

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2012



STATE OF FLORIDA
AUDITOR GENERAL
DAVID W. MARTIN, CPA

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and the position remained vacant to June 21, 2012.
(2) Faculty senate chair.
(3) Student body president.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The audit team leader was Kimberly S. Ferree, CPA, and the audit was supervised by Karen L. Revell, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other reports prepared by the Auditor General can be obtained on our Web site at www.myflorida.com/audgen; by telephone at (850) 487-9175; or by mail at G74 Claude Pepper Building, 111 West Madison Street, Tallahassee, Florida 32399-1450.

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
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EXECUTIVE SUMMARY

Summary of Report on Financial Statements

Our audit disclosed that the University's basic financial statements were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

Summary of Report on Internal Control and Compliance

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States.

Audit Objectives and Scope

Our audit objectives were to determine whether Florida Agricultural and Mechanical University and its officers with administrative and stewardship responsibilities for University operations had:

- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2012. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2013-103.

Audit Methodology

The methodology used to develop the findings in this report included the examination of pertinent University records in connection with the application of procedures required by auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



DAVID W. MARTIN, CPA
AUDITOR GENERAL

AUDITOR GENERAL STATE OF FLORIDA

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida Agricultural and Mechanical University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based on the reports 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Agricultural and Mechanical University and of its aggregate discretely presented component units as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal 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 on our consideration of Florida Agricultural and Mechanical University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS, SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN, and NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Respectfully submitted,



David W. Martin, CPA
March 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2012, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

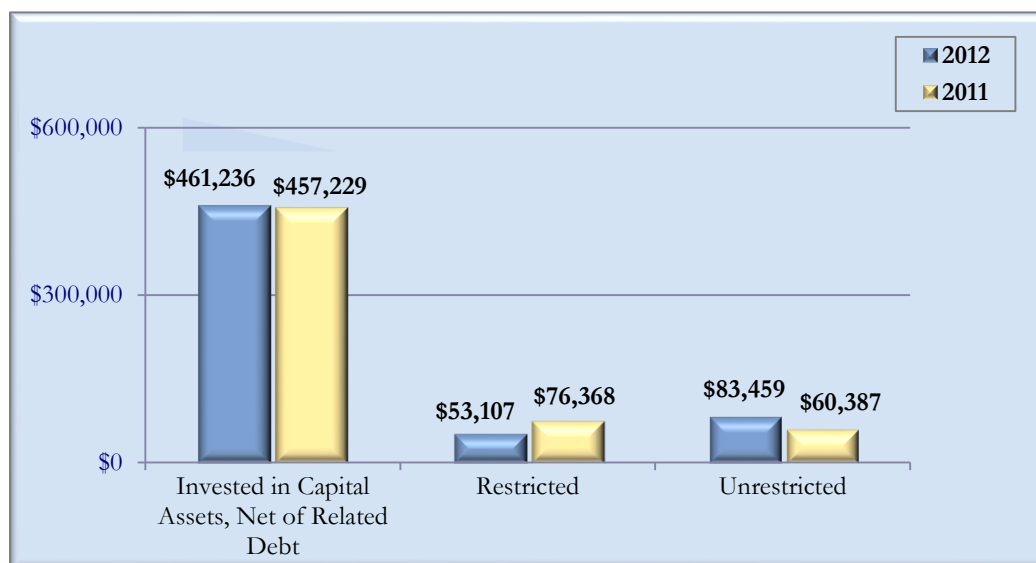
FINANCIAL HIGHLIGHTS

The University's assets totaled \$691.7 million at June 30, 2012. This balance reflects a \$17.7 million, or 2.6 percent, increase as compared to June 30, 2011, primarily due to increases in current assets in the amount of \$6.8 million and capital assets in the amount of \$8.5 million. Liabilities increased by a lesser amount of \$13.9 million, or 17.4 percent, totaling \$93.9 million at June 30, 2012, as compared to \$80 million at June 30, 2011. As a result, the University's net assets increased by \$3.8 million, resulting in a year-end balance of \$597.8 million.

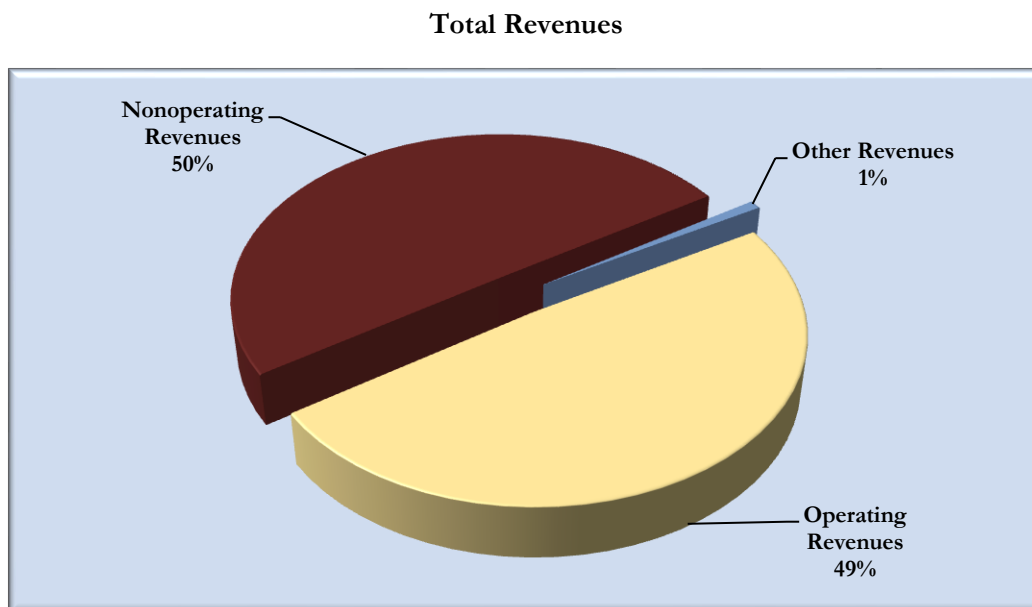
The University's operating revenues totaled \$141.7 million for the 2011-12 fiscal year, representing a 9.6 percent increase over the 2010-11 fiscal year, due primarily from an increase of \$12.3 million in net tuition and fees, a decrease of \$2.5 million in grants and contracts, and an increase of \$2.6 million in other operating revenues. Operating expenses totaled \$276 million for the 2011-12 fiscal year, representing a decrease of 5.7 percent when compared to the 2010-11 fiscal year. This was the result of a total decrease of \$16.8 million in all expense categories.

Net assets represent the residual interest in the University's assets after deducting liabilities. The University's comparative total net assets by category for the fiscal years ended June 30, 2012, and 2011, are shown in the following graph:

**Net Assets
(In Thousands)**



The following chart provides a graphical presentation of University revenues by category for the 2011-12 fiscal year:



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include: Florida Agricultural and Mechanical University Foundation, Inc.; Florida Agricultural and Mechanical University National Alumni Association, Inc.; and Rattler Boosters, Inc., previously known as Florida A&M University (FAMU) Boosters Club, Inc. Based upon the application of the criteria for determining component units, these entities are included within the University reporting entity as discretely presented component units.

Information regarding these component units, including summaries of the discretely presented component units' separately issued financial statements, is presented in the notes to financial statements. This MD&A focuses on the University, excluding the component units.

THE STATEMENT OF NET ASSETS

The statement of net assets reflects the assets and liabilities of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. The difference between total assets and total liabilities, net assets, is one indicator of the University's current financial condition. The changes in net assets that occur over time indicate improvement or deterioration in the University's financial condition.

