

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY

Financial Audit

For the Fiscal Year Ended
June 30, 2008



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- Notes: (1) Student body president.
(2) Faculty senate chair.
(3) Position remained vacant from January 7, 2008, to February 28, 2008.
(4) Position remained vacant from May 25, 2007, to July 9, 2007.

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 Gregory A. Hunt, CPA, and the audit was supervised by Cheryl B. Puschel, CPA. Please address inquiries regarding this report to James R. Stultz, CPA, Audit Manager, by e-mail at jimstultz@aud.state.fl.us or by telephone at (850) 922-2263.

This report and other audit reports prepared by the Auditor General can be obtained on our Web site www.myflorida.com/audgen; by telephone at (850) 487-9024; 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 Standard* 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:

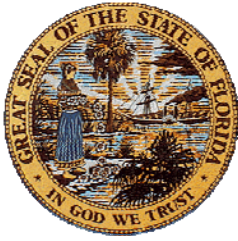
- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements;
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements; and
- Taken corrective actions for findings included in our report No. 2008-050.

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, 2008. 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 financial statements. We also examined various transactions to determine whether they were executed, both in manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida. The results of our operational audit of the University are included in our report No. 2009-087.

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

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

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Florida Agricultural and Mechanical University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2008, which collectively comprise the University's basic financial statements as shown on pages 10 through 36. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units, as described in note 1 to the financial statements, which represent 100 percent of the transactions and account balances of the aggregate discretely presented component units' columns. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for these entities, is based solely upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Agricultural and Mechanical University and of its aggregate discretely presented component units as of June 30, 2008, and the respective changes

in financial position and cash flows thereof for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our 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 the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The **MANAGEMENT'S DISCUSSION AND ANALYSIS** on pages 3 through 9 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,



David W. Martin, CPA
January 30, 2009

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, 2008, and should be read in conjunction with the financial statements and notes thereto. This overview is required by Governmental Accounting Standards Board (GASB) Statement No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements Nos. 37 and 38. The MD&A, and financial statements and notes thereto, are the responsibility of University management.

FINANCIAL HIGHLIGHTS

The University's assets totaled \$588.2 million at June 30, 2008. This balance reflects a \$36.8 million, or 6.7 percent, increase from the 2006-07 fiscal year, primarily resulting from increases in construction in progress and other capital assets. While assets grew, liabilities decreased by \$25.3 million, or 17.9 percent, totaling \$116.2 million at June 30, 2008, compared to \$141.5 million at June 30, 2007. As a result, the University's net assets increased by \$62.1 million, reaching a year end balance of \$471.9 million.

The University's operating revenues totaled \$120.6 million for the 2007-08 fiscal year, representing a 5.7 percent increase over the 2006-07 fiscal year, resulting primarily from an increase in contract and grant revenues of \$7.6 million. Operating expenses totaled \$270.6 million for the 2007-08 fiscal year, representing a 2.6 percent increase compared to the 2006-07 fiscal year, resulting primarily from the increase in compensation and employee benefits and depreciation totaling approximately \$8.3 million.

OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report includes three basic financial statements: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. These component units include the Florida Agricultural and Mechanical University Foundation, Inc.; Florida Agricultural and Mechanical University National Alumni Association, Inc.; and Florida Agricultural and Mechanical University Booster Club, Inc.

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

THE STATEMENT OF NET ASSETS

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

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

**Condensed Statement of Net Assets
(In Thousands)**

	<u>2008</u>	<u>2007</u>
Assets		
Current Assets	\$ 165,991	\$ 163,023
Capital Assets, Net	411,867	368,487
Other Noncurrent Assets	<u>10,299</u>	<u>19,818</u>
Total Assets	<u>588,157</u>	<u>551,328</u>
Liabilities		
Current Liabilities	76,637	100,646
Noncurrent Liabilities	<u>39,584</u>	<u>40,853</u>
Total Liabilities	<u>116,221</u>	<u>141,499</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	387,052	345,193
Restricted	53,762	46,370
Unrestricted	<u>31,122</u>	<u>18,266</u>
Total Net Assets	<u>\$ 471,936</u>	<u>\$ 409,829</u>

Total assets increased by \$36.8 million, total liabilities decreased by \$25.3 million, and total net assets increased by \$62.1 million.

The increase in net capital assets is due primarily to the increase in construction activity for the Multipurpose Teaching Center/Gym and the Developmental Research School, which significantly increased construction in progress. The reduction in other noncurrent assets is due primarily to a reclassification of investment activity from restricted to unrestricted.

The reduction in the current liabilities is due to a reduction in deferred revenue for Public Education Capital Outlay (PECO) funds due to an increase in construction activity.

The increase in the invested in capital assets, net of related debt, is due primarily to the increase in construction in progress. The increase in restricted net assets is due to the increase in the unexpended funds in capital projects.

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

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

The following summarizes the University's activity for the 2007-08 and 2006-07 fiscal years:

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

	2007-08	2006-07
Operating Revenues	\$ 120,628	\$ 114,132
Operating Expenses	270,632	263,760
Operating Loss	(150,004)	(149,628)
Net Nonoperating Revenues	152,393	149,531
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	2,389	(97)
Other Revenues, Expenses, Gains, or Losses	59,718	20,974
Net Increase in Net Assets	62,107	20,877
Net Assets, Beginning of Year	409,829	388,952
Net Assets, End of Year	\$ 471,936	\$ 409,829

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 operating revenues increased by 5.7 percent. This resulted primarily from an increase in contract and grant revenues of \$7.6 million.

