding		<u>\$ 96,412</u>

Capital Leases

Capital leases for various equipment are payable in monthly installments from current resources. Certain capital leases provide for renewal and/or purchase options. The cost of assets held under capital leases totaled \$131,849 as of June 30, 2009. Accumulated amortization of the leases on this equipment totaled \$55,126 at June 30, 2009, resulting in a book value of \$76,723. Current year amortization expense on capital leases was \$26,370 and is included in depreciation expense. Interest expense on capital leases was \$3,293. The capital leases are with external parties.

Operating Leases

During fiscal year 2009, the University paid \$70,434 for copier leases on a cost per copy basis to external parties. The University also paid \$80,074 on equipment under cancelable operating leases. Approximately \$58,187 was with other State agencies and the remainder was with external parties.

The Foundation entered into leases of space within its office building for a twelve month period ending June 30, 2009. The lease allows automatic renewal unless notification is provided by the tenant. The Foundation recognized \$70,432 in rent revenue from these lease obligations. The University leases the largest portion of the space for which \$24,995 was payable by the University at year end. As of June 30, 2009, the Foundation reported \$24,995 as rent receivable which is included as a reduction in the Payable to the University.

The Foundation is obligated under non-cancellable operating leases for two vehicles. The leases require monthly payments in total of \$1,587. The Foundation is required to pay \$11,110 in future minimum lease payments during the fiscal year ending June 30, 2010

Capital Leases – Lessor

During the 2006 fiscal year, the University received a donation of a building and agreed to lease the property back to the donor for 99 years at \$1 per year. No assets or liabilities related to this transaction are reflected in the University's financial statements due to immateriality of the amounts involved.

NOTE 13 – BONDS AND NOTES PAYABLE

Bonds Payable

Currently, the University has no outstanding bonds.

In prior years, the University defeased certain revenue bonds by placing the proceeds received from the Francis Marion University Real Estate Foundation as advance rent in an irrevocable trust to provide for all future debt service on the old bonds. Accordingly, the trust account assets and the liability for these defeased bonds are not included in the University's financial statements. At June 30, 2009, \$985,000 of bonds outstanding are considered defeased.

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

The University defeased series 2005C State Institution Bonds by placing excess debt service on deposit to pay the bonds as they mature. The account assets and the liability for these defeased bonds are not included in the University's financial statements. At June 30, 2009, \$825,000 of bonds outstanding are considered defeased.

quarterly interest at Prime plus 2% through August 2008. As of June 30, 2009 \$1,346,131 remains outstanding. After August 2008, monthly installments of principal and interest are due with the principal due on demand at the August 1, 2022 maturity date.

During the prior fiscal year, the Foundation issued JEDA Bonds in the amount of \$1,400,000, requiring

Maturities on the bonds payable are scheduled as follows:

Year Ending June 30,	
2010	\$ 61,464
2011	65,043
2012	68,646
2013	72,827
2014	77,068
Thereafter	1,001,083
	\$ 1,346,131

NOTE 14 – LONG-TERM LIABILITIES

Long-term liability activity of the University for the year ended June 30, 2009, is as follows:

	June 30, 2008	Additions	Reductions	June 30, 2009	Due within One year
Bonds, note, and capital leases payable:					
Capital leases payable	63,730	59,958	27,276	96,412	25,768
Total payables	63,730	59,958	27,276	96,412	25,768
Other liabilities:					
Accrued compensated absences	1,834,181	1,380,057	1,232,838	1,981,400	1,235,657
Perkins federal capital contributions	1,649,198	16,001	-	1,665,199	-
Student deposits	139,675	77,275	69,100	147,850	73,400
Deferred housing rentals	2,827,754	-	108,412	2,719,342	108,412
Total other liabilities	6,450,808	1,473,333	1,410,350	6,513,791	1,417,469
Total long-term liabilities	\$ 6,514,538	\$ 1,533,291	\$ 1,437,626	\$ 6,610,203	\$ 1,443,237

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 15 – ENDOWMENTS

Donor Restricted Permanent Endowments

Endowments are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. The University's endowments require that the income be used for specific purposes. These restrictions are discussed in Note 16. If a donor has not provided specific instructions, State law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the

endowment fund investments. Any net appreciation is required to be spent for the purposes for which the endowment was established.

NOTE 16 – COMPONENT UNIT

Various financial activities occurred between the University and the Foundation. A summary of transactions and/or balances at June 30, 2009, and for the year then ended follows.