The following summarizes the University's assets, liabilities, and net assets at June 30:

Condensed Statement of Net Assets
(In Thousands)

	2012	2011
Assets		
Current Assets	\$ 172,575	\$ 165,823
Capital Assets, Net	493,023	484,569
Other Noncurrent Assets	26,092	23,561
Total Assets	<u>691,690</u>	<u>673,953</u>
Liabilities		
Current Liabilities	24,097	23,451
Noncurrent Liabilities	69,791	56,518
Total Liabilities	<u>93,888</u>	<u>79,969</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	461,236	457,229
Restricted	53,107	76,368
Unrestricted	83,459	60,387
Total Net Assets	<u>\$ 597,802</u>	<u>\$ 593,984</u>

Total assets increased by \$17.7 million, total liabilities increased by \$13.9 million, and total net assets increased by \$3.8 million. The increase in current assets of \$6.8 million is primarily due to an increase in cash from the 14 percent increase in the assessment and collection of in-state student tuition and related fees. The increase in net capital assets is due primarily to additional construction activity for the Sampson and Young Residence Halls remodeling, Gore Education Complex remodeling, Crestview Educational Center, a new residence hall, and campus electrical upgrades. In addition, the University entered into a capital lease agreement to further enhance campus-wide energy savings measures. Accordingly, the capital lease agreement resulted in an increase to noncurrent assets and a corresponding increase to noncurrent liabilities. The increase in noncurrent assets was offset by reductions of restricted investments relating to construction activity. The \$13.3 million increase in noncurrent liabilities is primarily due to the inception of the \$12.4 million capital lease. Several major construction projects were completed during the fiscal year, which attributed to the increase in the invested in capital assets, net of related debt and the decrease in restricted net assets. Furthermore, the invested in capital assets, net of related debt was affected by the change in capitalization threshold. The Florida Board of Governors approved Regulation 9.002, *Recording and Marking of Property*, which increased the capitalization threshold for tangible personal property from \$1,000 to \$5,000. Tangible personal property costing between \$1,000 and \$5,000 and related accumulated depreciation as of June 30, 2011, were removed from the accounting records, resulting in net nonoperating expenses of \$7.4 million.

THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The statement of revenues, expenses, and changes in net assets presents the University's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the University's activity for the 2011-12 and 2010-11 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
(In Thousands)

	2011-12	2010-11
Operating Revenues	\$ 141,656	\$ 129,211
Less, Operating Expenses	<u>275,990</u>	<u>292,785</u>
Operating Loss	(134,334)	(163,574)
Net Nonoperating Revenues	<u>135,853</u>	<u>170,127</u>
Income Before Other Revenues, Expenses, Gains, or Losses	1,519	6,553
Other Revenues, Expenses, Gains, or Losses	<u>2,299</u>	<u>64,688</u>
Increase In Net Assets	3,818	71,241
Net Assets, Beginning of Year	<u>593,984</u>	<u>522,743</u>
Net Assets, End of Year	<u><u>\$ 597,802</u></u>	<u><u>\$ 593,984</u></u>

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value.

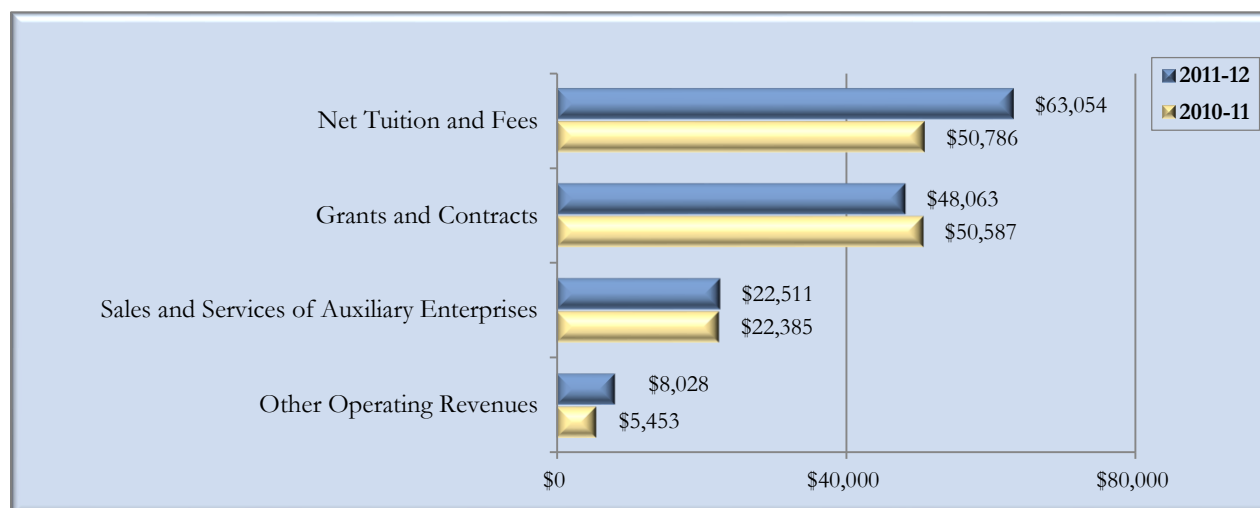
The following summarizes the University's operating revenues by source that were used to fund operating activities for the 2011-12 and 2010-11 fiscal years:

Operating Revenues
(In Thousands)

	2011-12	2010-11
Net Tuition and Fees	\$ 63,054	\$ 50,786
Grants and Contracts	48,063	50,587
Sales and Services of Auxiliary Enterprises	22,511	22,385
Other Operating Revenues	<u>8,028</u>	<u>5,453</u>
Total Operating Revenues	<u><u>\$ 141,656</u></u>	<u><u>\$ 129,211</u></u>

The following chart presents the University's operating revenues for the 2011-12 and 2010-11 fiscal years:

Operating Revenues
(In Thousands)



The operating revenues for the 2011-12 fiscal year were \$141.7 million, of which \$63 million was from net student tuition and fees. The net tuition and fees was the result of \$95.8 million in gross tuition and fees offset by a tuition allowances of \$32.8 million. Tuition allowance represents the difference between the stated charges for goods and services provided by the University, and the amount that is actually paid by the student or third party making payment on behalf of the student. As a result, net tuition and fees increased by \$12.3 million, or 24.2 percent, over the 2010-11 fiscal year. This increase was due to higher tuition and fee rates offset by a decrease in enrollment. Grants and contracts decreased by \$2.5 million, or 4.9 percent, as compared to the 2010-11 fiscal year, due to overall decrease in State and local grants and contracts, and other operating revenues increased by \$2.6 million, or 49 percent, over the 2010-11 fiscal year, due to scholarships funding provided by the Florida Agricultural and Mechanical University Foundation, Inc.

