FLORIDA A&M UNIVERSITY
Report of Financial Position
As of December 31, 2012

The following overview provides the financial position and results of operation for Florida A&M University as of and for the period ended December 31, 2012. The overview includes comparisons of the Statements of Net Assets and Statements of Revenues, Expenses and Changes in Net Assets for the periods ended June 30, 2012 and December 31, 2012. The statement of net assets shows the assets, liabilities, and net assets of the University. Net assets represent the residual interest in the University's assets after deducting liabilities and are one indicator of an institution's current financial condition. The statement of revenues, expenses and changes in net assets presents the University's revenue and expense activity. Revenues and expenditures do not have a uniform flow throughout the year. As such, significant changes may be the result of timing rather than an improvement or decline in financial performance.

The overview also includes a financial ratio analysis

SUMMARY

Based on the results of the Statement of Net Assets and Statement of Revenues, Expenses and Changes in Net Assets as of December 31, 2012 and for the period there ended, the University can expect to end the fiscal year in a sound financial position

ASSETS

As of December 31, 2012, the University's assets totaled $715 million. This balance represents a $23.4 million or 3.4% increase as compared to June 30, 2012. Total assets are comprised of current assets of $157.3 million and noncurrent assets of $557.7 million. Assets consist primarily of cash, investments, accounts receivable, receivable due from State, and depreciable capital assets.

Cash and Investments

As presented in Table 1 below, cash and investments totaled $35.7 million and $118.8 million, respectively, as of December 31, 2012. When compared to June 30, 2012, cash decreased $25.9 million and investments increased $50.1 million.

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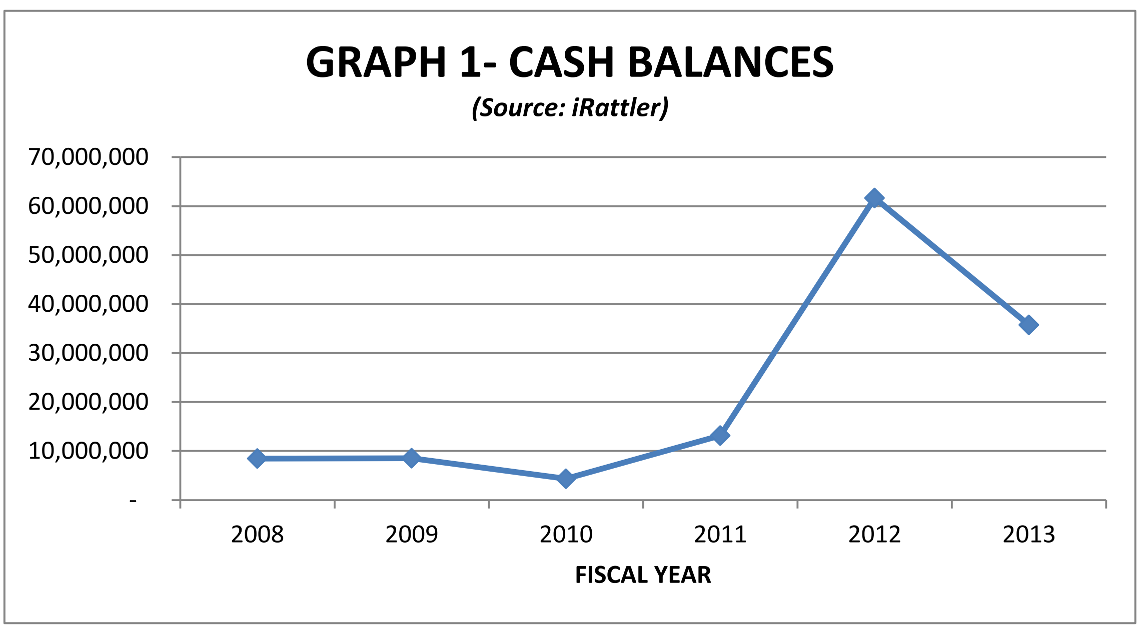
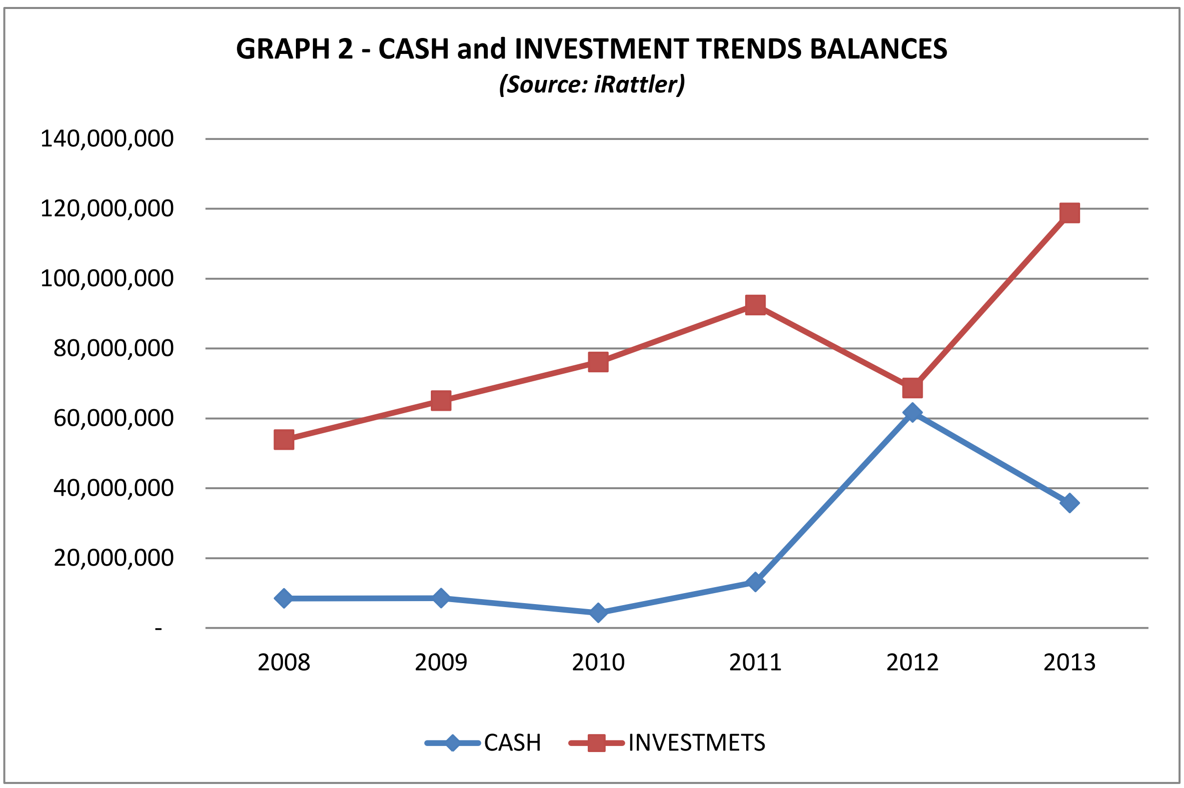
DATE	CASH	INVESTMENTS	TOTAL
December 31, 2012	$61,653,994	$68,653,804	$130,307,798
June 30, 2012	$35,741,358	$118,765,706	$154,507,064