The following summarizes the operating revenues by source that were used to fund operating activities during the 2007-08 and 2006-07 fiscal years:

**Operating Revenues
(In Thousands)**

	2007-08	2006-07
Net Tuition and Fees	\$ 39,437	\$ 39,255
Grants and Contracts	52,372	44,807
Sales and Services of Auxiliary Enterprises	20,095	20,054
Other	8,724	10,016
Total Operating Revenues	\$ 120,628	\$ 114,132

Operating Expenses

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

Operating expense increased by 2.6 percent. This was due primarily to increases in the cost of compensation and employee benefits and in depreciation expense for capital assets due to the correction of a number of in-service dates for buildings, infrastructure, and library resources.

The following summarizes the operating expenses by natural classifications for the 2007-08 and 2006-07 fiscal years:

Operating Expenses (In Thousands)		
	<u>2007-08</u>	<u>2006-07</u>
Compensation and Employee Benefits	\$ 163,049	\$ 158,172
Services and Supplies	51,095	49,427
Utilities and Communications	15,620	14,915
Scholarships, Fellowships, and Waivers	21,660	25,444
Depreciation	<u>19,208</u>	<u>15,802</u>
Total Operating Expenses	<u>\$ 270,632</u>	<u>\$ 263,760</u>

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State appropriations, certain gifts and grants, and investment income, are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2007-08 and 2006-07 fiscal years:

Nonoperating Revenues (Expenses) (In Thousands)		
	<u>2007-08</u>	<u>2006-07</u>
State Appropriations	\$ 124,325	\$ 125,726
Federal and State Student Financial Aid	27,220	25,386
Investment Income	2,906	2,248
Other Nonoperating Revenues	79	259
Loss on Disposal of Capital Assets	(203)	
Interest on Capital Asset-Related Debt	(1,435)	(1,616)
Other Nonoperating Expenses	<u>(499)</u>	<u>(2,472)</u>
Net Nonoperating Revenues	<u>\$ 152,393</u>	<u>\$ 149,531</u>

The University's net nonoperating revenues increased by \$2.9 million, or 1.9 percent, despite the reduction in the State appropriations. This was due primarily to an increase in Federal and State financial aid and an increase in interest income.

Other Revenues, Expenses, Gains, or Losses

This category is mainly composed of capital appropriations and capital grants, contracts, and donations. The following summarizes the University's other revenues, expenses, gains, or losses for the 2007-08 and 2006-07 fiscal years:

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

	2007-08	2006-07
Capital Appropriations	\$ 59,038	\$ 20,211
Capital Grants, Contracts, Donations, and Fees	680	763
Total	\$ 59,718	\$ 20,974

The University’s other revenues increased by \$38.7 million, or 184.7 percent, primarily because of an increase in revenues from capital appropriations, such as for the Multipurpose Teaching Center/Gym and the Developmental Research School.

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 the capital financing activities include all plant funds and related long-term debt activities. Cash flows from the 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 the noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2007-08 and 2006-07 fiscal years:

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

	2007-08	2006-07
Cash Provided (Used) by:		
Operating Activities	\$ (129,966)	\$ (143,454)
Noncapital Financing Activities	152,605	153,463
Capital and Related Financing Activities	(7,412)	(7,785)
Investing Activities	(7,718)	(17,646)
Net Increase (Decrease) in Cash and Cash Equivalents	7,509	(15,422)
Cash and Cash Equivalents, Beginning of Year	947	16,369
Cash and Cash Equivalents, End of Year	\$ 8,456	\$ 947

Major sources of funds came from State appropriations (\$124.3 million), grants and contracts (\$65.1 million), net student tuition and fees (\$42 million), Federal and State student financial aid (\$27.2 million), and sales and services of auxiliary enterprises (\$20.7 million).

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2008, the University had \$603.7 million in capital assets, less accumulated depreciation of \$191.8 million, for net capital assets of \$411.9 million. Depreciation charges for the current fiscal year totaled \$19.2 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)		
	2008	2007
Land	\$ 5,826	\$ 5,826
Buildings	255,126	255,601
Construction in Progress	53,851	24,365
Infrastructure and Other Improvements	53,592	36,549
Furniture and Equipment	25,161	24,115
Library Resources	17,803	21,565
Works of Art	41	
Computer Software	444	444
Other Capital Assets	23	22
Total Capital Assets, Net	\$ 411,867	\$ 368,487

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

CAPITAL EXPENSES AND COMMITMENTS

The University's major capital commitments at June 30, 2008, are as follows:

	Amount (In Thousands)
Total Commitment	\$ 111,890
Completed to Date	<u>(53,852)</u>
Balance Committed	<u>\$ 58,038</u>

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

DEBT ADMINISTRATION

As of June 30, 2008, the University had \$24.8 million in outstanding bonds, representing a decrease of \$1.2 million, or 4.7 percent, from the prior fiscal year. 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)**

	2008	2007
Bonds	\$ 24,815	\$ 26,046
Installment Purchases		65
Total	\$ 24,815	\$ 26,111

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

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University's major source of revenue continues to be State appropriations. Therefore, the economic condition of the University is closely tied to the economic condition of the State of Florida. The University's support from the State should position the University to flourish in the future.

