

ALABAMA STATE UNIVERSITY

FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED

SEPTEMBER 30, 2015

**ALABAMA STATE UNIVERSITY
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SEPTEMBER 30, 2015**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Alabama State University

We have audited the accompanying financial statements of Alabama State University (the University), a component unit of the State of Alabama, and its aggregate discretely presented component units, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Alabama State University Foundation, Inc. (the Foundation), which is a discretely presented component unit of the University, as of and for the year ended December 31, 2014. The Foundation represents less than one percent of assets, net position, and revenue of the University as of and for the year ended September 30, 2015. The Foundation financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based on the latest report available from the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Trust for Educational Excellence at Alabama State University and the Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

Opinion

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its aggregate discretely presented component units, as of September 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, in 2015, the University adopted Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–22 and the Schedule of the University's Proportionate Share of the Net Pension Liability and Schedule of the University's Contributions on pages 67 and 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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* in considering the University's internal control over financial reporting and compliance.

Warren Averett, LLC

Montgomery, Alabama
January 29, 2016

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2015
Unaudited

Management's Discussion and Analysis

This section of the Alabama State University (the University) annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended September 30, 2015. This discussion has been prepared by management along with the financial statements and related footnote disclosures. This report should be read in conjunction with the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change, and current known facts. The financial statements, footnotes, and this discussion are the responsibility of management. The financial statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole.

Using the Annual Report

One of the most important questions asked about university finances is whether the University as a whole is better off or worse off as a result of the year's activities. The keys to understanding this question are the Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The University's net position is one indicator of its financial health. Over time, increases or decreases in net position is one indicator of the improvement or erosion of the University's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

The Statement of Net Position includes all assets and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses, and Changes in Net Position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating viability is the University's ability to meet financial obligations as they mature. The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital and noncapital financing and investing activities. The Statement of Cash Flows also helps users assess the ability to generate future net cash flows, the ability to meet obligations as they come due, and a need for external financing.

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The University is considered a discretely presented component unit of the State of Alabama and as such, the University's financial activity is also included within the State of Alabama's Comprehensive Annual Financial Report.

The Trust for Educational Excellence at Alabama State University and the Alabama State University Foundation, Inc. are discretely presented component units of the University that are reported on pages 59 and 60. Complete financial statements of the individual component units can be obtained directly from the University's Comptroller.

Since the focus of this discussion is on the University, these component units are not included in the amounts below.

Condensed Statements of Net Position

	2015	2014
ASSETS AND DEFERRED OUTFLOWS		
Current assets	\$ 46,020,331	\$ 50,566,081
Noncurrent assets		
Capital assets, net	298,868,078	308,171,361
Other	1,319,150	1,563,667
Deferred outflows	15,317,207	7,320,055
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 361,524,766	\$ 367,621,164
LIABILITIES AND DEFERRED INFLOWS		
Current liabilities	\$ 39,849,200	\$ 37,886,300
Noncurrent liabilities	292,389,043	225,335,359
Deferred inflows	5,519,000	-
TOTAL LIABILITIES AND DEFERRED INFLOWS	337,757,243	263,221,659
NET POSITION		
Net investment in capital assets	83,164,399	87,296,680
Restricted	8,558,498	8,436,654
Unrestricted	(67,955,374)	8,666,171
TOTAL NET POSITION	\$ 23,767,523	\$ 104,399,505

The Governmental Accounting Standards Board issued Statement No. 68, *Items Previously Reported under GASB 27 (GASB 68)* in 2012. The provisions of this statement became effective for financial statements for periods beginning after June 15, 2015; which means for Alabama State University, the statement became effective for fiscal year 2015 financial statements. This statement required that the University recognize as a liability the employee net pension liability at retirement on the Statement of Net Position as opposed to a note disclosure.

ALABAMA STATE UNIVERSITY
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ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the University's bank accounts and investments in cash equivalents of operating funds held by investment managers. The investments are recorded at fair market value. The decrease of \$1.5 million of unrestricted cash between 2014 and 2015 consists of using cash to pay current expenses where budgeted revenue was not received. The decrease of \$1.5 million is a result of various small construction projects nearing completion.