Table 1: Comparative analysis of cash and investment balances as of June 30, 2012 and December 31, 2012. *Source:* iRattler general ledger trial balance.

The uncharacteristically large increase in investments is mainly the result of bond proceeds received to construct the new 800-bed student residential facility. As shown in Graph 1 below, the cash balance remained relatively constant from fiscal year 2008 – 2011. Cash increased $48.5 million from June 30, 2011 to June 30, 2012. The increase is related to the increase in net assets (fund balance) from $60.4 million to $83.5 million, respectively. The increase in net asset is primarily due to expenditure decreases in compensation and employee benefits. The Florida Legislature lowered the University's proportionate contribution to the Florida Retirement System and Optional Retirement program. Furthermore, the University introduced austerity measures at the end of fiscal year 2011 to prepare for future budget reductions.



As shown in Graph 2 below, during the four year period from fiscal years 2008 – 2011, investments increased as funds were transferred from cash. This trend began to reverse during fiscal year 2011 when the University reached its investment cap. The University has an investment ceiling of $79 million (excluding funds held for construction projects). Although the cap was reached, the University was permitted to invest above its maximum for a six-month period. As a consequence, excess cash began to accumulate. Cash began to decrease as funds were transferred to the University's investment account and used to fund current year operations through December 31. 2012.



Due From State

As of December 31, 2012, the due from State receivable decreased $7.5 million or 16.8%. The $37.1 million receivable represents allocations due the University from PECO allocations to fund campus construction projects.

Noncurrent Assets

Noncurrent assets increased $38.6 million or 7.4% as of December 31, 2012. The $557.7 million balance is comprised primarily of net depreciable capital assets totaling $455.9 million. This amount decreased $6 million or 1.3% as of December 31, 2012 as compared to June 30, 2012. The decrease is largely due to depreciation expense recorded for the first six months of the fiscal year.

LIABILITIES

The University's liabilities totaled $126.9 million as of December 31, 2012. Total liabilities are comprised of current ($13.3 million) and noncurrent ($113 million) components. This balance represents an increase of $33 million or 35.2% as compared to June 30, 2012. The increase is primarily due to the increase in capital improvement debt of $43.8 million to finance construction of the new 800 bed student residential facility.