During the 2007-08 fiscal year, the University started with general revenue appropriations of \$120,944,319 and Educational Enhancement (Lottery) funds of \$8,839,567. Due to the economic downturn, the State encountered revenue shortfalls, which resulted in a net reduction of general revenue appropriations of \$5,105,482 and Educational Enhancement funds of \$353,583 to the University. This brings the total State appropriations to \$115,838,837 in general revenue and \$8,485,984 in Educational Enhancement funds totaling \$124,324,821. To improve, the economic outlook will require a legislative commitment to ensure proper funding of higher education and the authorization of further appropriate tuition increases. The growth in enrollment will play a key role in continuous financial stability for the University.

Currently, the University enrollment has shown an upward turn with a high quality student enrollment. Enrollment has reached approximately 12,000. In addition, the University has positioned itself to attract research grants. The culmination of the above factors will ensure that the University meets its mission of quality instruction, research, and public service.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A, and financial statements and notes thereto, or requests for additional financial information should be addressed to the Vice President for Administrative and Financial Services, Florida Agricultural and Mechanical University, 304 Foote-Hilyer Administration Center, Tallahassee, Florida 32307.

BASIC FINANCIAL STATEMENTS

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS
As of June 30, 2008

	University	Component Units
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 7,868,908	\$ 1,255,132
Investments	46,076,156	
Accounts Receivable, Net	23,594,638	1,783,034
Loans and Notes Receivable, Net	53,126	33,096
Due from State	87,908,108	
Due from Other Universities	67,822	
Inventories	422,805	7,165
	165,991,563	3,078,427
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	586,733	
Restricted Investments	7,797,797	112,354,168
Loans and Notes Receivable, Net	1,914,358	
Depreciable Capital Assets, Net	352,189,012	5,558
Nondepreciable Capital Assets	59,677,806	
	422,165,706	112,359,726
Total Current Assets	165,991,563	3,078,427
Total Noncurrent Assets	422,165,706	112,359,726
TOTAL ASSETS	\$ 588,157,269	\$ 115,438,153
LIABILITIES		
Current Liabilities:		
Accounts Payable	\$ 5,416,435	\$ 77,082
Construction Contracts Payable	6,782,885	
Salaries and Wages Payable	6,313,719	
Deposits Payable	11,991,578	
Due to State	3,625	
Deferred Revenue	43,182,506	299,155
Other Current Liabilities		41,269
Long-Term Liabilities - Current Portion:		
Bonds Payable	1,301,877	
Compensated Absences Payable	1,644,013	
	76,636,638	417,506
Total Current Liabilities	76,636,638	417,506

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF NET ASSETS (Continued)
As of June 30, 2008**

	University	Component Units
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	\$ 23,512,983	\$
Compensated Absences Payable	15,445,522	
Postemployment Health Care Benefits Payable	626,000	
	39,584,505	
Total Noncurrent Liabilities	39,584,505	
TOTAL LIABILITIES	116,221,143	417,506
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	387,051,958	
Restricted for Nonexpendable:		
Endowment		77,627,413
Restricted for Expendable:		
Debt Service	3,189	
Loans	4,187,313	
Capital Projects	49,572,069	
Other		36,480,827
Unrestricted	31,121,597	912,407
TOTAL NET ASSETS	471,936,126	115,020,647
TOTAL LIABILITIES AND NET ASSETS	\$ 588,157,269	\$ 115,438,153

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

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
A COMPONENT UNIT OF THE STATE OF FLORIDA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2008**

	University	Component Units
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$22,746,419 (\$1,242,540 Pledged for Parking Revenue Bonds)	\$ 39,436,794	\$
Federal Grants and Contracts	44,680,322	
State and Local Grants and Contracts	6,799,328	
Nongovernmental Grants and Contracts	892,164	
Sales and Services of Auxiliary Enterprises (\$9,224,853 Pledged for Housing Revenue Bonds, \$1,012,813 Pledged for Parking Revenue Bonds, and \$2,893,938 Pledged for Student Services Revenue Bonds)	20,094,985	
Other Operating Revenues	8,724,874	7,912,911
Total Operating Revenues	120,628,467	7,912,911
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	163,048,394	1,244,489
Services and Supplies	51,094,877	
Utilities and Communications	15,620,081	32,997
Scholarships, Fellowships, and Waivers	21,660,183	7,162,905
Depreciation	19,208,342	4,471
Total Operating Expenses	270,631,877	8,444,862
Operating Loss	(150,003,410)	(531,951)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	124,324,821	
Federal and State Student Financial Aid	27,220,343	
Investment Income	2,906,184	(4,712,319)
Other Nonoperating Revenues	78,832	
Loss on Disposal of Capital Assets	(203,505)	
Interest on Capital Asset-Related Debt	(1,434,869)	
Other Nonoperating Expenses	(498,917)	
Net Nonoperating Revenues (Expenses)	152,392,889	(4,712,319)
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	2,389,479	(5,244,270)
Capital Appropriations	59,037,996	
Capital Grants, Contracts, Donations, and Fees	679,627	
Increase (Decrease) in Net Assets	62,107,102	(5,244,270)
Net Assets, Beginning of Year	409,829,024	120,414,917
Adjustment to Beginning Net Assets	(150,000)	(150,000)
Net Assets, Beginning of Year, as Restated	409,829,024	120,264,917
Net Assets, End of Year	\$ 471,936,126	\$ 115,020,647