-
- | | | |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|
| a) | Scholarships awarded by the University and funded by the Foundation. (Includes \$9,235 owed to the University at June 30, 2009 and included in accounts receivable.) The University recorded these amounts as gift revenue and either tuition discounts or scholarship expense. | \$ 538,886 |
| b) | Awards for lectures, grants, special programs, and certain other expenses paid by the University and funded by the Foundation. (Includes \$13,312 owed to the University at June 30, 2009, and included in amount due from the Foundation.) The University recorded these awards as gift revenue and the applicable operating expense. | \$ 112,702 |
| c) | Personal service payments to professors holding endowed chairs made by the University and funded by the Foundation. The University recorded these amounts as gift revenue and salary expense. | \$ 102,826 |
| d) | Reimbursements for University employee time and other costs paid by the University on behalf of the Foundation and reimbursed by the Foundation. The University recorded these reimbursements as reductions of the applicable operating expenses. | \$ 71,274 |
| e) | Group life insurance premium payments made by the University and funded by the Foundation. (Includes \$1,640 owed to the University at June 30, 2009, and included in amount due from Foundation.) The University recorded these amounts as gift revenue and benefits expense. | \$ 6,800 |
| f) | Rent for a motor vehicle used by the University's President in the amount of \$10,595 was paid by the Foundation. Other payments by the Foundation for the benefit of the University and its staff included \$22,406 for club memberships, \$136,505 for other goods and services, \$2,890 for furniture and appliances, \$66,789 for special events and \$7,146 for travel. The University recorded these amounts as gift revenue and the applicable operating expense. | |
| g) | The University paid the Foundation \$11,276 to manage the faculty-alumni facility. The Foundation owes the University \$6,025 for revenue and taxes collected which is included in due from Foundation. | |
| h) | The University paid the Foundation \$25,000 for the administration of the Rural Leadership Capacity Building Program and \$75,000 for the management of the Non-Profit Leadership Institute. | |

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

- i) The University continued a loan agreement with the Foundation in which the University lent the Foundation \$200,000 (all of its endowment assets). The Foundation agrees to make payments to the University on behalf of the recipients of the two Palmetto Professorships. This award will be made only when the chairs are actually occupied, and any earnings above the established level shall be returned to the principal and accrue accordingly. For fiscal year 2009, the endowment lost \$11,485 which was reduced from principal. As of June 30, 2009, the outstanding principal balance is \$213,974. Lending of the University's endowment resources to the Foundation is in accordance with Section 59-101-410 of the South Carolina Code of Laws which authorizes the governing boards of state-supported universities to lend their endowment and auxiliary enterprise monies on deposit with the State Treasurer's Office to separately chartered not-for-profit legal entities whose purpose is primarily providing financial assistance and other support to the institution and its educational program.
 - j) The University is owed \$1,416 for reimbursement of various expenses paid by the University.
 - k) The University has lease agreements with the Foundation of \$29,995 for rental of office space, of which \$24,995 is owed to the Foundation as of June 30, 2009. The University provided janitorial services, refuse disposal, and ground maintenance. The University recorded this amount as a reduction in the amount Due from the Francis Marion University Foundation.
-

NOTE 17 – RELATED PARTIES

The FMU Student Housing, LLC (LLC), a single member limited liability company owned by the Francis Marion University Real Estate Foundation, leases all the University's on-campus housing, composed of fourteen apartment style facilities and six dormitory style facilities having an aggregate of 1112 beds and 8.96 acres of land for their 427 bed apartment complex. The lease agreement provides for the University to be paid any net available cash flow from the operation less any amount agreed upon by the University and the LLC. The determination of net available cash flow requires the LLC's annual audit to be completed with financial statements indicating a debt service coverage ratio of at least 1.25 and that all expenses, debt service, and deposits to the repair and replacement fund have occurred in accordance with bond documents. Rental income from housing operations for fiscal year 2009 is \$108,412, a portion of the advanced rent paid by the Real Estate Foundation in 2004 and an additional rental payment of \$250,000.

The University collects as part of its student fee collection process student housing deposits, fees, and fines. All collections, excluding housing deposits, are remitted to the LLC. Collections due to the LLC at June 30, 2009, are \$264,286 and are included in accounts payable.

During the year, the LLC advanced the University \$284,586 for reimbursements of summer housing repairs. At June 30, 2009 the unspent portion of \$152,507 was recorded as deposits held for others.

Reimbursements for University employee time paid by the University on behalf of the Real Estate Foundation were \$43,929. The University recorded these reimbursements as reductions of the applicable operating expenses. The Real Estate Foundation also paid \$4,665 for building renovations on behalf of the University. The University recorded these amounts as gift revenue and the applicable operating expenses.