NET ASSETS

For the period ended December 31, 2012, the University's net assets totaled $588.1 million. As presented in Table 2, this balance reflects a decrease of $9.6 million or 1.6% when compared to June 30, 2012. The decrease is primarily due to decreases in the capital projects fund ($9.2 million), unrestricted fund ($3.2 million), and other restricted fund ($270 thousand). The decreases are offset by increases in the capital assets ($3 million) and loan ($13 thousand) funds.

NET ASSETS

FUND	UNAUDITED AS OF DECEMBER 31, 2012	AUDITED AS OF JUNE 30, 2012	INCREASE (DECREASE) NET ASSETS
Capital Assets	$464,282,565	$461,288,025	$2,994,540
Debt Service	$1,202,406	$1,202,406	$0
Loans	$2,142,444	$2,129,189	$13,255
Capital Projects	$39,909,260	$49,098,289	($9,189,029)
Other Restricted	$354,446	$624,859	($270,413)
Unrestricted	$80,251,014	$83,458,983	($3,207,969)
	$588,142,135	**$597,801,751**	**($9,659,616)**

Table 2: Comparative analysis of net assets balances as of June 30, 2012 and December 31, 2012. *Source:* iRattler general ledger trial balance

The net decrease of $6.2 million in capital assets and capital projects ($9,189,029 - $2,994,540) is primarily due to fixed asset additions and spending to fund construction projects. The $3.2 million decrease in unrestricted net assets reflects the beginning effects fund balance drawdowns to fund current year operations. The Legislature decreased the University's base budget by $19.9 million. Management decided to fund the reduction from existing carry-forward funds included in unrestricted net assets.

REVENUES AND EXPENSES

For the period ended December 31, 2012, operating revenues totaled $83.2 million. This amount is offset by tuition allowance of $16.4 million, resulting in net operating revenues of $66.8 million. This amount represents approximately 47.2% of operating revenues reported at June 30, 2012. Non-operating revenues consist primarily of State appropriations ($34.3 million), federal and state student financial aid ($20.8 million), and net investment income ($1.1 million).

