

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2014



BOARD OF TRUSTEES AND PRESIDENTS

Members of the Board of Trustees and Presidents who served during the 2013-14 fiscal year are listed below:

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Torey L. Alston
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Anthony Q. Siders, II to 4-30-14 (2)
Marjorie R. Turnbull
Cleve Warren
Karl E. White

Dr. Larry Robinson, Interim President to March 31, 2014
Dr. Elmira Mangum, President from April 1, 2014

Notes: (1) Board member resigned on March 19, 2014,
and the position remained vacant through June 30, 2014.
(2) Student body president.
(3) Faculty senate chair.

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 Cheryl B. Buchanan, 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) 412-2869.

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) 412-2722; 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:

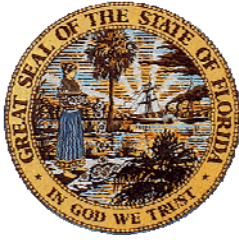
- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- 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, 2014. 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.

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

Report on the 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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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, 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matter***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS** and **SCHEDULE OF FUNDING PROGRESS – OTHER POSTEMPLOYMENT BENEFITS PLAN**, 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.

Other Reporting Required by Government Auditing Standards

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* in considering Florida Agricultural and Mechanical University's internal control over financial reporting and compliance.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 25, 2015

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, 2014, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2014, and June 30, 2013.

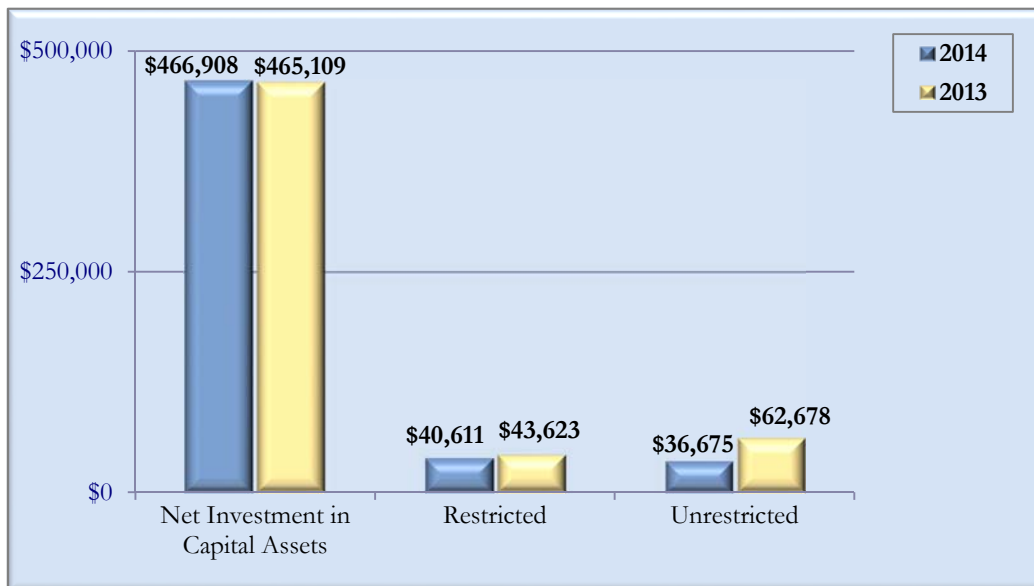
FINANCIAL HIGHLIGHTS

The University’s assets totaled \$688 million at June 30, 2014. This balance reflects a \$23.7 million, or 3.3 percent, decrease as compared to the 2012-13 fiscal year, due to decreases in current assets of \$20.3 million and other noncurrent assets of \$34.8 million, partially offset by an increase in net capital assets of \$31.4 million. While assets decreased, liabilities increased by \$3.5 million, or 2.5 percent, totaling \$143.8 million at June 30, 2014, as compared to \$140.3 million at June 30, 2013. As a result, the University’s net position decreased by \$27.2 million, resulting in a year-end balance of \$544.2 million.

The University’s operating revenues totaled \$123.5 million for the 2013-14 fiscal year, representing a 3.9 percent decrease as compared to the 2012-13 fiscal year due mainly to a decrease in net tuition and fees of \$6 million that was partially offset by a \$2.2 million increase in sales and services of auxiliary enterprises revenue. Operating expenses totaled \$285.9 million for the 2013-14 fiscal year, representing an increase of 4.4 percent over the 2012-13 fiscal year due primarily to an increase in compensation and employee benefits of \$12.1 million.

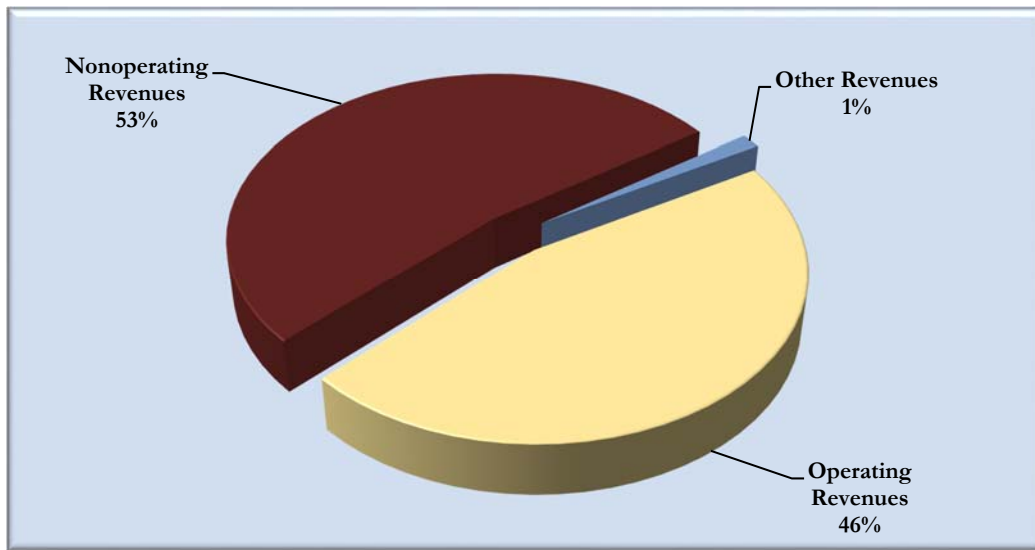
Net position represents the residual interest in the University’s assets after deducting liabilities. The University’s comparative total net position by category for the fiscal years ended June 30, 2014, and June 30, 2013, is shown in the following graph:

**Net Position
(In Thousands)**



The following chart provides a graphical presentation of University revenues by category for the 2013-14 fiscal year:

Total Revenues



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University’s financial report includes three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; 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. (Foundation); Florida Agricultural and Mechanical University National Alumni Association, Inc. (Alumni Association); and Rattler Boosters, Inc. (Boosters). Based upon the application of the criteria for determining component units, the Foundation, Alumni Association, and Boosters 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 discretely presented component units.