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, 2008

	University
CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees, Net	\$ 42,026,024
Grants and Contracts	65,120,961
Sales and Services of Auxiliary Enterprises	20,710,487
Net Loans Issued to Students	390,244
Interest on Loans and Notes Receivable	33,946
Payments to Employees	(162,344,586)
Payments to Suppliers for Goods and Services	(65,774,608)
Payments to Students for Scholarships and Fellowships	(21,660,183)
Other Operating Disbursements	(8,468,517)
	(129,966,232)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Appropriations	124,324,821
Federal and State Student Financial Aid	27,220,343
Net Change in Funds Held for Others	1,340,768
Other Nonoperating Disbursements	(280,998)
	152,604,934
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital Appropriations	53,602,623
Other Receipts for Capital Projects	31,525
Purchase or Construction of Capital Assets	(58,306,673)
Principal Paid on Capital Debt and Installment Purchases	(1,310,552)
Interest Paid on Capital Debt and Installment Purchases	(1,428,993)
	(7,412,070)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments, Net	(10,383,905)
Investment Income	2,665,622
	(7,718,283)
Net Increase in Cash and Cash Equivalents	7,508,349
Cash and Cash Equivalents, Beginning of Year	947,292
Cash and Cash Equivalents, End of Year	\$ 8,455,641

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STATEMENT OF CASH FLOWS (Continued)
For the Fiscal Year Ended June 30, 2008

	University
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (150,003,410)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation Expense	19,208,342
Change in Assets and Liabilities:	
Receivables, Net	15,847,322
Inventories	(27,865)
Loans and Notes Receivable	390,244
Accounts Payable	1,144,743
Salaries and Wages Payable	696,269
Deposits Payable	(6,625,034)
Deferred Revenue	(10,427,855)
Compensated Absences Payable	(618,461)
Other Liabilities	(176,527)
Postemployment Health Care Benefits Payable	626,000
NET CASH USED BY OPERATING ACTIVITIES	\$ (129,966,232)

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

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

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 13 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 Board of Governors, or the Trustees if designated by the Board of Governors, selects 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 *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading or incomplete. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activity 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 6C-9.011) are included within the University reporting entity as discretely presented component units. These legally separate, not-for-profit, corporations are organized and operated exclusively to assist the University to achieve excellence by providing supplemental resources from private gifts and bequests, and valuable education support services. The Statute authorizes these organizations to receive, hold, invest, and administer property and to make expenditures to or for the benefit of the University. These organizations and their purposes are explained as follows:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

- The Florida Agricultural and Mechanical University Foundation, Inc., is authorized to win increasing 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.”
- The 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.
- The Florida Agricultural and Mechanical University Booster Club, Inc., 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 contacting University Public Relations or, for the Booster Club, 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 the Governmental Accounting Standards Board (GASB). The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entitywide reporting including the following components:

- Management’s Discussion and Analysis
- Basic Financial Statements:
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements

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

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met.

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

The University follows FASB statements and interpretations issued after November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

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 appropriations, Federal and State student financial aid, investment income (net of unrealized gains or losses on investments), and revenues for capital construction projects. Interest on capital asset-related debt is a nonoperating expense.

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

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

FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

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

Capital Assets. University capital assets consist of land, buildings, construction in progress, infrastructure and other improvements, furniture and equipment, library resources, computer software, works of art, 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 \$1,000 for tangible personal property and \$100,000 for buildings and other improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 10 to 50 years
- Infrastructure and Other Improvements – 10 to 50 years
- Furniture and Equipment – 3 to 20 years
- Library Resources – 10 years
- Works of Art – 5 years
- Computer Software – 3 to 7 years

Noncurrent Liabilities. Noncurrent liabilities include principal amounts of bonds payable, compensated absences payable, and postemployment health care benefits payable that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount and deferred losses on refundings. The University amortizes bond premiums and discounts over the life of the bonds using the straight-line method. Deferred losses on refundings are amortized over the life of the old debt or new debt (whichever is shorter) using the straight-line method. Issuance cost paid from the debt proceeds are reported as deferred charges, and are amortized over the life of the bonds using the straight-line method.

2. PRIOR PERIOD ADJUSTMENT

In accordance with FASB Statement No. 154, a \$150,000 adjustment to beginning net assets for component units is reported on the statement of revenues, expenses, and changes in net assets to correct prior year accounting errors.

**FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

3. 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. The University reported restricted cash totaling \$3,189 at June 30, 2008, in the State Board of Administration Debt Service Accounts. This cash is used to make debt service payments on bonds issued by the State Board of Education for the benefit of the University. Disclosures for the Debt Service Accounts are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

4. INVESTMENTS

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration, 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 Local Government Surplus Funds Trust Fund investment pool administered by the State Board of Administration; 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.

External Investment Pools

The University reported investments at fair value totaling \$53,873,953 at June 30, 2008, in the State Treasury Special Purpose Investment Account (SPIA) investment pool, representing ownership of a share of the pool, not the underlying securities. The State Treasury has taken the position that participants in the pool should disclose information related to interest rate risk and credit risk. The SPIA carried a credit rating of AA-f by Standard and Poor's and had an effective duration of 3.31 years at June 30, 2008. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

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.

Component Unit Investments

Investments held by the University's component unit, Florida Agricultural and Mechanical University Foundation, Inc., at June 30, 2008, are reported at fair value as follows:

<u>Investment Type</u>	<u>Component Units</u>
Money Market Funds	\$ 101,603,667
Bonds	9,550,451
Certificates of Deposit	700,050
Real Estate Contracts	<u>500,000</u>
Total Component Units Investments	<u><u>\$ 112,354,168</u></u>

5. 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, 2008, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 15,123,336
Student Tuition and Fees	7,728,360
Other	<u>742,942</u>
Total Accounts Receivable, Net	<u><u>\$ 23,594,638</u></u>

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

Allowance for Uncollectible Receivables. Allowances for uncollectible accounts, and loans and notes receivable, are reported based upon 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 \$14,635,296 and \$924,775, respectively, at June 30, 2008.