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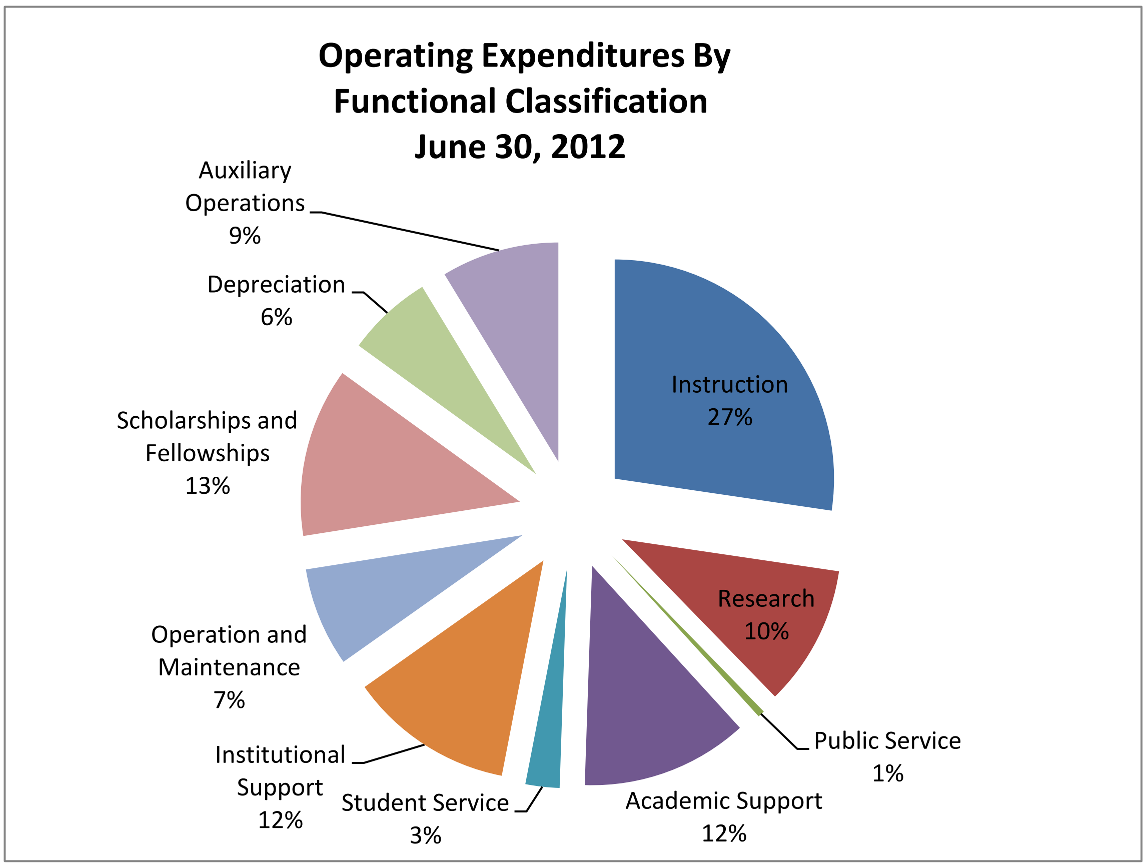
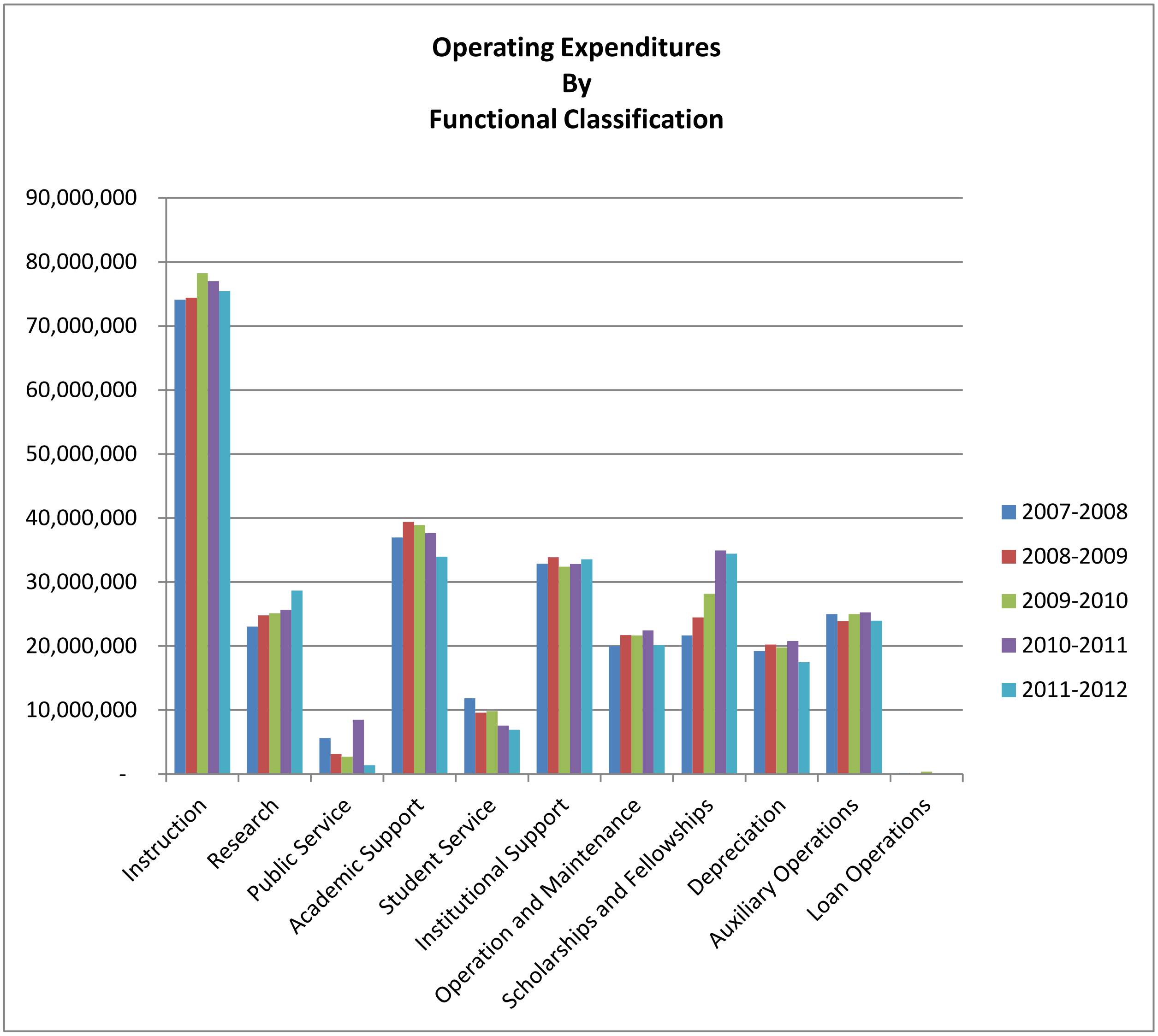
The University's fiscal year 2012-2013 appropriation is $67.5 million, of which 50% was received for the period ending December 31, 2012.

Likewise, university operating expenditures were roughly 47.9%. As shown in Graph 3 below, expenditures are primarily disbursed in the instruction category (26%), followed by scholarships and fellowships (13%), academic support (12%), institutional support (12%) research (10%), and operation and maintenance (7%).



Graph 3: Distribution of operating expenditures by to functional classification.
Source: iRattler general ledger trial balance.

As presented in Graph 4 below, the distribution has been relatively constant over the past five years.



Graph 4: Chart of operating expenditures by functional classification.
Source: iRattler general ledger trial balance.