Operating Expenses

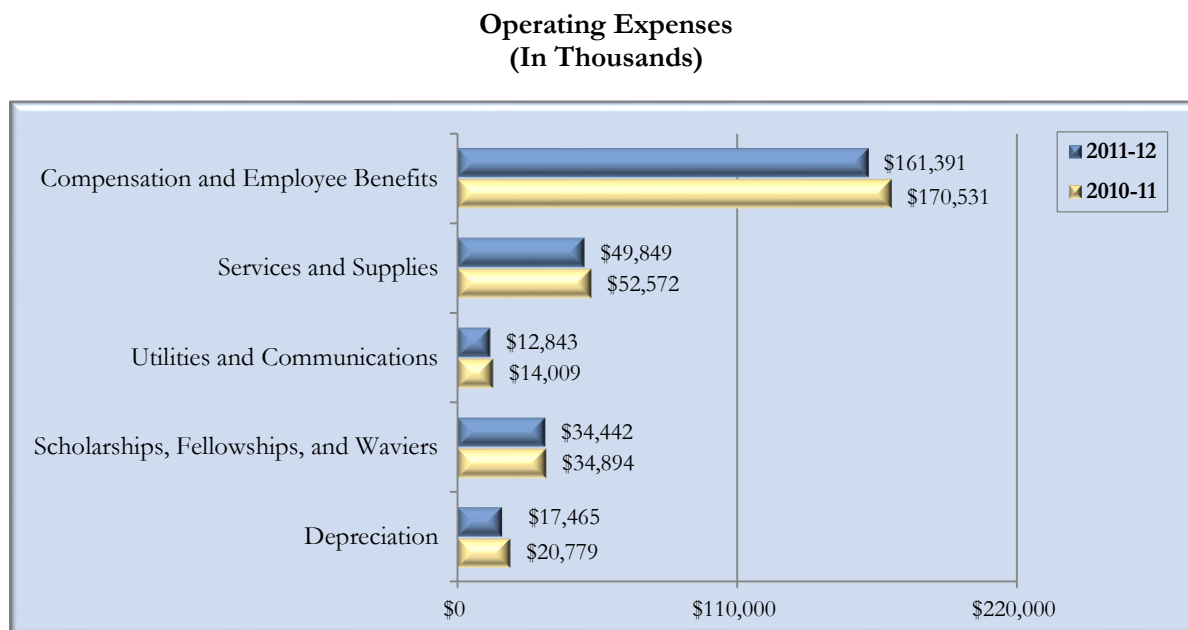
Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net assets and has displayed the functional classification in the notes to financial statements.

The following summarizes the operating expenses by natural classifications for the 2011-12 and 2010-11 fiscal years:

Operating Expenses
(In Thousands)

	2011-12	2010-11
Compensation and Employee Benefits	\$ 161,391	\$ 170,531
Services and Supplies	49,849	52,572
Utilities and Communications	12,843	14,009
Scholarships, Fellowships, and Waivers	34,442	34,894
Depreciation	17,465	20,779
Total Operating Expenses	\$ 275,990	\$ 292,785

The following chart presents the University's operating expenses for the 2011-12 and 2010-11 fiscal years:



The operating expenses decreased \$16.8 million primarily due to decreases in compensation and employee benefits (\$9.1 million), services and supplies (\$2.7 million), utilities and communications (\$1.2 million), and depreciation expense (\$3.3 million). The reduction in employee benefits and compensation is related to changes approved by the Florida Legislature during the 2011 legislative session, which lowered the employer's proportionate contribution to the Florida Retirement System and Optional Retirement Program, and a reduction in staffing levels. In addition, the declines in services and supplies were attributable to the discontinuation of Federal Stimulus funds received under the American Recovery and Reinvestment Act (ARRA). The decrease in depreciation expense is primarily due to the change in capitalization threshold and the related adjustment to remove tangible personal property with a historical cost between \$1,000 and \$5,000 from the property records.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2011-12 and 2010-11 fiscal years:

Nonoperating Revenues (Expenses)
(In Thousands)

	2011-12	2010-11
State Noncapital Appropriations	\$ 97,822	\$ 107,901
Federal and State Student Financial Aid	45,069	52,085
State Appropriated American Recovery and Reinvestment Act Funds		8,461
Investment Income	1,770	2,042
Unrealized Gains on Investments	240	1,605
Other Nonoperating Revenues	256	113
Loss on Disposal of Capital Assets	(227)	(28)
Interest on Capital Asset-Related Debt	(1,713)	(1,738)
Other Nonoperating Expenses	(7,364)	(314)
Net Nonoperating Revenues	\$ 135,853	\$ 170,127

The University's net nonoperating revenues decreased by \$34.3 million, or 20.1 percent, primarily due to a decrease in State noncapital appropriations, Federal and State student financial aid, and ARRA funds of \$10.1 million, \$7 million, and \$8.5 million, respectively. The decrease in the University's State noncapital appropriations is largely due to the recent economic downturn affecting the State of Florida. The reduction in Federal and State student financial aid is primarily due to the discontinuation of the Academic Competitiveness Grant funds, the National Science and Mathematics Access to Retain Talent Grant funds, and decreased awards in the Federal Pell grant program. The reduction in ARRA funds is due to the cessation funding during the 2011-12 fiscal year. The increase in other nonoperating expenses of \$7.1 million is primarily due to the removal of capital assets with historical cost between \$1,000 and \$5,000.

Other Revenues, Expenses, Gains, or Losses

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues, expenses, gains, or losses for the 2011-12 and 2010-11 fiscal years:

Other Revenues, Expenses, Gains, or Losses
(In Thousands)

	2011-12	2010-11
State Capital Appropriations	\$ 1,130	\$ 57,250
Capital Grants, Contracts, Donations, and Fees	1,169	7,438
Total	\$ 2,299	\$ 64,688

The University's other revenues decreased \$62.4 million, or 96.4 percent, primarily due to a significant reduction in the 2011-12 fiscal year State capital appropriations designated for major projects, capital renewal, and infrastructure enhancements. In addition, a \$7 million nonrecurring grant from the Florida Department of Health in the 2010-11 fiscal year to support the Crestview, Florida pharmacy program ended.

THE STATEMENT OF CASH FLOWS

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes the University's cash flows for the 2011-12 and 2010-11 fiscal years:

**Condensed Statement of Cash Flows
(In Thousands)**

	2011-12	2010-11
Cash Provided (Used) by:		
Operating Activities	\$ (115,279)	\$ (138,542)
Noncapital Financing Activities	142,297	170,613
Capital and Related Financing Activities	(4,337)	(10,567)
Investing Activities	25,837	(12,684)
Net Increase in Cash and Cash Equivalents	48,518	8,820
Cash and Cash Equivalents, Beginning of Year	13,136	4,316
Cash and Cash Equivalents, End of Year	\$ 61,654	\$ 13,136

Major sources of funds came from Federal direct student loan receipts (\$115.6 million); State noncapital appropriations (\$98.6 million); net student tuition and fees (\$60.8 million); grants and contracts (\$50.6 million); Federal and State student financial aid (\$45.1 million); and sales and services of auxiliary enterprises (\$22 million). Major uses of funds were for Federal direct student loan disbursements (\$117 million); payments made to and on behalf of employees (\$158.7 million); payments to suppliers (\$62.2 million); payments to and on behalf of students for scholarships and fellowships (\$34.4 million); and the purchase or construction of capital assets totaling (\$32.5 million).

**CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS,
AND DEBT ADMINISTRATION**

CAPITAL ASSETS

At June 30, 2012, the University had \$719.7 million in capital assets, less accumulated depreciation of \$226.7 million, for net capital assets of \$493 million. Depreciation charges for the current fiscal year totaled \$17.5 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30
(In Thousands)

	2012	2011
Land	\$ 5,826	\$ 5,826
Works of Art and Historical Treasures	712	687
Construction in Progress	24,545	29,665
Buildings	374,426	351,502
Infrastructure and Other Improvements	61,197	60,473
Furniture and Equipment	13,371	22,114
Library Resources	12,048	13,212
Property Under Capital Leases	617	694
Computer Software	239	367
Other Capital Assets	42	29
Capital Assets, Net	\$ 493,023	\$ 484,569

Additional information about the University's capital assets is presented in the notes to financial statements.