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

6. DUE FROM STATE

This amount primarily consists of Public Education Capital Outlay, Alec P. Courtelis Capital Facility Matching Trust Fund, Capital Improvement Fee Trust Fund, or other allocations due from the State to the University for construction of University facilities.

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2008, is shown below:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 5,826,333	\$	\$	\$	\$ 5,826,333
Construction in Progress	24,364,723		43,754,572	14,267,822	53,851,473
Total Nondepreciable Capital Assets	\$ 30,191,056	\$	\$ 43,754,572	\$ 14,267,822	\$ 59,677,806
Depreciable Capital Assets:					
Buildings	\$ 342,072,150	\$ 45,837	\$ 3,011,155	\$	\$ 345,129,142
Infrastructure and Other Improvements	43,067,204	112,736	19,197,704		62,377,644
Furniture and Equipment	80,121,085	(78,263)	8,105,117	3,699,187	84,448,752
Library Resources	48,209,375		2,567,051	80,464	50,695,962
Works of Art		86,102	28,850		114,952
Computer Software	1,063,051		206,344	71,952	1,197,443
Other Capital Assets	21,775		22,700	21,775	22,700
Total Depreciable Capital Assets	514,554,640	166,412	33,138,921	3,873,378	543,986,595
Less, Accumulated Depreciation:					
Buildings	86,470,971	(164)	3,531,829		90,002,636
Infrastructure and Other Improvements	6,518,143	99	2,267,698		8,785,940
Furniture and Equipment	56,006,372	(67,531)	6,845,004	3,495,680	59,288,165
Library Resources	26,643,628		6,330,249	80,464	32,893,413
Works of Art		67,596	6,175		73,771
Computer Software	619,999		227,387	93,728	753,658
Total Accumulated Depreciation	176,259,113		19,208,342	3,669,872	191,797,583
Total Depreciable Capital Assets, Net	\$ 338,295,527	\$ 166,412	\$ 13,930,579	\$ 203,506	\$ 352,189,012

Note: (1) To agree capital assets with subsidiary records and correct misclassification of assets and associated depreciation.

8. DEFERRED REVENUE

Deferred revenue includes Public Education Capital Outlay and Alec P. Courtelis Matching Trust Fund appropriations for which the University had not yet received approval from the Florida Department of Education, as of June 30, 2008, to spend the funds; money drawn in advance of incurring expenditures for cost reimbursable contracts and grants; and student tuition and fees received prior to fiscal year end related to subsequent accounting periods. As of June 30, 2008, the University reported the following amounts as deferred revenue:

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JUNE 30, 2008**

Description	Amount
Capital Appropriations	\$ 38,099,484
Contracts and Grants	4,100,277
Other	982,745
Total Deferred Revenue	\$ 43,182,506

9. LONG-TERM LIABILITIES

Long-term liabilities of the University at June 30, 2008, include bonds, compensated absences, and postemployment health care benefits payable. Long-term liabilities activity for the fiscal year ended June 30, 2008, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$26,046,102	\$ 14,364	\$ 1,245,606	\$24,814,860	\$ 1,301,877
Installment Purchases Payable	64,946		64,946		
Compensated Absences Payable	17,707,996	1,092,556	1,711,017	17,089,535	1,644,013
Postemployment Health Care Benefits Payable		626,000		626,000	
Total Long-Term Liabilities	\$43,819,044	\$ 1,732,920	\$ 3,021,569	\$ 42,530,395	\$ 2,945,890

Bonds Payable

The University had the following bonds payable outstanding at June 30, 2008:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**

Bond Type and Series	Amount of Original Issue	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Auxiliary Revenue Bonds:				
1992 Student Apartments	\$ 7,400,000	\$ 5,221,000	6.4 - 6.5	2023
1996 Student Apartments	11,185,000	8,587,091	5.20 - 6.75	2025
1997 Student Services Center	6,310,000	3,656,960	4.85 - 5.40	2017
1997 Parking Garage	2,880,000	1,755,735	4.7 - 5.3	2018
Total Auxiliary Revenue Bonds	<u>27,775,000</u>	<u>19,220,786</u>		
State University System Revenue Bonds:				
1997A Trust Fund	1,275,005	947,434	4.5 - 5.0	2016
2003A Trust Fund	507,188	265,627	5.0	2013
2005A Trust Fund	1,784,556	1,558,057	3.625 - 4.125	2022
2006A Trust Fund	2,874,154	2,822,956	4.0 - 5.0	2030
Total State University System Revenue Bonds	<u>6,440,903</u>	<u>5,594,074</u>		
Total	<u>\$34,215,903</u>	<u>\$24,814,860</u>		

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

Auxiliary revenue bonds were issued to construct student parking garages, student housing facilities, and student services facilities. Auxiliary revenue bonds outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues, traffic and parking fees, and an assessed transportation fee based on credit hours.

State University System revenue bonds were issued to acquire and construct various University facilities. These bonds are secured and payable from building and capital improvement fees, collected as part of tuition and remitted to the State Board of Education. The State Board of Education and the State Board of Administration administer the principal and interest payments, investment of sinking fund resources, and compliance with reserve requirements.