FINANCIAL RATIOS

Florida Agricultural and Mechanical University (the University) has calculated their Composite Financial Index (CFI), based on the financial model of ratios for higher education, as outlined in the *Strategic Financial Analysis for Higher Education* by Prager, Sealy & Co., LLC.

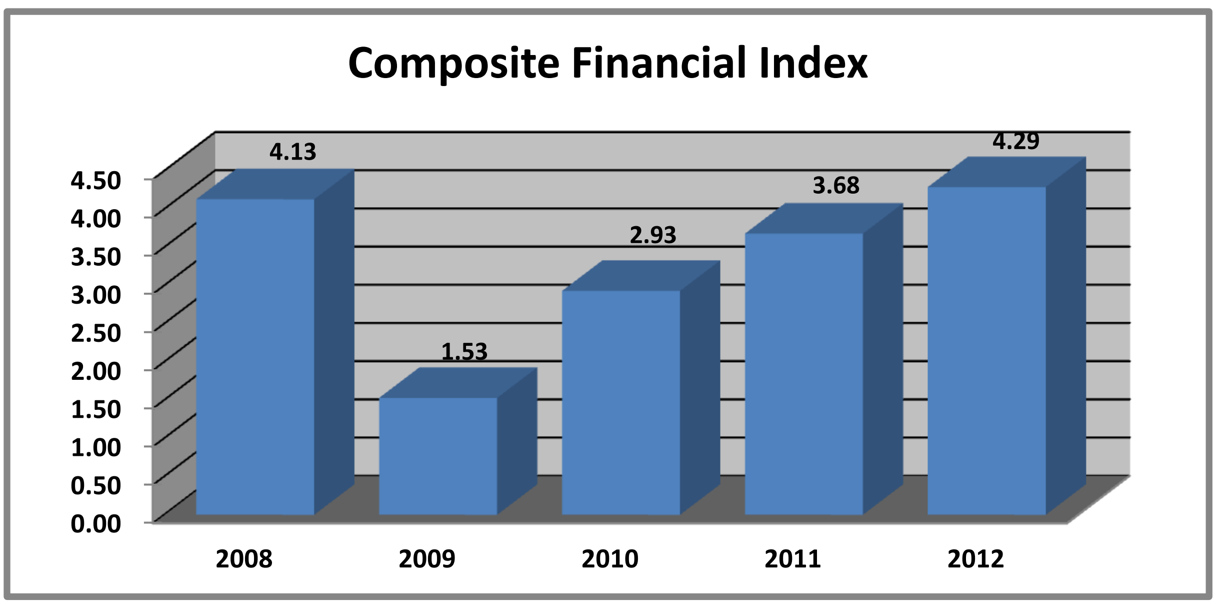
The Composite Financial Index is established by first creating the value of the four core ratios:

- Primary Reserve Ratio
- Net Operating Revenues Ratio
- Return on Net Assets Ratio
- Viability Ratio

These ratios compare the institution's operating commitments (Primary Reserve Ratio) and its outstanding long-term obligations (Viability Ratio) against its expendable wealth. They measure the ability of the institution on a short-term basis to live within its means (Net Operating Revenues Ratio) and the ability of the institution to generate overall return against all net resources (Return on Net Assets Ratio). These four ratios, properly weighted and scored on a common scale, create a single score of institutional financial health.

Although the University has calculated a 5-year average of the Composite Financial Index (CFI) of 3.31, the 5-year (fiscal years 2008-2012) trend shows a general positive increase since 2010 to 4.29 for fiscal year 2012. This CFI indicates the University is in a position to direct its institutional resources to allow for transformation.

The calculation of the 2012 CFI with indexing to the audited financial statements is shown on the next page.



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RATIO	FORMULA/CALCULATION				RATIO VALUE		RELEVANT VALUE		STRENGTH FACTOR		WEIGHTING FACTOR		SCORE
PRIMARY RESERVE RATIO	Expendable Net Assets / Total Expenses	=	114,868,524 / 294,339,058	(1) / (2)	= 0.3903	÷	0.133	=	2.93	x	35%	=	1.03
NET OPERATING REVENUES RATIO	Net Operating Income (Loss) / Total Operating Revenues	=	(2,438,029) / 291,901,029	(3) / (4)	= (0.0084)	÷	1.30%	=	-0.64	x	10%	=	-0.06
RETURN ON NET ASSETS RATIO	Change in Net Assets / Total Net Assets (beginning)	=	(139,313) / 706,455,945	(5) / (6)	= (0.0002)	÷	2.00%	=	-0.01	x	20%	=	0.00
VIABILITY RATIO	Expendable Net Assets / Long-Term Debt	=	114,868,524 / 29,055,326	(1) / (7)	= 3.9534	÷	0.417	=	9.48	x	35%	=	3.32
							COMPOSITE FINANCIAL INDEX (CFI)						**4.29**