CAPITAL EXPENSES AND COMMITMENTS

Major capital expenses through June 30, 2012, were incurred on the following projects: Sampson and Young Residence Halls remodeling, Gore Education Complex remodeling, Pharmacy Building, Crestview Educational Center, and maintenance and remodeling projects. The University's major capital commitments at June 30, 2012, are as follows:

	Amount (In Thousands)
Total Committed	\$ 37,746
Completed to Date	<u>(24,545)</u>
Balance Committed	<u>\$ 13,201</u>

Additional information about the University's capital commitments is presented in the notes to financial statements.

DEBT ADMINISTRATION

As of June 30, 2012, the University had \$44.3 million in outstanding capital improvement debt payable, loans and notes payable, and capital leases payable, representing an increase of \$10.3 million, or 30.2 percent, from the prior fiscal year. The increase was due primarily to an increase in capital leases, resulting from the inception of a new capital lease agreement to finance an energy performance savings contract. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

	2012	2011
Capital Improvement Debt	\$ 29,055	\$ 30,744
Loans and Notes	167	250
Capital Leases	15,035	2,985
Total	\$ 44,257	\$ 33,979

Additional information about the University's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University's major source of revenue continues to be State appropriations. Therefore, the economic condition of the University is closely tied to the economic condition of the State of Florida.

During the 2012-13 fiscal year, the base budgets of State universities were reduced \$300 million, of which \$19.9 million affected the University. The Legislature has vowed to restore the \$300 million to the State universities for the 2013-14 fiscal year; however, this is not guaranteed.

To lessen the impact on State universities, the Florida Legislature authorized tuition fee rate increases for the 2012-13 fiscal year. The University expects the additional revenue from increases in student tuition and fee rates, accompanied by new academic programs and stable enrollment growth in the long-term, to assist in mitigating the effects of State budget reductions into the future. Moreover, recent economic forecasts demonstrate the economy is beginning to show signs of improvement.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Mr. Joseph H. Bakker, Interim Chief Financial Officer, and Vice President for Administrative and Financial Services, Florida Agricultural and Mechanical University, Foote-Hilyer Administrative Center, Suite 304, Tallahassee, Florida 32307.

BASIC FINANCIAL STATEMENTS

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY A COMPONENT UNIT OF THE STATE OF FLORIDA STATEMENT OF NET ASSETS June 30, 2012

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 40,241,171	\$ 423,877
Investments	66,095,729	
Accounts Receivable, Net	21,073,445	819,513
Loans and Notes Receivable, Net	28,259	19,874
Due from State	44,655,154	
Inventories	481,457	4,925
Total Current Assets	172,575,215	1,268,189
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	21,412,823	
Restricted Investments	2,558,075	109,617,232
Loans and Notes Receivable, Net	2,121,328	
Depreciable Capital Assets, Net	461,938,995	722,655
Nondepreciable Capital Assets	31,083,772	
Other Noncurrent Assets		2,181
Total Noncurrent Assets	519,114,993	110,342,068
TOTAL ASSETS	\$ 691,690,208	\$ 111,610,257
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 4,524,649	\$ 257,263
Construction Contracts Payable	4,566,389	
Salaries and Wages Payable	2,141,174	
Deposits Payable	3,868,100	
Due to State	118,187	
Deferred Revenue	5,273,241	373,750
Other Current Liabilities		2,216,732
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	1,791,000	
Loans and Notes Payable	83,333	68,163
Capital Leases Payable	320,538	
Compensated Absences Payable	1,410,763	
Total Current Liabilities	24,097,374	2,915,908

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2012

	<u>University</u>	<u>Component Units</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	\$ 27,264,326	\$
Loans and Notes Payable	83,334	205,609
Capital Leases Payable	14,714,014	
Compensated Absences Payable	18,237,741	
Other Postemployment Benefits Payable	7,231,000	
Other Noncurrent Liabilities	2,260,668	
	<u>69,791,083</u>	<u>205,609</u>
Total Noncurrent Liabilities		
	<u>69,791,083</u>	<u>205,609</u>
TOTAL LIABILITIES	<u>93,888,457</u>	<u>3,121,517</u>
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	461,235,452	722,655
Restricted for Nonexpendable:		
Endowment		79,859,388
Restricted for Expendable:		
Debt Service	1,202,406	
Loans	2,129,189	
Capital Projects	49,150,862	
Other	624,859	27,785,942
Unrestricted	83,458,983	120,755
	<u>597,801,751</u>	<u>108,488,740</u>
TOTAL NET ASSETS		
	<u>597,801,751</u>	<u>108,488,740</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 691,690,208</u>	<u>\$ 111,610,257</u>

The accompanying notes to financial statements are an integral part of this statement.

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2012

	<u>University</u>	<u>Component Units</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$32,796,710 (\$1,760,341 Pledged for Parking Capital Improvement Debt)	\$ 63,054,104	\$
Federal Grants and Contracts	40,663,482	
State and Local Grants and Contracts	5,969,890	
Nongovernmental Grants and Contracts	1,429,933	
Sales and Services of Auxiliary Enterprises (\$12,199,839 Pledged for Housing Capital Improvement Debt, \$948,095 Pledged for Parking Capital Improvement Debt, and \$2,415,719 Pledged for Student Services Capital Improvement Debt)	22,511,282	
Interest on Loans and Notes Receivable	74,771	
Other Operating Revenues	<u>7,952,835</u>	<u>5,698,187</u>
Total Operating Revenues	<u>141,656,297</u>	<u>5,698,187</u>
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	161,391,300	1,246,393
Services and Supplies	49,849,086	7,755,018
Utilities and Communications	12,843,486	35,772
Scholarships, Fellowships, and Waivers	34,441,632	
Depreciation	<u>17,465,086</u>	<u>6,450</u>
Total Operating Expenses	<u>275,990,590</u>	<u>9,043,633</u>
Operating Loss	<u>(134,334,293)</u>	<u>(3,345,446)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	97,822,294	
Federal and State Student Financial Aid	45,069,465	
Investment Income	1,770,066	2,915,945
Unrealized Gains (Losses) on Investments	240,194	(3,553,744)
Other Nonoperating Revenues	256,184	
Loss on Disposal of Capital Assets	(227,097)	
Interest on Capital Asset-Related Debt	(1,713,357)	
Other Nonoperating Expenses	<u>(7,364,381)</u>	
Net Nonoperating Revenues (Expenses)	<u>135,853,368</u>	<u>(637,799)</u>
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	1,519,075	(3,983,245)
State Capital Appropriations	1,130,325	
Capital Grants, Contracts, Donations, and Fees	<u>1,168,391</u>	
Increase (Decrease) in Net Assets	3,817,791	(3,983,245)
Net Assets, Beginning of Year	<u>593,983,960</u>	<u>112,471,985</u>
Net Assets, End of Year	<u>\$ 597,801,751</u>	<u>\$ 108,488,740</u>

The accompanying notes to financial statements are an integral part of this statement.