THE STATEMENT OF NET POSITION

The statement of net position 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. Assets, less liabilities, equals net position, which is one indicator of the University’s current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University’s financial condition.

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

Condensed Statement of Net Position at June 30
(In Thousands)

	2014	2013
Assets		
Current Assets	\$ 116,545	\$ 136,880
Capital Assets, Net	543,539	512,125
Other Noncurrent Assets	27,923	62,734
Total Assets	688,007	711,739
Liabilities		
Current Liabilities	29,439	23,743
Noncurrent Liabilities	114,374	116,586
Total Liabilities	143,813	140,329
Net Position		
Net Investment in Capital Assets	466,908	465,109
Restricted	40,611	43,623
Unrestricted	36,675	62,678
Total Net Position	\$ 544,194	\$ 571,410

Total assets decreased by \$23.7 million, total liabilities increased by \$3.5 million, and total net position decreased by \$27.2 million. The decrease in current assets of \$20.3 million is primarily due to decreases in unrestricted cash of \$9.7 million. The decreases are attributed to cash outlays for the early redemption of Student Services Center Revenue Bonds, Series 1997 (\$1.9 million), return of Title IV Higher Education Opportunity Act funds to the United States Department of Education (\$4.8 million), and acquisition of property to expand the University's research capacity (\$2.9 million). Investments also decreased by \$11.2 million primarily due to construction activity. The increase in net capital assets is primarily due to additional construction activity for the new residence hall, Pharmacy Building, FAMU/FSU College of Engineering building, and ongoing maintenance and renovation projects. Likewise, other noncurrent assets decreased primarily due to the reduction of restricted cash and investments used for construction activity. The increase in total liabilities is primarily due to an increase in current liabilities of \$5.7 million, offset by a reduction in noncurrent liabilities of \$2.2 million. The increase in current liabilities is primarily due to increases in unearned revenues of \$3.3 million, and accrued liabilities of \$2.3 million. The increase in unearned revenues is primarily due to an increase in deferred revenue for capital appropriations. Accrued liabilities consist of accounts payable, salaries and wages payable, construction payable, and deposits payable. The decrease in unrestricted net position is primarily due to the use of unrestricted net position reserves to support operations.

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

The statement of revenues, expenses, and changes in net position 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 2013-14 and 2012-13 fiscal years:

**Condensed Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years
(In Thousands)**

Operating Revenues	\$ 123,467	\$ 128,465
Less, Operating Expenses	<u>285,911</u>	<u>273,807</u>
Operating Loss	(162,444)	(145,342)
Net Nonoperating Revenues	<u>132,200</u>	<u>118,004</u>
Loss Before Other Revenues, Expenses, Gains, or Losses	(30,244)	(27,338)
Other Revenues	<u>3,629</u>	<u>946</u>
Net Decrease In Net Position	<u>(26,615)</u>	<u>(26,392)</u>
Net Position, Beginning of Year	571,410	597,802
Adjustment to Beginning Net Position (1)	<u>(601)</u>	<u></u>
Net Position, Beginning of Year, as Restated	<u>570,809</u>	<u>597,802</u>
Net Position, End of Year	<u>\$ 544,194</u>	<u>\$ 571,410</u>

Note: (1) Adjustment to beginning net position resulting from implementation of GASB Statement No. 65, which required bond issuance costs that were previously deferred and amortized to be expensed when incurred. See note 2 to the financial statements.

Operating Revenues

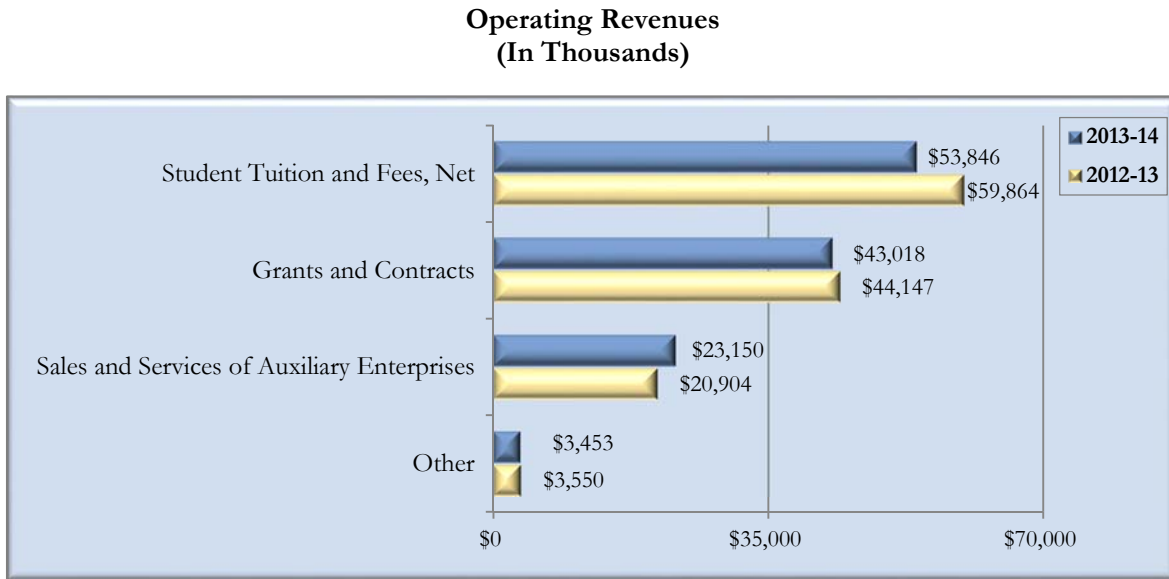
GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either give up or receive something of equal or similar value.