Annual requirements to amortize all bonded debt outstanding as of June 30, 2008, are as follows:

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<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,301,877	\$ 1,365,232	\$ 2,667,109
2010	1,372,079	1,299,035	2,671,114
2011	1,444,730	1,228,287	2,673,017
2012	1,523,870	1,152,666	2,676,536
2013	1,613,128	1,072,069	2,685,197
2014-2018	8,392,833	3,987,538	12,380,371
2019-2023	6,646,198	1,898,606	8,544,804
2024-2028	2,326,228	347,958	2,674,186
2029-2030	383,190	28,971	412,161
Subtotal	25,004,133	12,380,362	37,384,495
Less: Net Bond Discounts, Premiums, and Losses on Bond Refundings	(189,273)		(189,273)
Total	<u>\$ 24,814,860</u>	<u>\$ 12,380,362</u>	<u>\$ 37,195,222</u>

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors' Regulation 6C-5.920 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 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, 2008, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$17,089,535. The current portion of the compensated absences liability is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last three years calculated as a percentage of those years' total compensated absences liability.

Postemployment Health Care Benefits. Effective for the 2007-08 fiscal year, the University implemented Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment health care benefits administered by the State Group Health Insurance Program. The requirements of this Statement are being implemented prospectively, with the actuarially determined liability of \$25,388,000 at July 1, 2007, the date of transition, amortized over 30 years. Accordingly, for financial reporting purposes, no liability is reported for the postemployment health care benefits liability at the date of transition.

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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. 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. 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. Retirees are required to enroll in the Federal Medicare program for their primary coverage as soon as they are eligible.

Funding Policy. Benefit provisions are pursuant to 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. For the 2007-08 fiscal year, 253 retirees received postemployment health care benefits. The University provided required contributions of \$939,000 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 \$1,192,000.

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

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Description	Amount
Normal Cost (Service Cost for One Year)	\$ 630,000
Amortization of Unfunded Actuarial Accrued Liability	875,000
Interest on Normal Cost and Amortization	60,000
Annual Required Contribution	1,565,000
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	1,565,000
Contribution Toward the OPEB Cost	939,000
Increase in Net OPEB Obligation	626,000
Net OPEB Obligation, Beginning of Year	-
Net OPEB Obligation, End of Year	\$ 626,000

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, 2008 (year of implementation), was as follows:

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Beginning Balance, July 1, 2007	\$		\$
2007-08	1,565,000	60.0%	626,000

Funded Status and Funding Progress. As of July 1, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$25,388,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$25,388,000. The covered payroll (annual payroll of active participating employees) was \$111,976,892 for the 2007-08 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 22.7 percent.

Actuarial Methods and Assumptions. 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. Projections of benefits for financial reporting purposes are based on the substantive plan provisions, as understood by the employer and participating

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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 initial OPEB actuarial valuation as of July 1, 2007, used the entry age cost actuarial method to estimate the unfunded actuarial liability as of June 30, 2008, and the estimated 2007-08 fiscal year annual required contribution. 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, which is the University's expectation of investment returns under its investment policy. The actuarial assumptions also included a payroll growth rate of 4 percent per year. Initial healthcare cost trend rates for employees not covered by Medicare of 9.6 percent, grading to 5.5 percent in half percent steps after nine years, and for employees covered by Medicare of 9.1 percent, grading to 5.5 percent in half percent steps after eight years, were used. The unfunded actuarial accrued liability is being amortized over 30 years as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008, was 29 years.

10. RETIREMENT PROGRAMS

Florida Retirement System. The Florida Retirement System (FRS) is primarily a State-administered, cost-sharing, multiple-employer, defined benefit retirement plan (Plan). FRS provisions 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. Essentially, all regular employees of participating employers are eligible to enroll as members of the FRS.

Benefits in the Plan vest at 6 years of service. All members are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, which may include up to 4 years of credit for military service. The Plan also includes an early retirement provision, but imposes a penalty for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, and death benefits, and annual cost-of-living adjustments.

A Deferred Retirement Option Program (DROP) subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly

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benefit payments while continuing employment with an FRS employer. An employee may participate in the 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.

The State of Florida establishes contribution rates for participating employers. Contribution rates during the 2007-08 fiscal year were as follows:

Class or Plan	Percent of Gross Salary	
	Employee	Employer (A)
Florida Retirement System, Regular	0.00	9.85
Florida Retirement System, Senior Management Service	0.00	13.12
Florida Retirement System, Special Risk	0.00	20.92
Teacher's Retirement System, Plan E	6.25	11.35
Deferred Retirement Option Program - Applicable to Members from All of the Above Classes or Plan	0.00	10.91
Florida Retirement System, Reemployed Retiree	(B)	(B)

Notes: (A) Employer rates include 1.11 percent for the post-employment health insurance subsidy. Also, employer rates, other than for DROP participants, include .05 percent for administrative costs of the Public Employee Optional Retirement Program.

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

The University's liability for participation is limited to the payment of the required contribution at the rates and frequencies established by law on future payrolls of the University. The University's contributions including employee contributions for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008, totaled \$4,518,007, \$5,522,732, and \$5,799,377, respectively, which were equal to the required contributions for each fiscal year.

Section 121.4501, Florida Statutes, provides for a Public Employee Optional Retirement Program (PEORP). The PEORP is a defined contribution plan alternative available to all FRS members in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or the DROP are not eligible to participate in this program. Employer contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. The PEORP is funded by employer contributions that are based on salary and membership class (Regular Class, Special Risk Class, etc.). Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved

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investment choices. There were 104 University participants during the 2007-08 fiscal year. Required contributions made to the PEORP totaled \$484,046.