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2012

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 60,767,124
Grants and Contracts	50,594,620
Sales and Services of Auxiliary Enterprises	22,019,040
Interest on Loans and Notes Receivable	49,245
Payments to Employees	(158,686,524)
Payments to Suppliers for Goods and Services	(62,216,142)
Payments to Students for Scholarships and Fellowships	(34,441,632)
Loans Issued to Students	(381,243)
Collections on Loans to Students	335,628
Other Operating Receipts	<u>6,680,923</u>
Net Cash Used by Operating Activities	<u>(115,278,961)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	98,606,196
Federal and State Student Financial Aid	45,069,465
Federal Direct Loan Program Receipts	115,618,450
Federal Direct Loan Program Disbursements	(116,975,806)
Net Change in Funds Held for Others	(250,735)
Other Nonoperating Receipts	<u>229,259</u>
Net Cash Provided by Noncapital Financing Activities	<u>142,296,829</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Leases	12,302,562
State Capital Appropriations	18,688,152
Capital Grants, Contracts, Donations, and Fees	1,186,941
Other Capital Related Disbursements	(226,989)
Purchase or Construction of Capital Assets	(32,495,640)
Principal Paid on Capital Debt and Leases	(2,078,586)
Interest Paid on Capital Debt and Leases	<u>(1,713,357)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(4,336,917)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	61,841,106
Purchase of Investments	(37,845,865)
Investment Income	<u>1,841,461</u>
Net Cash Provided by Investing Activities	<u>25,836,702</u>
Net Increase in Cash and Cash Equivalents	48,517,653
Cash and Cash Equivalents, Beginning of Year	<u>13,136,341</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 61,653,994</u></u>

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF CASH FLOWS (CONTINUED)
For the Fiscal Year Ended June 30, 2012

	<u>University</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (134,334,293)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	17,465,086
Change in Assets and Liabilities:	
Receivables, Net	(880,610)
Inventories	34,517
Accounts Payable	322,192
Salaries and Wages Payable	(496,816)
Compensated Absences Payable	612,217
Deferred Revenue	(597,254)
Other Postemployment Benefits Payable	<u>2,596,000</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (115,278,961)</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND	
CAPITAL FINANCING ACTIVITIES	
Unrealized gains on investments were recognized as an increase to investment income on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ 240,194
Losses from the disposal of capital assets were recognized on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (227,097)
Expenses related to the change in capitalization threshold for tangible personal property were recognized as other nonoperating expenses on the statement of revenues, expenses, and changes in net assets, but are not cash transactions for the statement of cash flows.	\$ (7,361,332)

The accompanying notes to financial statements are an integral part of this statement.

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of thirteen members. The Governor appoints six citizen members and the Board of Governors appoints five citizen members. These members are confirmed by the Florida Senate and serve staggered terms of five years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations. The Trustees select the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units 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 would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Discretely Presented Component Units. Based on the application of the criteria for determining component units, the following direct-support organizations (as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

- Florida Agricultural and Mechanical University Foundation, Inc., is authorized to obtain private support to meet the critical needs of the University that are not met by public funds and assist the University in maintaining its "margin of excellence."
- Florida Agricultural and Mechanical University National Alumni Association, Inc., provides funds to foster scholarships and enhance the image of the University through positive public relations and public service.
- Rattler Boosters, Inc. (Boosters), previously known as Florida A&M University (FAMU) Booster Club, Inc., amended their articles of incorporation to begin using a new corporate name. The Boosters provide contributions to the University to stimulate the education, health, and physical welfare of the students.

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

An annual audit of each organization's financial statements is conducted by independent certified public accountants. The annual report is submitted to the Auditor General and the University Board of Trustees. Additional information on the University's component units, including copies of audit reports, is available by contacting University Public Relations or, for the Boosters, by contacting the Athletic Director. Condensed financial statements for the University's discretely presented component units are shown in a subsequent note.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements
- Other Required Supplementary Information

Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets and liabilities are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

The University's discretely presented component units use the accrual basis of accounting whereby revenues are recognized when earned and expenses are recognized when incurred, and follow FASB standards of accounting and financial reporting for not-for-profit organizations.

The University applies all applicable GASB pronouncements and, in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the University has elected to apply those FASB pronouncements issued on or before November 30, 1989, not in conflict with GASB standards.

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been accounted for as reductions of expenses and not revenues of those departments.

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these activities as well as administration, operation and maintenance of capital assets, and depreciation on capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, investment income, and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

The statement of net assets is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the University's policy to first apply the restricted resources to such programs, followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net assets is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount that is actually paid by a student or a third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and cash in demand accounts. Except for cash deposited in an escrow account, University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

At June 30, 2012, the University reported as cash \$12,302,562 on deposit in a bank escrow account by a trust company to fund certain energy savings measures. Public deposits in a bank by a trust company are fully secured under trust business laws, according to Section 280.03, Florida Statutes.

Capital Assets. University capital assets consist of land; works of art and historical treasures; construction in progress; buildings, infrastructure and other improvements; furniture and equipment; library resources; property under capital leases; computer software; and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$100,000 for new buildings and other improvements.

The Florida Board of Governors approved Regulation 9.002, *Recording and Marking of Property*, effective July 1, 2011, revising the capitalization threshold for tangible personal property. The revision to the regulation was designed to achieve administrative efficiencies and cost savings by increasing the capitalization threshold of University tangible personal property from \$1,000 to \$5,000. Previously capitalized tangible personal property costing between \$1,000 and \$5,000 and related accumulated depreciation amounts as of June 30, 2011, were written off during the 2011-12 fiscal year. The adjustments column in the capital assets note disclosure shows the change by category resulting from the increase in the threshold.

The change in the capitalization threshold resulted in a \$7,361,332 other nonoperating expense in the statement of revenues, expenses, and changes in net assets. This is a nonrecurring, noncash item and has been reported in the supplemental disclosure of noncash investing and capital financing activities section of the cash flow statement.

Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 20 to 50 years
- Infrastructure and Other Improvements – 12 to 50 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Property Under Capital Leases – 10 years
- Works of Art and Historical Treasures – 5 years
- Computer Software – 3 to 7 years

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt payable, loans and notes payable, capital leases payable, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities that are not scheduled to be paid within the next fiscal year. Capital improvement debt is reported net of unamortized premiums or discounts and deferred losses on refunding. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance costs paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the debt using the straight-line method.

2. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The University's Board of Trustees has not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Florida PRIME investment pool administered by the SBA; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; direct obligations of the United States Treasury; and Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency. Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

State Treasury Special Purpose Investment Account. The University reported investments at fair value totaling \$67,460,368 at June 30, 2012, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The SPIA carried a credit rating of A+f by Standard & Poor's and had an effective duration of 2.38 years at June 30, 2012. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

State Board of Administration Debt Service Accounts. The University reported investments at fair value totaling \$1,193,436 at June 30, 2012, in the SBA Debt Service Accounts. These investments are used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. The University's investments consist of United States Treasury securities, with maturity dates of six months or less, and are reported at fair value. The University relies on policies developed by the SBA for managing interest rate risk or credit risk for these accounts. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Units' Investments

Investments held by the University's component units, Florida Agricultural and Mechanical University Foundation, Inc., and Florida Agricultural and Mechanical University National Alumni Association, Inc., at June 30, 2012, are reported at fair value as follows:

Investment Type	Florida Agricultural and Mechanical University Foundation, Inc.	Florida Agricultural and Mechanical University National Alumni Association, Inc.	Total
United States Guaranteed Obligations	\$ 7,405,232	\$	\$ 7,405,232
Bonds	16,587,327		16,587,327
Stocks	46,090,931		46,090,931
Real Estate Investments	11,006,886		11,006,886
Mutual Funds	6,161,580		6,161,580
Investment Agreements	20,964,637	1,400,639	22,365,276
Total Component Units' Investments	\$ 108,216,593	\$ 1,400,639	\$109,617,232

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

3. RECEIVABLES

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2012, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Student Tuition and Fees	\$ 25,747,506
Contracts and Grants	8,741,296
Interest Receivable	809,055
Other	<u>2,021,204</u>
Total Accounts Receivable	37,319,061
Allowance for Doubtful Accounts	<u>(16,245,616)</u>
Total Accounts Receivable, Net	<u><u>\$ 21,073,445</u></u>

Loans and Notes Receivable. Loans and notes receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs.