( ) Parenthetical numbers index to the FY 11-12 financial statements

FLORIDA A&M UNIVERSITY
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STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

		University			Component Units	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$	40,241,171		$	423,877	
Investments		66,095,729			-	
Accounts Receivable, Net		21,073,445			819,513	
Loans and Notes Receivable, Net		28,259			19,874	
Due from State		44,655,154			-	
Inventories		481,457			4,925	
Total Current Assets		**172,575,215**			**1,268,189**	
Noncurrent Assets:						
Restricted Cash and Cash Equivalents		21,412,823			-	
Restricted Investments		2,558,075			109,617,232	
Loans and Notes Receivable, Net		2,121,328			-	
Depreciable Capital Assets, Net		461,938,995			722,655	
Nondepreciable Capital Assets		31,083,772			-	
Other Noncurrent Assets					2,181	
Total Noncurrent Assets		**519,114,993**			**110,342,068**	
TOTAL ASSETS	$	**691,690,208**		$	**111,610,257**	
LIABILITIES						
Current Liabilities:						
Accounts Payable	$	4,524,649		$	257,263	
Construction Contracts Payable		4,566,389			-	
Salaries and Wages Payable		2,141,174			-	
Deposits Payable		3,868,100			-	
Due to State		118,187			-	
Deferred Revenue		5,273,241			373,750	
Other Current Liabilities		-			2,216,732	
Long-Term Liabilities - Current Portion:						
Capital Improvement Debt Payable		1,791,000	(7)		-	
Loans and Notes Payable		83,333			68,163	
Capital Leases Payable		320,538			-	
Compensated Absences Payable		1,410,763			-	
Total Current Liabilities		**24,097,374**			**2,915,908**	
Noncurrent Liabilities:						
Capital Improvement Debt Payable		27,264,326	(7)		-	
Loans and Notes Payable		83,334			205,609	
Capital Leases Payable		14,714,014			-	
Compensated Absences Payable		18,237,741			-	
Postemployment Health Care Benefits Payable		7,231,000			-	
Other Noncurrent Liabilities		2,260,668			-	
Total Noncurrent Liabilities		**69,791,083**			**205,609**	
TOTAL LIABILITIES	$	**93,888,457**		$	**3,121,517**	
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	$	461,235,452		$	722,655	
Restricted for Nonexpendable:						
Endowment		-			79,859,388	
Restricted for Expendable:						
Debt Service		1,202,406			-	
Loans		2,129,189	(1)		-	
Capital Projects		49,150,862			-	
Other		624,859			27,785,942	(1)
Unrestricted		83,458,983	(1)		120,755	(1)
TOTAL NET ASSETS	$	**597,801,751**		$	**108,488,740**	
TOTAL LIABILITIES AND NET ASSETS	$	**691,690,208**		$	**111,610,257**	