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

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

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 10.43 percent of the participant's salary, less a small amount used to cover administrative costs. The remaining contribution is invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement. The participant may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the university to the participant's annuity account.

There were 740 University participants during the 2007-08 fiscal year. Required employer contributions made to the Program totaled \$4,677,643, and employee contributions totaled \$2,297,715.

11. CONSTRUCTION COMMITMENTS

The University's construction commitments at June 30, 2008, are as follows:

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Project Description	Total Commitment	Completed to Date	Balance Committed
Tucker Hall Renovations	\$ 14,474,914	\$ 389	\$ 14,474,525
Multipurpose Teaching Center/Gym	38,565,928	25,670,906	12,895,022
Jones Hall Remodeling	12,623,450	184,077	12,439,373
Developmental Research School	26,735,923	17,157,091	9,578,832
Recreation Center - Phase II	3,432,458	121,008	3,311,450
University Commons	9,364,200	6,731,715	2,632,485
Pharmacy - Phase II	1,071,000	16,115	1,054,885
Remodeling, Renovation, and Site Improvement	1,736,508	737,113	999,395
Chilled Water	2,180,755	1,734,282	446,473
Major Maintenance and Renovations	1,704,588	1,498,777	205,811
Total	\$ 111,889,724	\$ 53,851,473	\$ 58,038,251

12. OPERATING LEASE COMMITMENTS

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

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2009	\$ 648,806
2010	417,391
2011	410,414
2012	413,567
2013	443,520
2014-2018	1,551,529
2019-2023	1,551,529
2024-2026	1,086,070
Total Minimum Payments Required	<u>\$ 6,522,826</u>

13. 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(3), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers’ compensation, general liability, and fleet automotive liability. During the 2007-08 fiscal year, the State retained the first \$2 million of losses for each occurrence with an annual

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aggregate retention of \$40 million for named wind and flood losses and no annual aggregate retention for all other named perils. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$50 million for named wind and flood. For perils other than named wind 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 \$100,000 per person and \$200,000 per occurrence as set by Section 768.28, 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 years.

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

14. 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.

15. 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

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classification. The operating expenses on the statement of revenues, expenses, and changes in net assets are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 74,101,774
Research	23,067,938
Public Service	5,648,557
Academic Support	36,950,428
Student Services	11,874,246
Institutional Support	32,880,255
Operation and Maintenance of Plant	20,019,834
Scholarships and Fellowships	21,660,183
Depreciation	19,208,342
Auxiliary Enterprises	25,011,869
Loan Operations	208,451
Total Operating Expenses	\$ 270,631,877

16. SEGMENT INFORMATION

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

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Condensed Statement of Net Assets

	Housing Revenue Bonds	Parking Revenue Bonds	Student Services Revenue Bonds
Assets			
Current Assets	\$ 3,710,328	\$ 1,298,566	\$ 4,051,134
Capital Assets, Net	18,567,503	2,462,765	6,559,688
Total Assets	<u>22,277,831</u>	<u>3,761,331</u>	<u>10,610,822</u>
Liabilities			
Current Liabilities	1,338,073	235,683	393,800
Noncurrent Liabilities	13,597,491	1,702,508	3,407,936
Total Liabilities	<u>14,935,564</u>	<u>1,938,191</u>	<u>3,801,736</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,617,503	692,765	2,874,688
Restricted - Expendable	1,768,629	74,725	
Unrestricted	956,135	1,055,650	3,934,398
Total Net Assets	<u>\$ 7,342,267</u>	<u>\$ 1,823,140</u>	<u>\$ 6,809,086</u>

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

	Housing Revenue Bonds	Parking Revenue Bonds	Student Revenue Bonds
Operating Revenues	\$ 9,224,853	\$ 2,255,353	\$ 2,893,938
Depreciation Expense	(643,783)	(107,212)	(191,464)
Other Operating Expenses	(7,778,392)	(2,305,229)	(1,136,237)
Operating Income (Loss)	<u>802,678</u>	<u>(157,088)</u>	<u>1,566,237</u>
Nonoperating Revenues (Expenses):			
Nonoperating Revenue	18,373	1,070	1,026
Interest Expense	(855,804)	(98,169)	(207,291)
Other Nonoperating Expense	(2,190)	(6,206)	(10,197)
Net Nonoperating Expenses	<u>(839,621)</u>	<u>(103,305)</u>	<u>(216,462)</u>
Increase (Decrease) in Net Assets	<u>(36,943)</u>	<u>(260,393)</u>	<u>1,349,775</u>
Net Assets, Beginning of Year	7,618,591	2,254,985	4,585,854
Adjustment to Beginning Net Assets (1)	(239,381)	(171,452)	873,457
Net Assets, Beginning of Year, as Restated	<u>7,379,210</u>	<u>2,083,533</u>	<u>5,459,311</u>
Net Assets, End of Year	<u>\$ 7,342,267</u>	<u>\$ 1,823,140</u>	<u>\$ 6,809,086</u>

Note: (1) Adjustment to correct prior year reporting errors.