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans and notes receivable, are reported based on management's best estimate as of fiscal year-end considering type, age, collection history, and other factors considered appropriate. Accounts receivable, and loans and notes receivable, are reported net of allowances of \$16,245,616 and \$835,420, respectively, at June 30, 2012.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

4. DUE FROM STATE

This amount consists of \$44,655,154 of Public Education Capital Outlay allocations due from the State to the University for construction of University facilities.

5. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012, is shown below:

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 5,826,333	\$	\$	\$	\$ 5,826,333
Works of Art and Historical Treasures	672,635		39,414		712,049
Construction in Progress	29,664,732		28,141,096	33,260,438	24,545,390
Total Nondepreciable Capital Assets	\$ 36,163,700	\$	\$ 28,180,510	\$ 33,260,438	\$ 31,083,772
Depreciable Capital Assets:					
Buildings	\$ 464,798,824	\$ (14,749)	\$ 32,156,956	\$ 829,171	\$ 496,111,860
Infrastructure and Other Improvements	73,046,130		2,222,428		75,268,558
Furniture and Equipment	93,572,871	(32,877,149)	2,491,874	1,125,769	62,061,827
Library Resources	52,894,759		1,595,756	865,058	53,625,457
Property Under Capital Leases	841,794				841,794
Works of Art and Historical Treasures	114,952	(72,502)			42,450
Computer Software	803,199	(254,615)	107,147		655,731
Other Capital Assets	28,630		12,895		41,525
Total Depreciable Capital Assets	686,101,159	(33,219,015)	38,587,056	2,819,998	688,649,202
Less, Accumulated Depreciation:					
Buildings	113,296,883	58,792	9,030,963	700,400	121,686,238
Infrastructure and Other Improvements	12,572,821	16,590	1,482,614		14,072,025
Furniture and Equipment	71,459,174	(25,734,439)	3,993,867	1,027,443	48,691,159
Library Resources	39,682,697		2,759,795	865,058	41,577,434
Property Under Capital Leases	147,314	(7,015)	84,179		224,478
Works of Art and Historical Treasures	100,599	(62,090)	3,500		42,009
Computer Software	436,217	(129,521)	110,168		416,864
Total Accumulated Depreciation	237,695,705	(25,857,683)	17,465,086	2,592,901	226,710,207
Total Depreciable Capital Assets, Net	\$ 448,405,454	\$ (7,361,332)	\$ 21,121,970	\$ 227,097	\$ 461,938,995

Note: (1) The adjustment to capital assets is the result of change in the capitalization threshold for tangible personal property from \$1,000 to \$5,000, effective July 1, 2011. See note No. 1, Summary of Significant Accounting Policies.

6. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2012, to spend the funds, money drawn in advance of incurring expenses for cost reimbursement contracts and grants, and student tuition and fees received prior to fiscal year-end related to subsequent accounting periods. As of June 30, 2012, the University reported the following amounts as deferred revenue:

Description	Amount
Capital Appropriations	\$ 61,059
Contract and Grants	4,358,680
Other	853,502
Total Deferred Revenue	\$ 5,273,241

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012

7. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2012, include capital improvement debt payable, loans and notes payable, capital leases payable, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities. Other noncurrent liabilities consists of Federal Perkins Loan Capital Contributions. Long-term liabilities activity for the fiscal year ended June 30, 2012, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	\$30,744,083	\$	\$1,688,757	\$ 29,055,326	\$1,791,000
Loans and Notes Payable	250,000		83,333	166,667	83,333
Capital Leases Payable	2,985,227	12,355,821	306,496	15,034,552	320,538
Compensated Absences Payable	19,036,287	2,264,931	1,652,714	19,648,504	1,410,763
Other Postemployment Benefits Payable	4,635,000	3,548,000	952,000	7,231,000	
Other Noncurrent Liabilities	2,287,593		26,925	2,260,668	
Total Long-Term Liabilities	\$59,938,190	\$18,168,752	\$4,710,225	\$ 73,396,717	\$3,605,634

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2012:

Capital Improvement Debt Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Student Housing Debt:				
2010A Dormitory	\$ 14,687,000	\$ 14,199,670	5.07	2030
2010B Dormitory Revenue Refunding	12,960,000	11,454,793	4.6	2025
Total Student Housing Debt	27,647,000	25,654,463		
Parking Garage Debt:				
1997 Parking Garage	2,880,000	1,161,441	5.125 - 5.3	2018
Student Service Center Debt:				
1997 Student Service Center	6,310,000	2,239,422	5.2 - 5.4	2017
Total Capital Improvement Debt	\$ 36,837,000	\$ 29,055,326		

Note: (1) Amounts outstanding includes unamortized discounts and premiums, and deferred losses on refunding issues.

The University has pledged a portion of future traffic and parking fees and various student fee assessments to repay \$3,400,863 in capital improvement (parking and student service center) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing to construct student parking garages and a student service center. The bonds are payable solely from traffic and parking fees, parking sales, and student service center revenues and are payable through 2018. The University has committed to appropriate each year from traffic and parking fees, parking sales, and student service center revenues, amounts

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sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$4,025,633, and principal and interest paid for the current year totaled \$755,048. During the 2011-12 fiscal year, income from traffic and parking fees, parking sales, and student service center sales and services totaled \$1,760,341, \$948,095, and \$2,415,719, respectively.

The University has pledged a portion of future housing rental revenues to repay \$25,654,463 in capital improvement (housing) revenue bonds issued by the Florida Board of Governors on behalf of the University. Proceeds from the bonds provided financing for the refunding of existing capital improvement debt for student housing facilities and to remodel two existing student housing facilities. The bonds are payable solely from housing rental income and are payable through 2030. The University has committed to appropriate each year from the housing rental income amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$37,193,266 and principal and interest paid for the current year totaled \$2,459,037. During the 2011-12 fiscal year, housing rental income totaled \$12,199,839.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 1,791,000	\$ 1,422,557	\$ 3,213,557
2014	1,884,000	1,333,308	3,217,308
2015	1,985,000	1,239,314	3,224,314
2016	2,084,000	1,140,307	3,224,307
2017	2,190,000	1,035,730	3,225,730
2018-2022	8,816,000	3,788,531	12,604,531
2023-2027	7,173,000	1,696,309	8,869,309
2028-2030	3,338,000	301,843	3,639,843
Subtotal	29,261,000	11,957,899	41,218,899
Less: Net Discounts and Premiums, and Losses on Debt Refunding	(205,674)		(205,674)
Total	<u>\$ 29,055,326</u>	<u>\$ 11,957,899</u>	<u>\$ 41,013,225</u>

Loans and Notes Payable. On June 10, 2010, the University approved paying \$250,000 over three years to Florida State University, at an interest rate the same as that earned on Florida State University's auxiliary investments with the State Treasury, to help finance the cost of the digital 3D upgrade of the Challenger Learning Center's IMAX system. The note matures on August 10, 2013, and principal and interest payments are made annually. Annual requirements to amortize the outstanding notes as of June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 83,333	\$2,428	\$ 85,761
2014	83,334	324	83,658
Total	<u>\$166,667</u>	<u>\$2,752</u>	<u>\$169,419</u>

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Capital Leases Payable. In prior fiscal years, the University entered into capital lease agreements totaling \$3,325,405 to finance the purchase of two travel buses and an energy savings contract. The stated interest rates are 4 and 4.5 percent, respectively. On April 17, 2012, the University entered into an additional capital lease agreement of \$12,302,562, to finance an energy performance savings contract. The stated interest rate is 2.5946 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2012, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 435,381
2014	1,122,222
2015	1,768,643
2016	1,349,243
2017	1,349,243
2018-2022	6,028,510
2023-2027	5,151,312
2028-2030	<u>1,373,683</u>
Total Minimum Payments	18,578,237
Less, Amount Representing Interest	<u>(3,543,685)</u>
Present Value of Minimum Payments	<u><u>\$ 15,034,552</u></u>

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2012, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$19,648,504. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those years' total compensated absences liability.