NOTE 18 – RISK MANAGEMENT

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

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

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

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

Business interruptions
 Natural disasters
 Medical malpractice claims against covered employees

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

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

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

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

Theft, damage to, or destruction of assets
 Real property, its contents, and other equipment
 Motor vehicles and watercraft
 Torts

NOTE 19 – EXPENSES BY FUNCTION

Operating expenses by functional classification for the year ended June 30, 2009, are summarized as follows:

	Salaries and Wages	Benefits	Supplies and other Services	Utilities	Scholarships	Depreciation	Total
Instruction	\$ 15,486,000	\$ 4,366,658	\$ 1,035,625	\$ 62,894	\$ -	\$ -	\$ 20,951,177
Research	56,066	7,029	16,110	-	-	-	79,205
Public service	934,578	254,953	832,556	5,063	-	-	2,027,150
Academic support	1,952,240	531,458	1,683,372	12,511	-	-	4,179,581
Student services	2,634,737	702,954	1,588,725	43,979	-	-	4,970,395
Institutional support	3,638,945	991,779	586,664	71,383	-	-	5,288,771
Operation and maintenance of plant	3,247,688	1,046,109	1,948,029	1,640,890	-	-	7,882,716
Depreciation	-	-	-	-	-	2,111,486	2,111,486
Scholarships	-	-	-	-	4,573,478	-	4,573,478
Auxiliary Enterprises	11,870	2,222	87,737	52,830	-	-	154,659
Total operating expenses	\$ 27,962,124	\$ 7,903,162	\$ 7,778,818	\$ 1,889,550	\$ 4,573,478	\$ 2,111,486	\$ 52,218,618

FRANCIS MARION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 20 – STATE APPROPRIATIONS

The following are the appropriations as enacted by the General Assembly and reported in the financial statements for the fiscal year ended June 30, 2009:

NON-CAPITAL APPROPRIATIONS	
Current year's appropriations:	
Original appropriations per Annual Appropriations Act	\$ 18,762,031
Mid-Year Appropriation Reductions	(4,225,157)
Supplemental Appropriations	
Pay Plan Reimbursement	143,559
From Commission on Higher Education:	
Academic Incentive Endowment Match	8,191
Nursing Faculty Salary Supplemental Funds	5,183
Total non-capital appropriations recorded as current year revenue	\$ 14,693,807

NOTE 21 – STATEMENT OF ACTIVITIES

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

	Year ended June 30,	
	2009	2008
Charges for services	\$ 32,015,829	\$ 29,544,162
Operating grants and contributions	3,892,770	3,308,289
Capital grants and contributions	-	8,000,000
Less: expenses	(52,247,293)	(53,019,039)
Net program revenues (expenses)	(16,338,694)	(12,166,588)
Transfers:		
State appropriations	14,693,807	19,710,768
Capital appropriations	-	4,000,000
Capital improvement bond proceeds	-	104,829
Research infrastructure bond proceeds	-	651,305
Total transfers	14,693,807	24,466,902
Changes in net assets	(1,644,887)	12,300,314
Net assets - beginning	71,794,819	59,494,505
Net assets - ending	\$ 70,149,932	\$ 71,794,819

FRANCIS MARION UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE PERIOD ENDED JUNE 30, 2009

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant/Contract Number</u>	<u>Total Expenditures</u>
Direct Programs:			
U.S. Department of Education			
Federal Supplemental Educational Opportunity Grant	84.007	PO07A073784	137,577
Federal Family Education Loans	84.032		21,095,241
Federal Work-Study Program	84.033	PO33A073784	147,292
Federal Perkins Loan Program - Federal Capital Contributions	84.038	PO38A053784	2,031,034
Federal Pell Grant Program - 2008	84.063	PO63P063163	9,318
Federal Pell Grant Program - 2009	84.063	PO63P073163	5,551,655
Federal Academic Competitiveness Grant - 2009	84.375	P375A073163	362,455
Federal SMART Grant - 2009	84.376	P376S073163	155,369
U.S. Department of the Interior			
National Park Service	15.926	GA-2255-08-004	35,659
National Science Foundation			
Mathematical and Physical Sciences	47.049	CHE-0714555	62,053
Education and Human Resources	47.076	DUE-0536797	9,930
Total Direct Programs			29,597,583
Indirect Programs:			
U.S. Department of Education			
Passed Through National Writing Project Corp. National Writing Project	84.928A	00-SC10	52,367
Passed Through South Carolina Department of Education Mathematics and Science Partnerships	84.366	09-MS-302-05	2,482
Passed Through South Carolina Department of Education Mathematics and Science Partnerships	84.366B	08-MS-304-01	21,617
Passed Through South Carolina Department of Education Special Education - Grants to States	84.027A	09-CO-304-01, 09-CO-304-0	105,287
Passed Through South Carolina Department of Education Special Education - Grants to States	84.027A	09-CO-304-02	1,750
National Science Foundation			
Passed through the Mathematical Association of America Mathematical and Physical Sciences	47.049	DMS-536991	228
Passed through the SC EPSCoR and USC Education and Human Resources	47.076	08-1506	7,114
National Aeronautics and Space Administration			
Passed through the College of Charleston Space Grant Management Award	43.001	NNG05G168G	2,000
Total Indirect Programs			192,845
Total Federal Assistance			\$ 29,790,428