Accounts Receivable

Accounts receivable relate to several transactions including student tuition and fee billings and auxiliary enterprise sales, such as food service and residence halls. In addition, receivables arise from grant awards and financial aid. The receivables are shown net of allowance for doubtful accounts in the amount of \$7.2 million. A portion of the \$1.1 million decrease between 2014 and 2015 is due to collections by external agencies and not accepting payment plans when registering.

Endowment Investments

Endowment investments include marketable securities relating to the Endowment funds. These investments are recorded at fair market value. The investments are managed and held by investment managers.

Other Short-Term Investments

Other short-term investments include marketable securities held and managed by investment managers and banking institutions.

Capital Assets, Net

Capital assets, net of related accumulated depreciation, consist of land, infrastructure, buildings, equipment, library collections and holdings, and construction in progress totaling \$299 million at September 30, 2015. The amount reported is net of accumulated depreciation of \$122 million. The decrease of \$9.3 million between fiscal years 2014 and 2015 is primarily a result of current year depreciation expense which totaled \$11.2 million.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
Fiscal Year Ended September 30, 2015
Unaudited

LIABILITIES

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2015, for goods and services received prior to the end of the fiscal year. The decrease in unrestricted accounts payable and accrued liabilities in the amount of \$1.9 million is a result of the University having accruals in 2014 related to legal liabilities associated with copying services, food services, and technology services.

Hedging Derivative Liability

On January 21, 2014, Moody's downgraded the University's Revenue Bonds from "A3-" to "Baa1-". On January 20, 2015, Standard & Poor's Ratings Services (S&P) lowered its long-term rating on the University's debt to "B" from "BBB+" with a negative outlook.

On March 24, 2015, a J.P. Morgan Chase Bank (JPMorgan) representative notified the University, through email to the bond underwriters, that the JPMorgan credit team approved a change in the swap agreement such that as long as National Public Finance Guarantee Corporation (National) maintained a minimum rating by S&P of "A-" or "A3" with Moody's Investors Service (Moody's), the minimum rating requirement would be satisfied. The University has a signed "First Amendment Agreement" with JPMorgan.

Long-Term Debt

At the end of the fiscal year 2015, the University had debt outstanding of \$219.9 million. Of this amount, \$215.9 million was comprised of bonds, \$2.7 million in long-term leases, and \$1.3 million in a note payable.

Net Pension Liability

At the end of the fiscal year 2015, the University had a net pension liability of \$73.6 million. The change in net pension liability is a result of adopting GASB 68.