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Condensed Statement of Cash Flows

	Housing Revenue Bonds	Parking Revenue Bonds	Student Services Revenue Bonds
Net Cash Provided (Used) by:			
Operating Activities	\$ 1,673,821	\$ (133,923)	\$ 288,480
Noncapital Financing Activities	(1,444)	(6,206)	(4,845)
Capital and Related Financing Activities	(1,353,415)	(273,887)	(574,641)
Investing Activities	(267,110)	(493,530)	(277,081)
Net Increase (Decrease) in Cash and Cash Equivalents	51,852	(907,546)	(568,087)
Cash and Cash Equivalents, Beginning of Year	1,364,593	1,447,982	1,040,371
Adjustment to Beginning Cash and Cash Equivalents (1)			1,532,987
Cash and Cash Equivalents, Beginning of Year, as Restated	1,364,593	1,447,982	2,573,358
Cash and Cash Equivalents, End of Year	\$ 1,416,445	\$ 540,436	\$ 2,005,271

Note: (1) Adjustment to correct prior year reporting errors.

17. COMPONENT UNITS

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

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	Direct-Support Organizations			Total
	Florida Agricultural and Mechanical University Foundation, Inc.	Florida Agricultural and Mechanical University National Alumni Association, Inc.	Florida Agricultural and Mechanical University Boosters Club, Inc.	
Condensed Statement of Net Assets				
Assets:				
Current Assets	\$ 2,741,961	\$ 39,336	\$ 297,130	\$ 3,078,427
Capital Assets, Net	4,637		921	5,558
Other Noncurrent Assets	<u>112,354,168</u>			<u>112,354,168</u>
Total Assets	<u>115,100,766</u>	<u>39,336</u>	<u>298,051</u>	<u>115,438,153</u>
Liabilities:				
Current Liabilities	<u>114,039</u>	<u>820</u>	<u>302,647</u>	<u>417,506</u>
Total Liabilities	<u>114,039</u>	<u>820</u>	<u>302,647</u>	<u>417,506</u>
Net Assets:				
Restricted	113,089,966	1,018,274		114,108,240
Unrestricted	<u>670,135</u>	<u>246,868</u>	<u>(4,596)</u>	<u>912,407</u>
Total Net Assets	<u>\$ 113,760,101</u>	<u>\$ 1,265,142</u>	<u>\$ (4,596)</u>	<u>\$ 115,020,647</u>
Condensed Statement of Revenues, Expenses, and Changes in Net Assets				
Operating Revenues	\$ 7,012,879	\$ 564,845	\$ 335,187	\$ 7,912,911
Operating Expenses	<u>7,560,970</u>	<u>540,432</u>	<u>343,460</u>	<u>8,444,862</u>
Operating Income (Loss)	(548,091)	24,413	(8,273)	(531,951)
Net Nonoperating Expenses	<u>(4,712,319)</u>			<u>(4,712,319)</u>
Increase (Decrease) in Net Assets	<u>(5,260,410)</u>	<u>24,413</u>	<u>(8,273)</u>	<u>(5,244,270)</u>
Net Assets, Beginning of Year	119,020,511	1,390,729	3,677	120,414,917
Adjustment to Beginning Net Assets (1)		<u>(150,000)</u>		<u>(150,000)</u>
Net Assets, Beginning of Year, as Restated	<u>119,020,511</u>	<u>1,240,729</u>	<u>3,677</u>	<u>120,264,917</u>
Net Assets, End of Year	<u>\$ 113,760,101</u>	<u>\$ 1,265,142</u>	<u>\$ (4,596)</u>	<u>\$ 115,020,647</u>

Note: (1) See note 2 to the financial statements.

18. JOINTLY GOVERNED ORGANIZATION

The University's Board of Trustees and the board of trustees of Bethune-Cookman College created the Florida Classic Consortium Corporation (FCCC). The FCCC Board is composed of six members each from the University and Bethune-Cookman College. The primary purpose of FCCC is to organize, sponsor, manage, produce, promote, and participate in the athletic contest specifically known as Florida Classic (a football contest between the University and Bethune-Cookman College); to solicit, raise and otherwise receive funds from sponsors and the general public; and to use, contribute, disburse, and dispose

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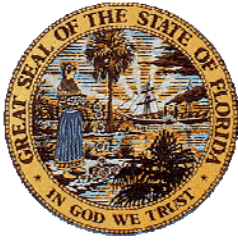
of such funds for the above purpose and the athletic programs of the University and Bethune-Cookman College. According to a report issued by an independent certified public accounting firm, the University, in February 2008, received \$1,432,255 of the proceeds for the Florida Classic football game held on November 17, 2007.

19. ACCREDITATION STATUS

In June 2008, the Southern Association of Colleges and Schools (SACS) removed the University's probation status.

20. SUBSEQUENT EVENT

In October 2008, the University entered into an agreement to pay \$1,500,000 to the Frances Meginnis Booth Trust as final settlement regarding the University's August 2005 termination of a five-year off-campus student housing lease agreement.



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

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

We have audited the financial statements of Florida Agricultural and Mechanical University, a component unit of the State of Florida, and its aggregate discretely presented component units as of and for the fiscal year ended June 30, 2008, which collectively comprise the University's basic financial statements, and have issued our report thereon included under the heading **INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS**. Our report on the financial statements was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the aggregate discretely presented component units as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A

significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the University's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the University's financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to University management in our operational report No. 2009-087.

Pursuant to Section 11.45(4), Florida Statutes, this report is a public record and its distribution is not limited. Auditing standards generally accepted in the United States of America require us to indicate that this report is intended solely for the information and use of the Legislative Auditing Committee, members of the Florida Senate and the Florida House of Representatives, Federal and other granting agencies, and applicable management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



David W. Martin, CPA
January 30, 2009