The following summarizes the operating revenues by source that were used to fund operating activities for the 2013-14 and 2012-13 fiscal years:

**Operating Revenues
For the Fiscal Years
(In Thousands)**

	<u>2013-14</u>	<u>2012-13</u>
Student Tuition and Fees, Net	\$ 53,846	\$ 59,864
Grants and Contracts	43,018	44,147
Sales and Services of Auxiliary Enterprises	23,150	20,904
Other	<u>3,453</u>	<u>3,550</u>
Total Operating Revenues	<u>\$ 123,467</u>	<u>\$ 128,465</u>

The following chart presents the University’s operating revenues for the 2013-14 and 2012-13 fiscal years:



University operating revenue changes were the result of the following factors:

- Net student tuition and fees totaled \$53.8 million as a result of \$85.1 million in gross tuition and fees offset by scholarship allowances of \$31.3 million. Scholarship allowances represent the difference between the stated charges of 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. Net student tuition and fees decreased by \$6 million, or 10.1 percent, as compared to the 2012-13 fiscal year, due primarily to a decline in enrollment.
- Sales and services of auxiliary enterprises revenue increased \$2.2 million, or 10.7 percent, primarily due to a new dining services agreement that resulted in additional meal plan and commission revenue.

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 position and has displayed the functional classification in the notes to financial statements.

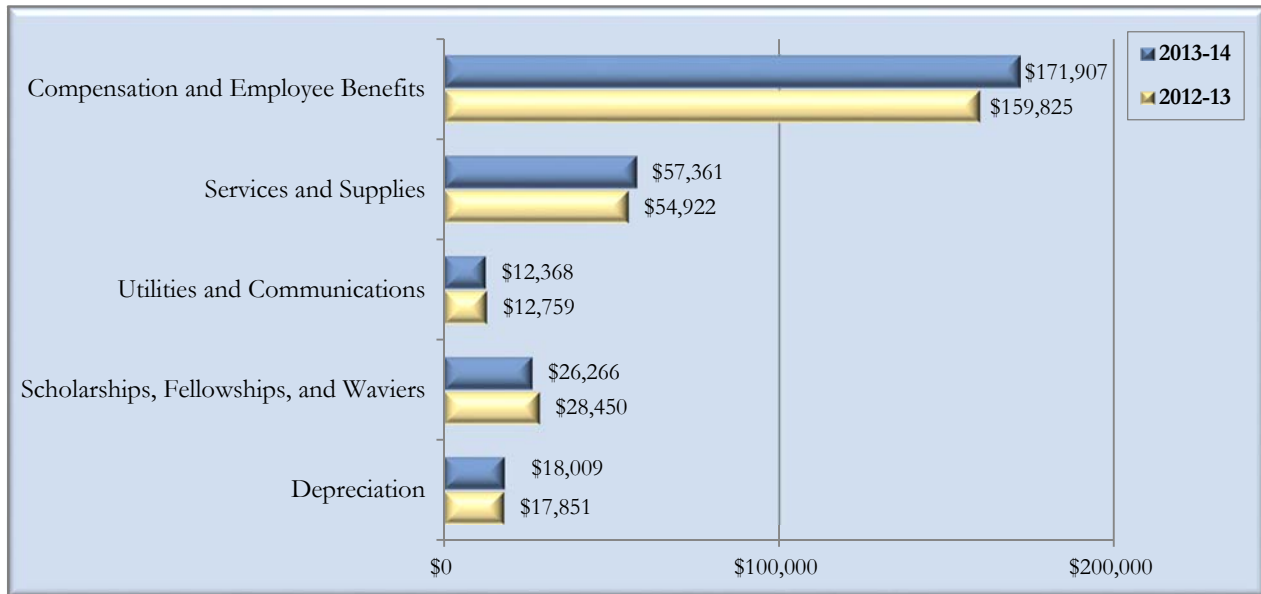
The following summarizes the operating expenses by natural classifications for the 2013-14 and 2012-13 fiscal years:

**Operating Expenses
For the Fiscal Years
(In Thousands)**

	2013-14	2012-13
Compensation and Employee Benefits	\$ 171,907	\$ 159,825
Services and Supplies	57,361	54,922
Utilities and Communications	12,368	12,759
Scholarships, Fellowships, and Waivers	26,266	28,450
Depreciation	18,009	17,851
Total Operating Expenses	\$ 285,911	\$ 273,807

The following chart presents the University’s operating expenses for the 2013-14 and 2012-13 fiscal years:

**Operating Expenses
(In Thousands)**



Changes in operating expenses were the result of the following factors:

- Compensation and employee benefits increased \$12.1 million, or 7.6 percent, as compared to the 2012-13 fiscal year, primarily due to salary increases (\$5.2 million) and increases in healthcare and retirement costs, (\$2.3 and \$1.9 million, respectively) as a result of increases in contribution rates.
- Scholarships, fellowships, and waivers expenses decreased \$2.2 million, or 7.7 percent, primarily due to a decline in enrollment and changes in University policies for maintaining eligibility for financial aid awards.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, 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 2013-14 and 2012-13 fiscal years:

**Nonoperating Revenues (Expenses)
For the Fiscal Years
(In Thousands)**

	2013-14	2012-13
State Noncapital Appropriations	\$ 100,403	\$ 77,459
Federal and State Student Financial Aid	33,633	38,778
Noncapital Grants, Contracts, and Gifts	4,637	2,604
Investment Income	893	1,932
Unrealized Gains (Losses) on Investments	889	(1,438)
Other Nonoperating Revenues	171	3,359
Gain on Disposal of Capital Assets		16
Interest on Capital Asset-Related Debt	(3,455)	(3,239)
Other Nonoperating Expenses	(4,971)	(1,467)
Net Nonoperating Revenues	\$ 132,200	\$ 118,004

Net nonoperating revenues increased by \$14.2 million, or 12 percent, as compared to the 2012-13 fiscal year primarily due to the following factors:

- State noncapital appropriations, noncapital grants and contracts, and unrealized gains on investments increased \$22.9 million, \$2 million, and \$2.3 million, respectively. The increase in State noncapital appropriations is primarily due to the return of non-recurring base budget reductions adopted by the Florida Legislature in the 2012-13 fiscal year. The increase in unrealized gains on investments is primarily due to improved economic conditions that affected financial market performance.
- The aforementioned increases were offset by decreases in Federal and State student financial aid of \$5.1 million, investment income of \$1 million, and other nonoperating revenues of \$3.2 million; as well as an increase in other nonoperating expenses of \$3.5 million. The decrease in Federal and State student financial aid is primarily due to declining enrollment and changes in University policies for students to maintain eligibility for financial aid awards. The decrease in investment income is primarily due to the decreased cash position, while the decrease in other nonoperating revenues is primarily related to a reduction in funding to support athletic scholarships.