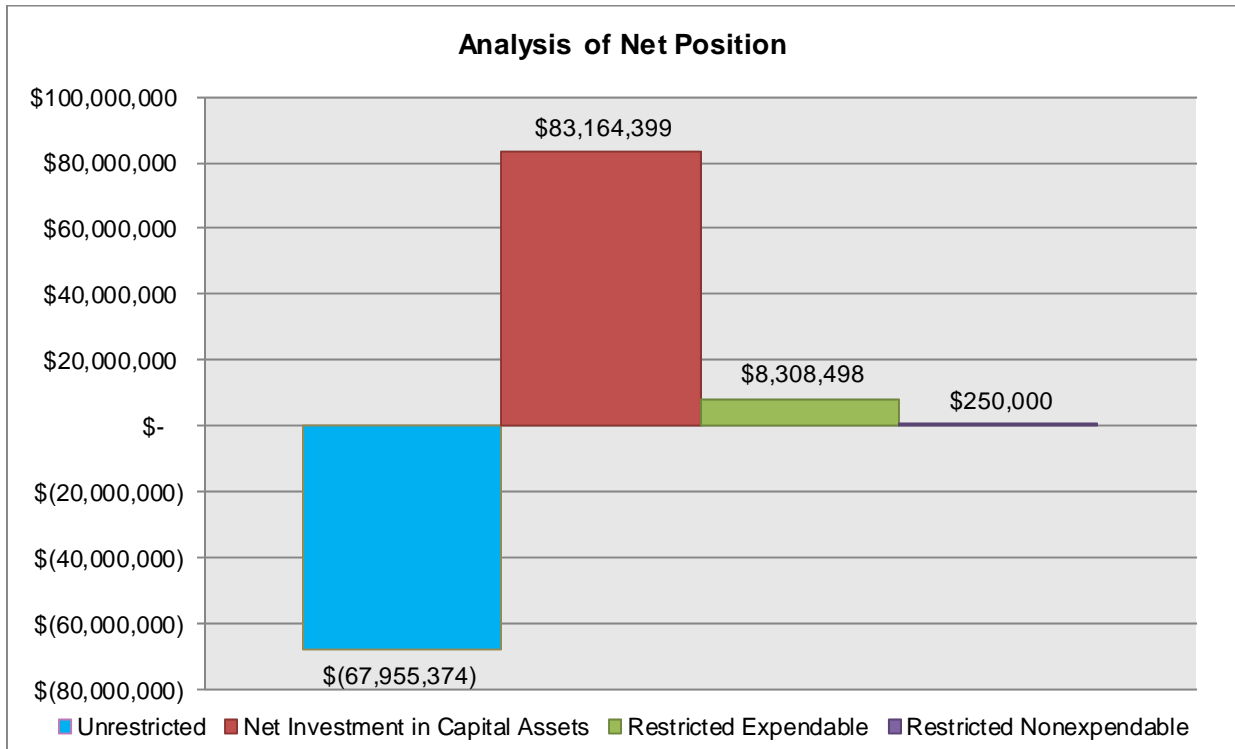
Unearned Revenue

Unearned revenue represents payments received for tuition, fees, and room and board of \$16.3 million net of deferred scholarships, allowances, and discounts of \$2.8 million relating to a future period. Examples of unearned revenue are fall tuition, fees, room and board, and grants where funding has been received but not expended. This represents a \$500,000 decrease between fiscal years 2014 and 2015 based on decreased enrollment compared to previous academic years and a decrease in scholarship awards.

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NET POSITION

Net position represents the difference between University assets and liabilities. Total net position at September 30, 2015, was \$23.7 million.



Restricted expendable net position consists of income from endowment funds, gifts, and pledges with specific temporary restrictions; grants from third party agencies with expenditure restrictions; and certain loan funds. Restricted expendable funds also include funds that have been designated by the governing board for specific purposes as well as amounts that have been contractually committed for goods and services which have not yet been received.

Unrestricted net position represents those balances from operational activities that have not been restricted by parties external to the University, such as donors or grant agencies. Also included in unrestricted net position are working capital and unrestricted endowments. None of the unrestricted net assets were designated as of year-end.

The decrease of approximately \$9.8 million in the University's net position is primarily attributable to the following: (1) \$2.8 million decrease in tuition and fee revenue (2) the effects of allowance for bad debt in the amount of \$365,000 for transfer scholarships (3) \$500,000 salary savings based on organizational restructure (4) \$900,000 decrease in athletic revenue due to a decrease in game guarantees and football ticket sales (5) \$400,000 reduction in consulting fees for advertising and promotions (6) \$840,000 in 2014 for copier lease liabilities decreasing expenses in 2015 (7) \$4 million decrease due to debt service and depreciation expense.