Other Postemployment Benefits Payable. The University follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer, defined-benefit plan (Plan). The University subsidizes the premium rates paid by retirees by allowing them to participate in the Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial

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basis, their current and future claims are expected to result in higher costs to the Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible. A stand-alone report is not issued and the Plan information is not included in the report of a public employee retirement system or another entity.

Funding Policy. Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The University has not advance-funded or established a funding methodology for the annual other postemployment benefit (OPEB) costs or the net OPEB obligation, and the Plan is financed on a pay-as-you-go basis. For the 2011-12 fiscal year, 321 retirees received postemployment healthcare benefits. The University provided required contributions of \$952,000 toward the annual OPEB cost, comprised of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$1,249,000.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the University's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the University's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 1,965,000
Amortization of Unfunded Actuarial	
Accrued Liability	1,423,000
Interest on Normal Cost and Amortization	<u>136,000</u>
Annual Required Contribution	3,524,000
Interest on Net OPEB Obligation	185,000
Adjustment to Annual Required Contribution	<u>(161,000)</u>
Annual OPEB Cost (Expense)	3,548,000
Contribution Toward the OPEB Cost	<u>(952,000)</u>
Increase in Net OPEB Obligation	2,596,000
Net OPEB Obligation, Beginning of Year	<u>4,635,000</u>
Net OPEB Obligation, End of Year	<u><u>\$ 7,231,000</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation as of June 30, 2012, and for the two preceding fiscal years, were as follows:

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Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
<u> </u>	<u> </u>	<u> </u>	<u> </u>
2009-10	\$ 2,693,000	32.8%	\$ 3,029,000
2010-11	2,548,000	37.0%	4,635,000
2011-12	3,548,000	26.8%	7,231,000

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$42,680,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$42,680,000 and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$111,350,338 for the 2011-12 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 38.3 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The University's OPEB actuarial valuation as of July 1, 2011, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2012, and the University's 2011-12 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Healthcare cost trend rates were 7.24 percent, 8.38 percent, and 8.57 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 5.81 percent, 3.11 percent, and 8.42 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare cost trend rates are both 6.5 percent in the fourth year grading identically to 5 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was 25 years.

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Other Noncurrent Liabilities. Other noncurrent liabilities represent the University's liability for the Federal Capital Contribution (advance) provided to fund the University's Federal Perkins Loan program. This amount will ultimately be returned to the Federal government should the University have excess cash in the loan program. Federal capital contributions held by the University totaled \$2,260,668 at June 30, 2012.

8. RETIREMENT PROGRAMS

Florida Retirement System. Essentially all regular employees of the University are eligible to enroll as members of the State-administered Florida Retirement System (FRS). Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and Florida Retirement System Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. The FRS is a single retirement system administered by the Department of Management Services, Division of Retirement, and consists of two cost-sharing, multiple-employer retirement plans and other nonintegrated programs. These include a defined-benefit pension plan (Plan), a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the Florida Retirement System Investment Plan (Investment Plan).

Employees enrolled in the Plan prior to July 1, 2011, vest at six years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at eight years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service except for members classified as special risk who are eligible for normal retirement benefits at age 60 or at any age after 30 years of service. Members of both Plans may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost-of-living adjustments.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined-benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in this program. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The Investment Plan is funded by employer and employee contributions that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account

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balances among various approved investment choices. Employees in the Investment Plan vest at one year of service.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2011-12 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	4.91
Florida Retirement System, Senior Management Service	3.00	6.27
Florida Retirement System, Special Risk	3.00	14.10
Teachers' Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	4.42
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include .03 percent for administrative costs of the Investment Plan.

(B) Contribution rates are dependent upon retirement class or plan in which reemployed.

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions including employee contributions for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, totaled \$6,262,741, \$7,008,927, and \$4,234,022, respectively, which were equal to the required contributions for each fiscal year.

There were 142 University participants in the Investment Plan during the 2011-12 fiscal year. The University's contributions including employee contributions to the Investment Plan totaled \$529,358, which were equal to the required contributions for the 2011-12 fiscal year.

Financial statements and other supplementary information of the FRS are included in the State's Comprehensive Annual Financial Report, which is available from the Florida Department of Financial Services. An annual report on the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services, Division of Retirement.

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in the FRS for six or more years.

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The Program is a defined-contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes, on behalf of the participant, 7.92 percent of the participant's salary, less a small amount used to cover administrative costs and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

There were 630 University participants during the 2011-12 fiscal year. The University's contributions to the Program totaled \$3,260,034 and employee contributions totaled \$2,644,169 for the 2011-12 fiscal year.

9. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2012, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
Gore Education Complex Remodeling	\$ 13,856,450	\$ 8,513,661	\$ 5,342,789
Utilities and Infrastructure	6,462,719	4,259,541	2,203,178
800-Bed Dormitory Construction	5,349,737	2,988,021	2,361,716
Maintenance and Renovations	4,380,226	4,141,151	239,075
Pharmacy - Phase II	3,582,419	2,182,074	1,400,345
FAMU/FSU College of Engineering	1,968,585	893,017	1,075,568
Electrical and Technical Upgrades	1,636,960	1,252,546	384,414
FAMU DRS - Lab School	509,063	315,379	193,684
Total	\$ 37,746,159	\$ 24,545,390	\$ 13,200,769

10. OPERATING LEASE COMMITMENTS

The University leased building space under operating leases which expire in December 2026. These leased assets and the related commitments are not reported on the University's statement of net assets. Operating lease payments are recorded as expenses when paid or incurred. Outstanding commitments resulting from these lease agreements are contingent upon future appropriations. Future minimum lease commitments for noncancelable operating leases are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2013	\$ 638,952
2014	394,238
2015	394,619
2016	310,306
2017	310,306
2018-2022	1,551,529
2023-2027	<u>1,396,376</u>
Total Minimum Payments Required	<u>\$ 4,996,326</u>

11. RISK MANAGEMENT PROGRAMS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2011-12 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$61 million for named windstorm and flood losses through February 14, 2012, and decreased to \$50 million starting February 15, 2012. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past three fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

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12. LITIGATION

The University is involved in several pending and threatened legal actions. The range of potential loss from all such claims and actions, as estimated by the University's legal counsel and management, should not materially affect the University's financial position.

A personal injury claim and complaint of alleged wrongful death involving a student was filed against the Board of Trustees in July 2012. This litigation grows out of a hazing incident that occurred on November 19, 2011. Discovery in this case is pending as well as the Court's decision on the University's motion for summary judgment. We are unable to estimate potential liability or damages, if any, at this time.