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 2013-14 and 2012-13 fiscal years:

**Other Revenues, Expenses, Gains, or Losses
For the Fiscal Years
(In Thousands)**

	2013-14	2012-13
State Capital Appropriations	\$ 2,986	\$ 783
Capital Grants, Contracts, Donations, and Fees	643	163
Total	\$ 3,629	\$ 946

Other revenues, expenses, gains, or losses totaled \$3.6 million for the 2013-14 fiscal year, representing an increase of \$2.7 million primarily due to an increase in State capital appropriations for current construction projects.

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 cash flows for the 2013-14 and 2012-13 fiscal years:

**Condensed Statement of Cash Flows
For the Fiscal Years
(In Thousands)**

	<u>2013-14</u>	<u>2012-13</u>
Cash Provided (Used) by:		
Operating Activities	\$ (138,124)	\$ (123,369)
Noncapital Financing Activities	132,740	119,159
Capital and Related Financing Activities	(52,408)	21,256
Investing Activities	<u>50,643</u>	<u>(64,962)</u>
Net Decrease in Cash and Cash Equivalents	(7,149)	(47,916)
Cash and Cash Equivalents, Beginning of Year	<u>13,738</u>	<u>61,654</u>
Cash and Cash Equivalents, End of Year	\$ 6,589	\$ 13,738

Major sources of cash inflows came from sales and maturities of investments (\$124.7 million); State noncapital appropriations (\$100.4 million); Federal direct student loan receipts (\$87.7 million); net student tuition and fees (\$54.4 million); grants and contracts (\$42.4 million); Federal and State student financial aid (\$33.6 million); and sales and services of auxiliary enterprises (\$23.1 million). Major cash outflows were for payments to employees (\$168 million); Federal direct student loan disbursements (\$88.5 million); purchase of investments (\$74.9 million); payments to suppliers for goods and services (\$68.3 million); purchase or construction capital assets (\$46.8 million); and payments to students for scholarships and fellowships (\$26.3 million).

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

CAPITAL ASSETS

At June 30, 2014, the University had \$802.9 million in capital assets, less accumulated depreciation of \$259.4 million, for net capital assets of \$543.5 million. Depreciation charges for the current fiscal year totaled \$18 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)**

	<u>2014</u>	<u>2013</u>
Land	\$ 6,592	\$ 5,826
Works of Art and Historical Treasures	717	712
Construction in Progress	63,599	37,527
Buildings	384,883	381,572
Infrastructure and Other Improvements	63,232	60,744
Furniture and Equipment	11,832	12,928
Library Resources	12,117	12,121
Property Under Capital Leases	449	533
Computer Software	76	120
Other Capital Assets	<u>42</u>	<u>42</u>
Capital Assets, Net	\$ 543,539	\$ 512,125

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, 2014, were incurred on the following projects: FAMU/FSU College of Engineering Building, an 800-Bed Dormitory, Pharmacy Building, and maintenance and renovation projects. The University’s major construction commitments at June 30, 2014, are as follows:

	Amount <u>(In Thousands)</u>
Total Committed	\$ 93,080
Completed to Date	<u>(63,599)</u>
Balance Committed	<u>\$ 29,481</u>

Additional information about the University’s construction commitments is presented in the notes to financial statements.

DEBT ADMINISTRATION

As of June 30, 2014, the University had \$83.9 million in outstanding capital improvement debt payable and capital leases payable, representing a decrease of \$5.8 million, or 6.4 percent, from the prior fiscal year. This decrease resulted from normally scheduled debt and lease payments and the early redemption of the Student Service Center Revenue Bonds, Series 1997. The redemption amount for the Student Service Center Revenue Bonds, Series 1997, excluding interest, totaled \$1.9 million. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

**Long-Term Debt, at June 30
(In Thousands)**

	<u>2014</u>	<u>2013</u>
Capital Improvement Debt Payable	\$ 69,961	\$ 74,898
Note Payable		83
Capital Leases Payable	<u>13,910</u>	<u>14,663</u>
Total	<u>\$ 83,871</u>	<u>\$ 89,644</u>

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 noncapital appropriations. Therefore, the economic condition of the University is closely tied to that of the State of Florida. The recent economic recovery in Florida enabled the Florida Legislature to increase its appropriation to the State University System by \$118.4 million, or 2.7 percent, for the 2014-15 fiscal year. This amount includes \$100 million of new funding for the performance based funding model.

For the 2014-15 fiscal year, FAMU has been allocated \$10.8 million in performance based funding. The University was also allocated \$3.5 million to enhance distance learning, and Science, Technology, Engineering, and Mathematics (STEM) offerings. These resources will enable the University to continue its efforts of increasing the number of degrees awarded in STEM and health-related disciplines. In addition, the University received \$700 thousand to support competitive salaries in the College of Pharmacy. Likewise, State capital appropriations also increased as the University received an allocation of \$20 million to fund construction of the FAMU/FSU College of Engineering, and Pharmacy building projects.

Enrollment trends continue to influence the University's financial resources. After an 11 percent decline in the Fall 2013 semester, enrollment remained relatively stable with a modest decrease of 4.5 percent as of Fall 2014 preliminary headcount. However, the University continues to project moderate enrollment growth of 3.3 percent per year through the 2019-20 fiscal year. In order to meet the University's enrollment growth projection of 3.3 percent per year through the 2019-20 fiscal year, the University has placed strategic emphasis on increasing enrollment through the recruitment of STEM-ready students. The University is also expanding STEM academic programs and academic support in an effort to ensure students are retained, and progress to completion of their degrees.

Overall, the national economic climate and the State's priorities will continue to shape appropriations to higher education. Institutional leadership closely monitors policy changes and their impact on the University's ability to advance its mission.