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

FRANCIS MARION UNIVERSITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2009

NOTE 1 – BASIS OF PRESENTATION

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

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

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

NOTE 3 – LOAN PROGRAMS

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

Stafford Student Loan - Subsidized	\$ 9,180,465
Stafford Student Loan - Unsubsidized	11,351,393
PLUS	<u>563,383</u>
Total	<u><u>\$ 21,095,241</u></u>

The Federal Perkins Loan Program is administered directly by the University and balances and transactions relating to the program are included in the University's financial statements. The balance of loans outstanding under the Federal Perkins Loan program was \$1,819,194 as of June 30, 2009.

Independent Auditors' Report On Internal Control Over
Financial Reporting And On Compliance And Other Matters
Based On An Audit Of Financial Statements Performed
In Accordance With Government Auditing Standards

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

We have audited the financial statements of Francis Marion University, a department of the State of South Carolina, as of and for the year ended June 30, 2009, and have issued our report thereon dated September 15, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Francis Marion University Foundation as described in our report on Francis Marion University's report. The Francis Marion University Foundation's financial statements were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Francis Marion University in a separate letter dated September 15, 2009.

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

A handwritten signature in blue ink that reads "Clint Baudt CPA". The signature is written in a cursive style with a horizontal line through the middle of the name.

September 15, 2009

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

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

Compliance

We have audited the compliance of Francis Marion University, a department of the State of South Carolina, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. Francis Marion University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Francis Marion University's management. Our responsibility is to express an opinion on Francis Marion University's compliance based on our audit.

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

In our opinion Francis Marion University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of Francis Marion University is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Francis Marion University's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Francis Marion University's internal control over compliance.

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

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

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

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

A handwritten signature in blue ink that reads "Clint Brantley CPA". The signature is written in a cursive style with a horizontal line through the middle of the name.

September 15, 2009



Accounting Office

FY 2008 Findings and Questioned Cost: Major Federal Awards

Audit
Ref No.

SD 08-1

Conflicting Information

One student submitted documents that raised questions concerning the applicability of the FAFSA data as the student's mother had filed as head of household but stated in her verification information that she was married. The auditor was unable to determine the impact of the inclusion of the disability income would have on the assistance that the student received.

FY 2009 Corrective Action

Our procedures have been changed to include a checklist for the counselors to use to insure that tax filing status is not missed. If it is determined that tax filing status is inaccurate, then additional information will be required before an award is made.

SD 08-02

Pell

One student in the audit sample received Pell disbursements that exceeded the maximum allowed award by \$400; the university returned the funds. The university had identified the overpayment but as of the date of the audit had not refunded the payment.

FY 2009 Corrective Action

We reviewed the procedures in place and found them to be adequate to prevent the occurrence of this type error. However, because of this finding, management met with the staff and reviewed the procedures and the number of files randomly reviewed was increased to help insure that this type error does not repeat.

M. Augustus McDill
September 10, 2009

FRANCIS MARION UNIVERSITY

Schedule of Findings and Questioned Costs

Year Ended June 30, 2009

Summary of Auditors' Results:

GAGAS

An unqualified opinion was issued on Francis Marion University's general purpose financial statements dated September 15, 2009.

There were no significant deficiencies or material weaknesses. No instances of noncompliance material to the financial statement were disclosed by the audit of their financial statements.

A-133

An unqualified opinion was also issued on compliance of major programs at Francis Marion University dated September 15, 2009. No significant deficiencies in the internal control over major programs were found. Our audit disclosed no audit findings that are required to be reported under OMB Circular A-133.

The major program at Francis Marion University is the Financial Aid Cluster with the Department of Education. Type A programs are defined as those that expended \$300,000 or more and type B programs are those that expended less than \$300,000. Francis Marion University's total federal awards expended for the year ended June 30, 2009 were between \$10 million and \$100 million.

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

Findings Relating to Financial Statements:

There were no findings relating to financial statements.

Findings and Questioned Costs: Major Federal Awards Programs Audit:

There were no findings and questioned costs relating to Federal Awards.

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