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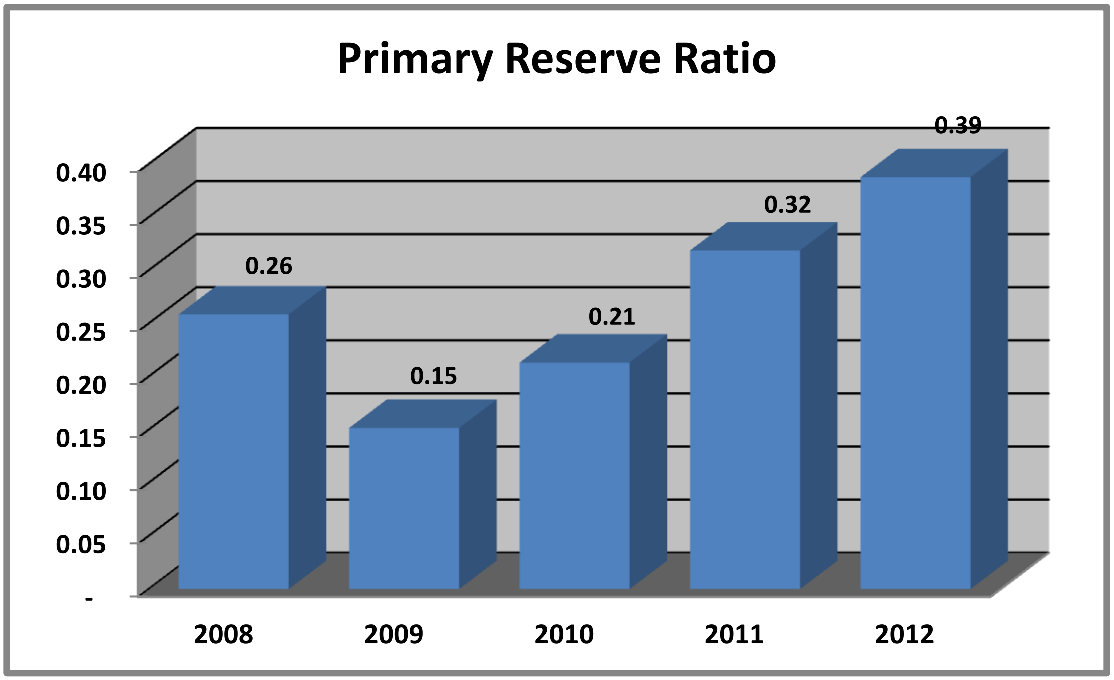
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	University		Component Units	
REVENUES				
Operating Revenues:				
Student Tuition and Fees, Net of Scholarship Allowance of $22,746,419 ($1,242,540 Pledged for Parking Revenue Bonds)	$ 63,054,104		$ -	
Federal Grants and Contracts	40,663,482		-	
State and Local Grants and Contracts	5,969,890		-	
Nongovernmental Grants and Contracts	1,429,933		-	
Sales and Services of Auxiliary Enterprises			-	
($12,199,839 Pledged for Housing Capital Improvement Debt, $948,095 Pledged for Parking Capital Improvement Debt, and $2,415,719 Pledged for Student Services Capital Improvement Debt)	22,511,282		-	
Interest on Loans and Notes Receivable	74,771		-	
Other Operating Revenues	7,952,835		5,698,187	
Total Operating Revenues	**141,656,297**	(4)	**5,698,187**	(4)
EXPENSES				
Operating Expenses:				
Compensation and Employee Benefits	161,391,300		1,246,393	
Services and Supplies	49,849,086		7,755,018	
Utilities and Communications	12,843,486		35,772	
Scholarships, Fellowships, and Waivers	34,441,632		-	
Depreciation	17,465,086		6,450	
Total Operating Expenses	**275,990,590**	(2)	**9,043,633**	(2)
Operating Loss	**(134,334,293)**		**(3,345,446)**	
NONOPERATING REVENUES/(EXPENSES)				
State Noncapital Appropriations	97,822,294	(4)	-	
Federal and State Student Financial Aid	45,069,465	(4)	-	
Investment Income	1,770,066	(4)	2,915,945	(4)
Unrealized Gains (Losses) on Investments	240,194		(3,553,744)	
Other Nonoperating Revenues	256,184	(4)	-	
Loss on Disposal of Capital Assets	(227,097)	(2)	-	
Interest on Capital Asset-Related Debt	(1,713,357)	(2)	-	
Other Nonoperating Expenses	(7,364,381)	(2)	-	
Net Nonoperating Revenues (Expenses)	**135,853,368**		**(637,799)**	
Income (Loss) Before Other Revenues, Expenses, Gains, or Losses	**1,519,075**	(3)	**(3,983,245)**	(3)
State Capital Appropriations	1,130,325		-	
Capital Grants, Contracts, Donations, and Fees	1,168,391		-	
Increase (Decrease) in Net Assets	**3,817,791**	(5)	**(3,983,245)**	(5)
Net Assets, Beginning of the Year	**593,983,960**	(6)	**112,471,985**	(6)
Net Assets, End of Year	**$ 597,801,751**		**$ 108,488,740**	

Primary Reserve Ratio

The Primary Reserve Ratio measures the financial strength of the institution by comparing expendable net assets to total expenses. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations. A Primary Reserve Ratio of .40X or better is advisable to give institutions the flexibility to transform the enterprise.

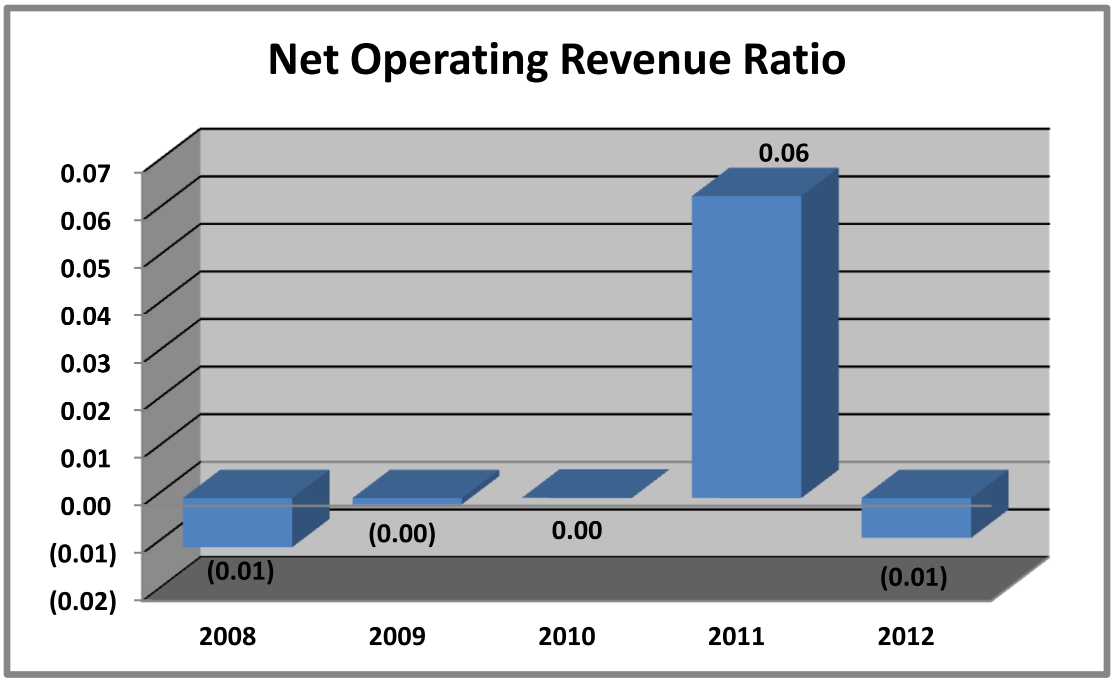
The University had a .39x primary reserve ratio for 2012, which indicates the University has the ability to cover approximately 5 months of expenses. At this level, the institution is able to rely on internal cash flow to meet short-term cash requirements.