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 Dale L. Cassidy, CPA, Chief Financial Officer, and Vice President for Finance and Administration, 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 POSITION
June 30, 2014**

	<u>University</u>	<u>Component Units</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,322,413	\$ 762,255
Investments	64,143,369	
Accounts Receivable, Net	20,318,159	564,060
Loans and Notes Receivable, Net	32,545	19,269
Due from State	29,267,353	
Inventories	461,251	
Other Current Assets		103,647
Total Current Assets	<u>116,545,090</u>	<u>1,449,231</u>
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	4,267,014	
Restricted Investments	21,137,513	128,769,819
Loans and Notes Receivable, Net	2,518,113	
Depreciable Capital Assets, Net	472,630,835	182,938
Nondepreciable Capital Assets	70,908,387	27,000
Total Noncurrent Assets	<u>571,461,862</u>	<u>128,979,757</u>
Total Assets	<u>688,006,952</u>	<u>130,428,988</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable	7,480,889	92,630
Construction Contracts Payable	5,138,345	
Salaries and Wages Payable	2,405,142	
Deposits Payable	273,971	
Due to State	152,713	
Unearned Revenue	8,277,896	378,038
Other Current Liabilities		1,707,145
Long-Term Liabilities - Current Portion:		
Capital Improvement Debt Payable	3,010,000	
Loan Payable		71,408
Capital Leases Payable	1,384,716	
Compensated Absences Payable	1,315,399	
Total Current Liabilities	<u>29,439,071</u>	<u>2,249,221</u>

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2014

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Capital Improvement Debt Payable	\$ 66,951,085	\$
Loan Payable		58,775
Capital Leases Payable	12,524,936	
Compensated Absences Payable	18,797,738	
Other Postemployment Benefits Payable	13,858,000	
Other Noncurrent Liabilities	2,242,378	
Total Noncurrent Liabilities	114,374,137	58,775
Total Liabilities	143,813,208	2,307,996
NET POSITION		
Net Investment in Capital Assets	466,908,305	198,500
Restricted for Nonexpendable:		
Endowment		80,700,203
Restricted for Expendable:		
Debt Service	4,675,906	
Loans	1,905,866	
Capital Projects	34,028,757	
Other		45,734,254
Unrestricted	36,674,910	1,488,035
TOTAL NET POSITION	\$544,193,744	\$ 128,120,992

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 POSITION
For the Fiscal Year Ended June 30, 2014**

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$31,284,823 (\$1,478,213 Pledged for Parking Capital Improvement Debt)	\$ 53,846,449	\$
Federal Grants and Contracts	36,429,481	
State and Local Grants and Contracts	5,346,068	
Nongovernmental Grants and Contracts	1,242,360	
Sales and Services of Auxiliary Enterprises (\$11,145,846 Pledged for Housing Capital Improvement Debt and \$737,497 Pledged for Parking Capital Improvement Debt)	23,149,912	
Interest on Loans and Notes Receivable	80,351	
Other Operating Revenues	3,372,474	6,838,866
Total Operating Revenues	123,467,095	6,838,866
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	171,907,622	1,073,559
Services and Supplies	57,361,017	11,944,976
Utilities and Communications	12,367,824	53,525
Scholarships, Fellowships, and Waivers	26,265,788	
Depreciation	18,008,966	22,383
Total Operating Expenses	285,911,217	13,094,443
Operating Loss	(162,444,122)	(6,255,577)
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	100,403,573	
Federal and State Student Financial Aid	33,633,083	
Noncapital Grants, Contracts, and Gifts	4,637,008	
Investment Income	893,079	2,545,499
Unrealized Gains on Investments	889,481	16,048,250
Other Nonoperating Revenues	170,629	
Interest on Capital Asset-Related Debt	(3,455,291)	
Other Nonoperating Expenses	(4,971,134)	
Net Nonoperating Revenues	132,200,428	18,593,749
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	(30,243,694)	12,338,172
State Capital Appropriations	2,986,162	
Capital Grants, Contracts, Donations, and Fees	642,498	
Increase (Decrease) in Net Position	(26,615,034)	12,338,172
Net Position, Beginning of Year	571,409,838	115,782,820
Adjustment to Beginning Net Position	(601,060)	
Net Position, Beginning of Year, as Restated	570,808,778	115,782,820
Net Position, End of Year	\$ 544,193,744	\$ 128,120,992

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, 2014

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 54,423,428
Grants and Contracts	42,443,472
Sales and Services of Auxiliary Enterprises, Net	23,114,912
Interest on Loans and Notes Receivable	93,718
Payments to Employees	(167,968,768)
Payments to Suppliers for Goods and Services	(68,291,883)
Payments to Students for Scholarships and Fellowships	(26,265,788)
Loans Issued to Students	(577,264)
Collection on Loans to Students	256,041
Other Operating Receipts	4,648,527
	(138,123,605)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	100,403,573
Noncapital Grants, Contracts, and Gifts	4,637,008
Federal and State Student Financial Aid	33,633,083
Federal Direct Loan Program Receipts	87,742,877
Federal Direct Loan Program Disbursements	(88,487,794)
Net Change in Funds Held for Others	(501,897)
Other Nonoperating Receipts	170,629
Other Nonoperating Expenses	(4,857,713)
	132,739,766
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Capital Appropriations	4,219,476
Purchase or Construction of Capital Assets	(46,797,211)
Principal Paid on Capital Debt and Leases	(5,550,498)
Interest Paid on Capital Debt and Leases	(4,279,591)
	(52,407,824)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	124,695,052
Purchase of Investments	(74,919,062)
Investment Income	867,565
	50,643,555
Net Decrease in Cash and Cash Equivalents	(7,148,108)
Cash and Cash Equivalents, Beginning of Year	13,737,535
	\$ 6,589,427
Cash and Cash Equivalents, End of Year	\$ 6,589,427

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, 2014

	<u>University</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (162,444,122)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	18,008,966
Change in Assets and Liabilities:	
Receivables, Net	286,591
Inventories	(13,500)
Loans and Notes Receivable	(321,223)
Accounts Payable	1,450,457
Salaries and Wages Payable	209,692
Deposits Payable	901
Unearned Revenue	969,471
Compensated Absences Payable	(381,838)
Other Postemployment Benefits Payable	4,111,000
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (138,123,605)</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND	
CAPITAL FINANCING ACTIVITIES	
Unrealized gains on investments were recognized on the statement of revenues, expenses, and changes in net position, but are not cash transactions for the statement of cash flows.	\$ 889,481

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, 2014

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. 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 and are governed by separate boards. 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), provides contributions to the University to stimulate the education, health, and physical welfare of the students.

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

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

contacting the 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 Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - 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 follows GASB standards of accounting and financial reporting.

The University's discretely presented component units use the economic resources measurement focus and 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.

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.

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

The statement of net position 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 position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference 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. 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.

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 are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property, and \$100,000 for new buildings, and other improvements. 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

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014

Noncurrent Liabilities. Noncurrent liabilities include capital improvement debt 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 refunding are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method.

2. ADJUSTMENT TO BEGINNING NET POSITION

The beginning net position of the University was decreased by \$601,060 due to the implementation of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 requires bond issuance costs, which were previously deferred and amortized, to be expensed when incurred. Previously deferred bond issuance costs totaled \$601,060.