13. FUNCTIONAL DISTRIBUTION OF OPERATING EXPENSES

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of academic departments for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 75,432,954
Research	28,670,507
Public Services	1,397,394
Academic Support	33,977,031
Student Services	6,925,819
Institutional Support	33,543,268
Operation and Maintenance of Plant	20,143,263
Scholarships, Fellowships, and Waivers	34,441,632
Depreciation	17,465,086
Auxiliary Enterprises	<u>23,993,636</u>
Total Operating Expenses	<u><u>\$ 275,990,590</u></u>

14. SEGMENT INFORMATION

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity's related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. The following financial information for the University's Housing, Parking, and Student Services Center facilities represents identifiable activities for which one or more bonds are outstanding:

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Condensed Statement of Net Assets

	Student Housing	Parking	Student Services
Assets			
Current Assets	\$ 8,568,540	\$ 2,832,141	\$ 6,308,207
Capital Assets, Net	34,028,935	2,123,736	5,898,817
Total Assets	<u>42,597,475</u>	<u>4,955,877</u>	<u>12,207,024</u>
Liabilities			
Current Liabilities	3,285,917	283,247	474,726
Noncurrent Liabilities	24,656,662	1,081,018	1,897,483
Total Liabilities	<u>27,942,579</u>	<u>1,364,265</u>	<u>2,372,209</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	7,423,258	962,295	3,659,395
Restricted - Expendable	2,724,577	852,484	1,135,994
Unrestricted	4,507,061	1,776,833	5,039,426
Total Net Assets	<u>\$ 14,654,896</u>	<u>\$ 3,591,612</u>	<u>\$ 9,834,815</u>

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

	Student Housing	Parking	Student Services
Operating Revenues	\$ 12,199,839	\$ 2,708,436	\$ 2,415,719
Depreciation Expense	(636,073)	(90,665)	(187,780)
Other Operating Expenses	(5,850,466)	(1,959,416)	(1,153,084)
Operating Income	<u>5,713,300</u>	<u>658,355</u>	<u>1,074,855</u>
Nonoperating Revenues (Expenses):			
Nonoperating Revenue (Expense)	(29,067)	12	28
Interest Expense	(1,296,352)	(69,538)	(140,510)
Other Nonoperating Expense	(1,058,393)	(161,799)	(180,841)
Net Nonoperating Expenses	<u>(2,383,812)</u>	<u>(231,325)</u>	<u>(321,323)</u>
Increase in Net Assets	<u>3,329,488</u>	<u>427,030</u>	<u>753,532</u>
Net Assets, Beginning of Year	11,325,408	3,164,582	9,081,283
Net Assets, End of Year	<u>\$ 14,654,896</u>	<u>\$ 3,591,612</u>	<u>\$ 9,834,815</u>

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Condensed Statement of Cash Flows

	Student Housing	Parking	Student Services
Net Cash Provided (Used) by:			
Operating Activities	\$ 5,738,768	\$ 586,700	\$ 1,221,827
Noncapital Financing Activities	(1,044,692)	(160,373)	(177,725)
Capital and Related Financing Activities	(11,321,962)	(269,640)	(481,677)
Investing Activities	7,275,060	12	28
Net Increase in Cash and Cash Equivalents	647,174	156,699	562,453
Cash and Cash Equivalents, Beginning of Year	2,533,478	2,338,149	5,745,754
Cash and Cash Equivalents, End of Year	<u><u>\$ 3,180,652</u></u>	<u><u>\$ 2,494,848</u></u>	<u><u>\$ 6,308,207</u></u>

15. COMPONENT UNITS

The University has three component units as discussed in note 1. These component units comprise 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns of the financial statements. The following financial information is from the most recently available audited financial statements for the component units:

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	Direct-Support Organizations			
	Florida Agricultural and Mechanical University Foundation, Inc. 6-30-12	Florida Agricultural and Mechanical University National Alumni Association, Inc. 6-30-12	Rattler Boosters, Inc. 6-30-12	Total
Condensed Statement of Net Assets				
Assets:				
Current Assets	\$ 911,352	\$ 9,367	\$ 347,470	\$ 1,268,189
Capital Assets, Net	707,887		14,768	722,655
Other Noncurrent Assets	108,216,593	1,400,639	2,181	109,619,413
Total Assets	109,835,832	1,410,006	364,419	111,610,257
Liabilities:				
Current Liabilities	2,442,720	30,217	442,971	2,915,908
Noncurrent Liabilities			205,609	205,609
Total Liabilities	2,442,720	30,217	648,580	3,121,517
Net Assets:				
Invested in Capital Assets	707,887		14,768	722,655
Restricted	106,355,860	1,289,470		107,645,330
Unrestricted	329,365	90,319	(298,929)	120,755
Total Net Assets	\$ 107,393,112	\$ 1,379,789	\$ (284,161)	\$ 108,488,740
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating Revenues	\$ 4,806,011	\$ 425,113	\$ 467,063	\$ 5,698,187
Operating Expenses	(8,131,936)	(455,072)	(456,625)	(9,043,633)
Operating Income (Loss)	(3,325,925)	(29,959)	10,438	(3,345,446)
Net Nonoperating Revenues (Expenses)	(679,834)	41,934	101	(637,799)
Increase (Decrease) in Net Assets	(4,005,759)	11,975	10,539	(3,983,245)
Net Assets, Beginning of Year	111,398,871	1,367,814	(294,700)	112,471,985
Net Assets, End of Year	\$ 107,393,112	\$ 1,379,789	\$ (284,161)	\$ 108,488,740

16. JOINTLY GOVERNED ORGANIZATION

The University's Board of Trustees and the Board of Trustees of Bethune-Cookman University created the Florida Classic Consortium Corporation (FCCC). The FCCC Board is composed of six members each from the University and Bethune-Cookman University. The primary purpose of the FCCC is to organize, sponsor, manage, produce, promote, and participate in the athletic contest specifically known as the Florida Classic (a football contest between the University and Bethune-Cookman University); to solicit, raise, and otherwise receive funds from sponsors and the general public; and to use, contribute, disburse, and dispose of such funds for the above purpose and the athletic programs of the University and Bethune-Cookman University. According to a report issued by an independent certified public accounting firm, the University received distributions of

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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\$449,177 and retained ticket sales of \$628,633, for a total distribution of \$1,077,810 from the proceeds of the Florida Classic football game held on November 19, 2011.

17. SUBSEQUENT EVENTS

On July 26, 2012, the University issued \$42,850,000, Series 2012A, Florida Agricultural and Mechanical University Dormitory Revenue Bonds. The Series 2012A bonds consist of serial bonds maturing annually beginning July 1, 2014, through July 1, 2029, with a 5 percent stated rate of interest; and term bonds maturing on July 1, 2032, with a 4 percent stated rate of interest. The bonds were issued at a premium of \$5,016,585. The University will use the proceeds to finance the construction of a student residential facility.

On January 15, 2013, the University was notified that at the December 2012 meeting of the Board of Trustees of the Southern Association of Colleges and Schools (SACS) Commission on Colleges, the Commission placed the University on a twelve-month probation status for failure to comply with certain requirements of the SACS' *Principles of Accreditation*.

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
OTHER REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS –
OTHER POSTEMPLOYMENT BENEFITS PLAN**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2007	\$	\$ 25,388,000	\$ 25,388,000	0%	\$ 111,976,892	22.7%
7/1/2009		36,800,000	36,800,000	0%	116,164,144	31.7%
7/1/2011		42,680,000	42,680,000	0%	111,350,338	38.3%

Note: (1) The entry-age cost actuarial method was used to calculate the actuarial accrued liability.

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
OTHER REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

1. SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN

The July 1, 2011, unfunded actuarial accrued liability of \$42,680,000 was significantly higher than the July 1, 2009, liability of \$36,800,000 as a result of changes in the methodology used by the actuary to calculate this liability. The most significant modifications were changes in the long-term trend model, an increase in the coverage election assumption, and the passage of the Patient Protection and Affordable Care Act.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of Florida Agricultural and Mechanical University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2012, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements 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 aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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 University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, with which noncompliance 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 University management in our operational audit report No. 2013-103.

Our **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
March 15, 2013