Net Operating Revenues Ratio

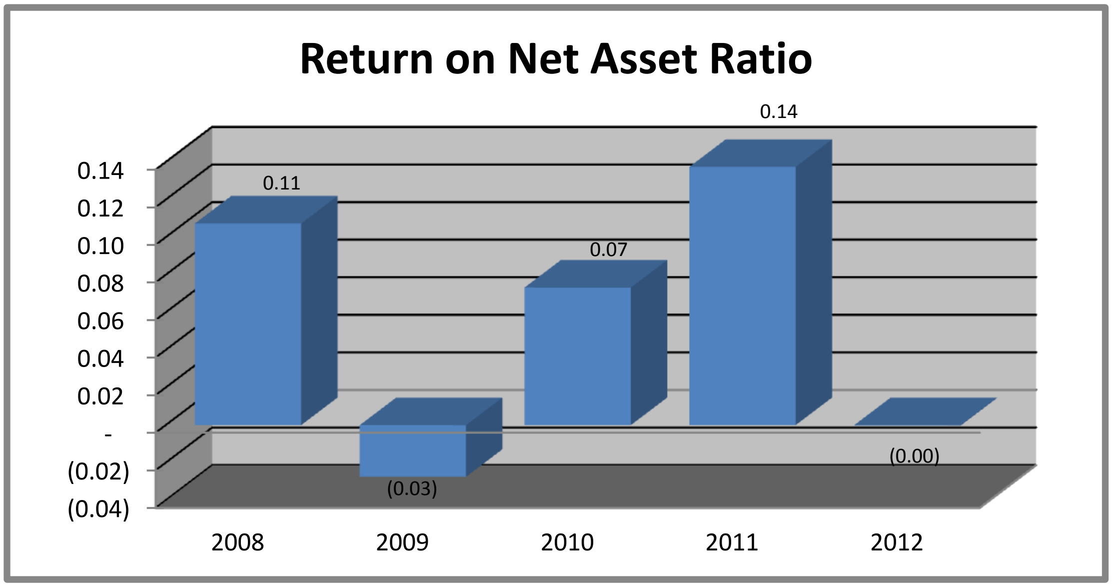
The Net Operating Revenues Ratio indicates whether total unrestricted activities resulted in a surplus or deficit. A ratio between 2% to 4% is advisable over an extended period.

The University had a 5-year average of negative 2.0%, which can be attributed to operating deficits of $2.9 million in 2008 and $2.5 million in 2012. The deficit in 2008 was due to a loss in investment earnings of $4.7 million in the University's Foundation resulting in a negative ratio of .80%. The deficit in 2012 was the result of an operating deficit in Foundation of approximately $4 million and a decrease in the University's Net Assets due to recognizing $7.4 million in expense resulting from a change in the property threshold. The property valued at less than $5,000 with the associated depreciation was removed from the Balance Sheet. Despite these two years of operating deficits, the University is financially strong as indicated by the remaining three ratios of the Financial Composite Index.



Return on Net Assets Ratio

The Return on Net Assets Ratio measures total economic return and determines whether the institution is financially better off than in previous years. A ratio between 6% and 7% is advisable over an extended period when inflation rate equals 3%. The University had a 5-year average of 5.8%.



Viability Ratio

The Viability Ratio is a measure of whether or not the institution has sufficient Net Assets to pay off long-term debt. A Viability Ratio measures one of the most basic determinants of clear financial health: the availability of expendable net assets to cover debt should the institution need to settle its obligations as of the balance sheet date. A ratio of 1.00 indicates a strong creditworthy institution. The University had a 5-year average of 2.7.