3. 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 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 \$79,661,894 at June 30, 2014, 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, had an effective duration of 2.57 years, and had a fair value factor of 1.0074 at June 30, 2014. 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 totaling \$4,665,473 at June 30, 2014, 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.

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Other Investments. The University’s other investments at June 30, 2014, totaling \$953,515, consist of investments in a money market fund held in an escrow account to be used to finance implementation of various energy savings measures. The following risks apply to these investments:

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University’s investments in mutual funds have portfolios with average durations ranging from 60 to 397 days.

Credit Risk: Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. The University’s investments in mutual funds at June 30, 2014, had portfolios with investments having an average credit quality rating of AAAM by Standards & Poor’s and AAA-mf by Moody’s Investors Service.

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the University will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. The University’s investments in mutual funds are held by the safekeeping agent in the name of the University.

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, 2014, 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	\$ 7,611,449	\$	\$ 7,611,449
Bonds	4,399,080		4,399,080
Stocks	27,559,486		27,559,486
Real Estate Investments	7,278,073		7,278,073
Mutual Funds	38,397,534		38,397,534
Money Market Funds	1,307,254		1,307,254
Investment Agreements	40,632,780	1,584,163	42,216,943
Total Component Units’ Investments	\$ 127,185,656	\$ 1,584,163	\$ 128,769,819

4. 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, 2014, the University reported the following amounts as accounts receivable:

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Description	Amount
Student Tuition and Fees	\$ 31,831,641
Contracts and Grants	9,757,114
Interest Receivable	866,682
Other	1,131,172
Total Accounts Receivable	43,586,609
Allowance for Doubtful Accounts	(23,268,450)
Total Accounts Receivable, Net	\$ 20,318,159

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 \$23,268,450 and \$1,200,728, respectively, at June 30, 2014.

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

5. DUE FROM STATE

This amount consists of \$29,267,353 of Public Education Capital Outlay allocations due from the State to the University for construction of University facilities.

6. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2014, is shown below:

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Description	Beginning Balance	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:				
Land	\$ 5,826,333	\$ 765,954	\$	\$ 6,592,287
Works of Art and Historical Treasures	712,049	5,350		717,399
Construction in Progress	37,526,916	44,271,211	18,199,426	63,598,701
Total Nondepreciable Capital Assets	\$ 44,065,298	\$ 45,042,515	\$ 18,199,426	\$ 70,908,387
Depreciable Capital Assets:				
Buildings	\$ 512,915,439	\$ 13,294,291	\$	\$ 526,209,730
Infrastructure and Other Improvements	76,409,570	4,139,180		80,548,750
Furniture and Equipment	64,306,853	2,517,630	1,315,508	65,508,975
Library Resources	56,255,519	2,611,685	315,475	58,551,729
Property Under Capital Leases	841,794			841,794
Works of Art and Historical Treasures	42,450			42,450
Computer Software	366,124	34,133	112,437	287,820
Other Capital Assets	41,525			41,525
Total Depreciable Capital Assets	711,179,274	22,596,919	1,743,420	732,032,773
Less, Accumulated Depreciation:				
Buildings	131,343,757	9,982,726		141,326,483
Infrastructure and Other Improvements	15,665,760	1,650,786		17,316,546
Furniture and Equipment	51,378,917	3,597,063	1,298,646	53,677,334
Library Resources	44,134,436	2,615,342	315,475	46,434,303
Property Under Capital Leases	308,658	84,179		392,837
Works of Art and Historical Treasures	42,450			42,450
Computer Software	245,552	78,870	112,437	211,985
Total Accumulated Depreciation	243,119,530	18,008,966	1,726,558	259,401,938
Total Depreciable Capital Assets, Net	\$ 468,059,744	\$ 4,587,953	\$ 16,862	\$ 472,630,835

7. UNEARNED REVENUE

Unearned 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, 2014, 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, 2014, the University reported the following amounts as unearned revenue:

Description	Amount
Contracts and Grants	\$ 4,843,074
State Capital Appropriations	2,301,246
Student Tuition and Fees	1,133,576
Total Unearned Revenue	\$ 8,277,896

8. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2014, include capital improvement debt payable, capital leases payable, compensated absences payable, other postemployment benefits payable, and other noncurrent liabilities. Long-term liabilities activity for the fiscal year ended June 30, 2014, is shown below:

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2014**

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Improvement Debt Payable	\$ 74,898,324	\$	\$ 4,937,239	\$ 69,961,085	\$ 3,010,000
Note Payable	83,334		83,334		
Capital Leases Payable	14,662,816		753,164	13,909,652	1,384,716
Compensated Absences Payable	20,494,975	667,071	1,048,909	20,113,137	1,315,399
Other Postemployment Benefits Payable	9,747,000	5,262,000	1,151,000	13,858,000	
Other Noncurrent Liabilities	2,249,528		7,150	2,242,378	
Total Long-Term Liabilities	\$ 122,135,977	\$ 5,929,071	\$ 7,980,796	\$ 120,084,252	\$ 5,710,115

Capital Improvement Debt Payable. The University had the following capital improvement debt payable outstanding at June 30, 2014:

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	\$ 13,178,040	5.07	2030
2010B Dormitory Revenue Refunding	12,960,000	10,008,825	4.6	2025
2012A Dormitory	47,866,585	45,959,926	4.0 - 5.0	2032
Total Student Housing Debt	75,513,585	69,146,791		
Parking Garage Debt:				
1997 Parking Garage	2,880,000	814,294	5.125 - 5.3	2018
Total Capital Improvement Debt	\$ 78,393,585	\$ 69,961,085		

Note: (1) Amount outstanding includes unamortized discounts and premiums, and deferred loss on refunding issue.

The University has pledged a portion of future traffic and parking fees to repay \$814,294 in capital improvement (parking) 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. The bonds are payable through 2018 solely from traffic and parking fees, and parking sales revenue. The University has committed to appropriate each year from traffic and parking fees, and parking sales revenues, amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$925,299, and principal and interest paid for the current year totaled \$232,625. During the 2013-14 fiscal year, the University fully retired the Student Service Center Revenue Bonds, Series 1997. Income from traffic and parking fees, and parking sales for the 2013-14 fiscal year totaled \$1,478,213 and \$737,497, respectively.

The University has pledged a portion of future housing rental revenues to repay \$69,146,791 in capital improvement (housing) revenue bonds issued by 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, the construction of a new 800 bed dormitory, and to remodel two existing student housing

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facilities. The bonds are payable solely from housing rental income and are payable through 2032. 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 \$94,434,984, and principal and interest paid for the current year totaled \$5,912,358. During the 2013-2014 fiscal year, housing rental income totaled \$11,145,846.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2014, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 3,010,000	\$ 3,139,264	\$ 6,149,264
2016	3,159,000	2,990,356	6,149,356
2017	3,320,000	2,833,930	6,153,930
2018	3,486,000	2,669,446	6,155,446
2019	3,427,000	2,496,807	5,923,807
2020-2024	19,380,000	9,778,674	29,158,674
2025-2029	19,075,000	5,024,967	24,099,967
2030-2032	10,749,000	820,839	11,569,839
Subtotal	65,606,000	29,754,283	95,360,283
Plus: Net Discounts and Premiums, and Deferred Loss on Refunding Issue	4,355,085		4,355,085
Total	<u>\$ 69,961,085</u>	<u>\$ 29,754,283</u>	<u>\$ 99,715,368</u>

Capital Leases Payable. In prior years, the University entered into capital lease agreements totaling \$15,627,967 to finance the purchase of two travel buses at a stated interest rate of 4 percent and two energy savings contracts at stated interest rates of 4.5 percent and 2.5946 percent. Future minimum payments under the capital lease agreements and the present value of the minimum payments as of June 30, 2014, are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2015	\$ 1,768,643
2016	1,349,243
2017	1,349,243
2018	1,349,243
2019	1,349,243
2020-2024	5,390,547
2025-2029	4,121,049
2030	343,421
Total Minimum Payments	17,020,632
Less, Amount Representing Interest	3,110,980
Present Value of Minimum Payments	<u>\$ 13,909,652</u>

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 cease making Federal Perkins Loans

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or has excess cash in the loan program. Federal capital contributions held by the University totaled \$2,242,378 at June 30, 2014.

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, 2014, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$20,113,137. The current portion of the compensated absences liability, \$1,315,399, is the amount estimated 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 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 2013-14 fiscal year, 323 retirees received postemployment healthcare benefits. The University provided required contributions of \$1,151,000 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 \$1,702,000, which represents 1.46 percent of covered payroll.

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

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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 fiscal year, the amount actually contributed to the Plan, and changes in the University’s net OPEB obligation:

Description	Amount
Normal Cost (Service Cost for One Year)	\$ 2,773,000
Amortization of Unfunded Actuarial Accrued Liability	2,237,000
Interest on Normal Cost and Amortization	200,000
Annual Required Contribution	5,210,000
Interest on Net OPEB Obligation	390,000
Adjustment to Annual Required Contribution	(338,000)
Annual OPEB Cost (Expense)	5,262,000
Contribution Toward the OPEB Cost	(1,151,000)
Increase in Net OPEB Obligation	4,111,000
Net OPEB Obligation, Beginning of Year	9,747,000
Net OPEB Obligation, End of Year	\$ 13,858,000

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, 2014, and for the two preceding fiscal years, were as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011-12	\$ 3,548,000	26.8%	\$ 7,231,000
2012-13	3,566,000	29.4%	9,747,000
2013-14	5,262,000	21.9%	13,858,000

Funded Status and Funding Progress. As of July 1, 2013, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$67,115,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$67,115,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$116,383,694 for the 2013-14 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 57.7 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,

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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, 2013, used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2014, and the University's 2013-14 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 and an inflation rate of 3 percent. Initial healthcare cost trend rates were 7.4 percent, 7 percent, and 8.2 percent for the first three years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 3.9 percent, 7.8 percent, and 8.3 percent for the first three years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 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, 2014, was 23 years.

9. 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), with a Deferred Retirement Option Program (DROP), and a defined-contribution plan, referred to as the FRS 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

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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 balances among various approved investment choices. Employees in the Investment Plan vest at one year of service for employer contributions and vest fully and immediately for employee contributions.

The State of Florida establishes contribution rates for participating employers and employees. Contribution rates during the 2013-14 fiscal year were as follows:

Class	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	3.00	6.95
Florida Retirement System, Senior Management Service	3.00	18.31
Florida Retirement System, Special Risk	3.00	19.06
Teachers' Retirement System, Plan E	6.25	11.44
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes	0.00	12.84
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.20 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 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, 2012, June 30, 2013, and June 30, 2014, totaled \$4,234,022, \$4,574,784, and \$6,190,181, respectively, which were equal to the required contributions for each fiscal year.

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There were 120 University participants in the Investment Plan during the 2013-14 fiscal year. The University’s contributions including employee contributions to the Investment Plan totaled \$634,172, which was equal to the required contribution for the 2013-14 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’ Web site (www.myfloridacfo.com). 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 Division of Retirement’s Web site (www.frs.myflorida.com).

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 FRS for eight or more years.

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, 7.34 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 597 University participants during the 2013-14 fiscal year. The University’s contributions to the Program totaled \$2,966,836 and employee contributions totaled \$2,231,894 for the 2013-14 fiscal year.

10. CONSTRUCTION COMMITMENTS

The University’s construction commitments at June 30, 2014, are as follows:

Project Description	Total Committed	Completed to Date	Balance Committed
800-Bed Dormitory Construction	\$ 53,218,681	\$ 44,568,301	\$ 8,650,380
Pharmacy - Phase II	25,225,750	7,703,045	17,522,705
FAMU/FSU College of Engineering	6,115,693	4,860,052	1,255,641
Utilities and Infrastructure Projects	5,952,691	4,260,001	1,692,690
Electrical and Technical Upgrades	1,337,331	1,320,041	17,290
Maintenance and Renovations	1,229,431	887,261	342,170
Total	\$ 93,079,577	\$ 63,598,701	\$ 29,480,876

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11. OPERATING LEASE COMMITMENTS

The University leased building space under operating leases, which expire in the 2018-19 fiscal year. These leased assets and the related commitments are not reported on the University’s statement of net position. 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:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2015	\$ 337,624
2016	195,913
2017	112,180
2018	117,309
2019	49,769
Total Minimum Payments Required	\$ 812,795

12. 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 2013-14 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 \$50 million for named windstorm and flood losses through February 15, 2014, and increased to \$54 million starting February 16, 2014. 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

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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.

13. 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 and settlement decisions are on-going. We are unable to estimate potential liability or damages, at this time.

14. 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 position 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	\$ 84,603,247
Research	19,701,307
Public Services	4,702,165
Academic Support	40,245,949
Student Services	6,911,602
Institutional Support	36,887,839
Operation and Maintenance of Plant	20,586,294
Scholarships, Fellowships, and Waivers	26,265,788
Depreciation	18,008,966
Auxiliary Enterprises	27,998,060
Total Operating Expenses	<u>\$285,911,217</u>

15. 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

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following financial information for the University's Housing and Parking facilities represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Position

	Housing Facility	Parking Facility
Assets		
Current Assets	\$ 23,934,931	\$ 2,399,874
Capital Assets, Net	74,272,708	2,227,393
Total Assets	98,207,639	4,627,267
Liabilities		
Current Liabilities	8,788,156	283,826
Noncurrent Liabilities	66,544,588	710,994
Total Liabilities	75,332,744	994,820
Net Position		
Net Investment in Capital Assets	11,699,095	1,413,099
Restricted - Expendable	8,708,374	772,067
Unrestricted	2,467,426	1,447,281
Total Net Position	\$ 22,874,895	\$ 3,632,447

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

	Housing Facility	Parking Facility
Operating Revenues	\$ 11,145,846	\$ 2,215,709
Depreciation Expense	(973,358)	(73,277)
Other Operating Expenses	(7,296,757)	(2,014,714)
Operating Income	2,875,731	127,718
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	507,629	7
Interest Expense	(3,235,073)	(52,725)
Other Nonoperating Revenue (Expense)	237,128	(98,360)
Net Nonoperating Expenses	(2,490,316)	(151,078)
Increase (Decrease) in Net Position	385,415	(23,360)
Net Position, Beginning of Year	23,090,540	3,655,807
Adjustment to Beginning Net Position (1)	(601,060)	
Net Position, Beginning of Year, as Restated	22,489,480	3,655,807
Net Position, End of Year	\$ 22,874,895	\$ 3,632,447

Note: (1) Adjustment to beginning net position resulting from implementation of GASB Statement No. 65, which required bond issuance costs that were previously deferred and amortized to be expensed when incurred. See note 2 to the financial statements.

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Condensed Statement of Cash Flows

	Housing Facility	Parking Facility
Net Cash Provided (Used) by:		
Operating Activities	\$ 3,549,552	\$ 275,611
Noncapital Financing Activities		(96,934)
Capital and Related Financing Activities	(32,226,429)	(285,957)
Investing Activities	29,894,974	7
Net Increase (Decrease) in Cash and Cash Equivalents	1,218,097	(107,273)
Cash and Cash Equivalents, Beginning of Year	50,252	2,318,769
Cash and Cash Equivalents, End of Year	\$ 1,268,349	\$ 2,211,496

16. DISCRETELY PRESENTED COMPONENT UNITS

The University has three discretely presented 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 for the Florida Agricultural and Mechanical University Foundation, Inc., Florida Agricultural and Mechanical University National Alumni Association, Inc., and Rattler Boosters, Inc., is from the most recently available audited financial statements:

Condensed Statement of Net Position

	Direct-Support Organizations			Total
	Florida Agricultural and Mechanical University Foundation, Inc.	Florida Agricultural and Mechanical University National Alumni Association, Inc.	Rattler Boosters, Inc.	
Assets:				
Current Assets	\$ 1,096,803	\$ 31,253	\$ 321,175	\$ 1,449,231
Capital Assets, Net	198,500		11,438	209,938
Other Noncurrent Assets	127,185,656	1,584,163		128,769,819
Total Assets	128,480,959	1,615,416	332,613	130,428,988
Liabilities:				
Current Liabilities	1,762,476	33,173	453,572	2,249,221
Noncurrent Liabilities			58,775	58,775
Total Liabilities	1,762,476	33,173	512,347	2,307,996
Net Position:				
Net Investment in Capital Assets	198,500			198,500
Restricted - Nonexpendable	80,700,203			80,700,203
Restricted - Expendable	44,289,680	1,444,574		45,734,254
Unrestricted	1,530,100	137,669	(179,734)	1,488,035
Total Net Position	\$ 126,718,483	\$ 1,582,243	\$ (179,734)	\$ 128,120,992

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

	Direct-Support Organizations			Total
	Florida Agricultural and Mechanical University Foundation, Inc.	Florida Agricultural and Mechanical University National Alumni Association, Inc.	Rattler Boosters, Inc.	
Operating Revenues	\$ 5,715,380	\$ 495,193	\$ 628,293	\$ 6,838,866
Operating Expenses	(12,155,791)	(472,500)	(466,152)	(13,094,443)
Operating Income (Loss)	(6,440,411)	22,693	162,141	(6,255,577)
Net Nonoperating Revenues	18,547,882	45,805	62	18,593,749
Increase in Net Position	12,107,471	68,498	162,203	12,338,172
Net Position, Beginning of Year	114,611,012	1,513,745	(341,937)	115,782,820
Net Position, End of Year	\$ 126,718,483	\$ 1,582,243	\$ (179,734)	\$ 128,120,992

17. JOINTLY GOVERNED ORGANIZATIONS

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 \$328,418 and retained ticket sales of \$412,316, for a total distribution of \$740,734 from the proceeds of the Florida Classic football game held on November 23, 2013.

18. SUBSEQUENT EVENTS

The University received from the United States Department of Education (USED) a letter dated June 24, 2013, requiring the University to re-examine student academic records for the 2011-12 and 2012-13 award years to ensure eligibility for those funds and return ineligible funds identified to USED, in order to fully resolve the University’s Federal awards finding No. FA-12-080 included in the *State of Florida – Compliance and Internal Controls Over Financial Reporting and Federal Awards* audit report No. 2013-161 for the 2011-12 fiscal year. Based on the University’s reexamination of student records, on November 25, 2014, and December 10, 2014, the University repaid USED \$2,884,854 and \$78,798, respectively, for funds determined ineligible for the 2012-13 award year.

**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)	Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll [(b-a)/c]
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%
7/1/2013	-	67,115,000	67,115,000	0%	116,383,694	57.7%

- Notes:
- (1) The entry-age cost actuarial method was used to calculate the actuarial accrued liability.
 - (2) The July 1, 2013, unfunded actuarial accrued liability of \$67,115,000 was significantly higher than the July 1, 2011, liability of \$42,680,000 primarily as a result of lower than expected increase in retiree contribution rates, an implicit subsidy resulting from less than the full cost of coverage now being paid by participants in four HMO plans, changes in demographic data and assumptions, and certain trend assumptions.



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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*

Report on the Financial Statements

We have audited, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 25, 2015, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who 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 of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of the **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 solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



David W. Martin, CPA
Tallahassee, Florida
March 25, 2015