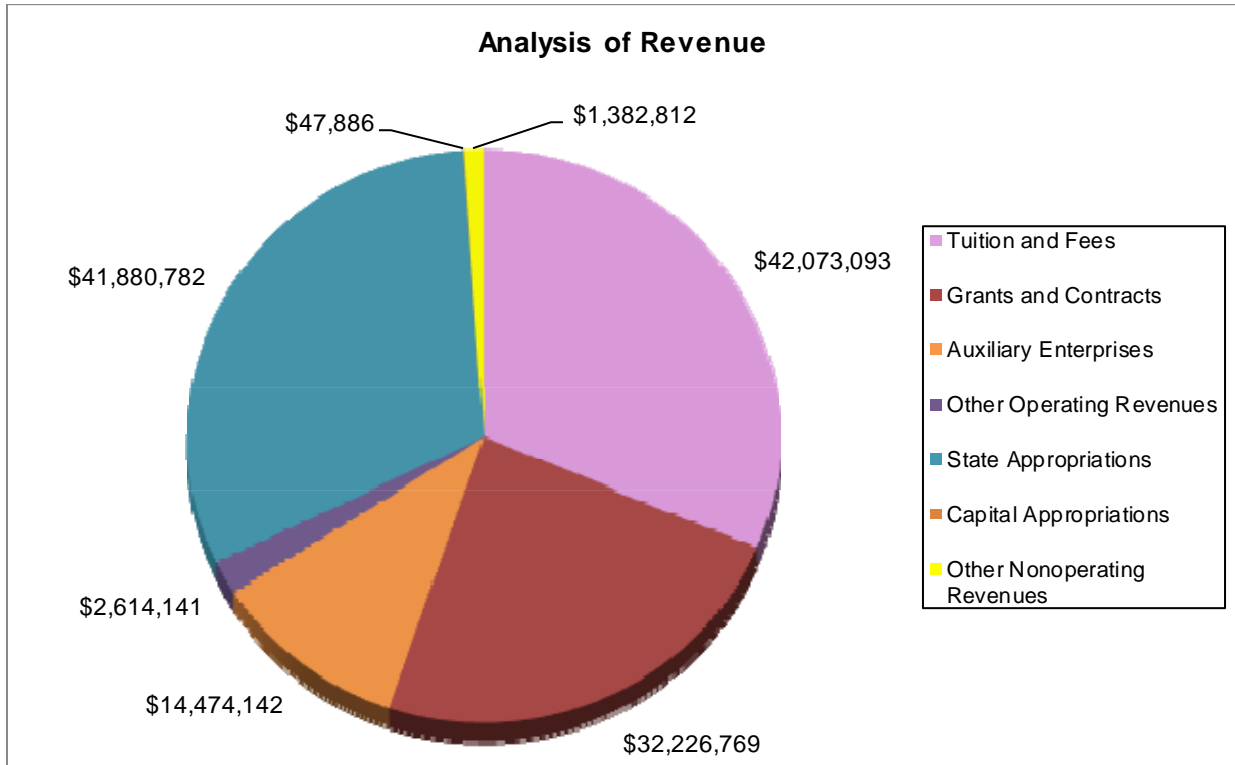
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Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2015	2014
OPERATING REVENUES		
Tuition and fees	\$ 42,073,093	\$ 44,919,305
Grants and contracts	32,226,769	34,983,313
Auxiliary enterprises	14,474,142	16,014,497
Other operating revenues	2,614,141	3,823,565
Total operating revenues	91,388,145	99,740,680
OPERATING EXPENSES	133,115,535	146,685,367
Operating loss	(41,727,390)	(46,944,687)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	41,880,782	43,324,608
Other nonoperating revenues (expenses), net	(10,036,812)	(8,708,262)
Net nonoperating revenues (expenses)	31,843,970	34,616,346
Loss before other changes in net position	(9,883,420)	(12,328,341)
OTHER CHANGES IN NET POSITION		
Capital appropriations	47,886	671,259
Decrease in net position	(9,835,534)	(11,657,082)
NET POSITION		
Net position at beginning of year	104,399,505	116,056,587
Effect of adoption of GASB 68 (Note 1)	(70,796,448)	-
Net position at beginning of year, restated	33,603,057	116,056,587
Net position at end of year	\$ 23,767,523	\$ 104,399,505

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REVENUES



Tuition and Fees for Services of Educational Activities

Tuition and fees assessed for educational purposes totaled \$54.3 million. The tuition discounts and allowances were \$12.2 million, resulting in a net tuition and fees of \$42.1 million. This represents a \$2.8 million decrease in net tuition and fees between fiscal years 2014 and 2015. This is the result of a fiscal year 2015 decrease in tuition discounts and allowances and a decrease in summer enrollment.

Grants and Contracts

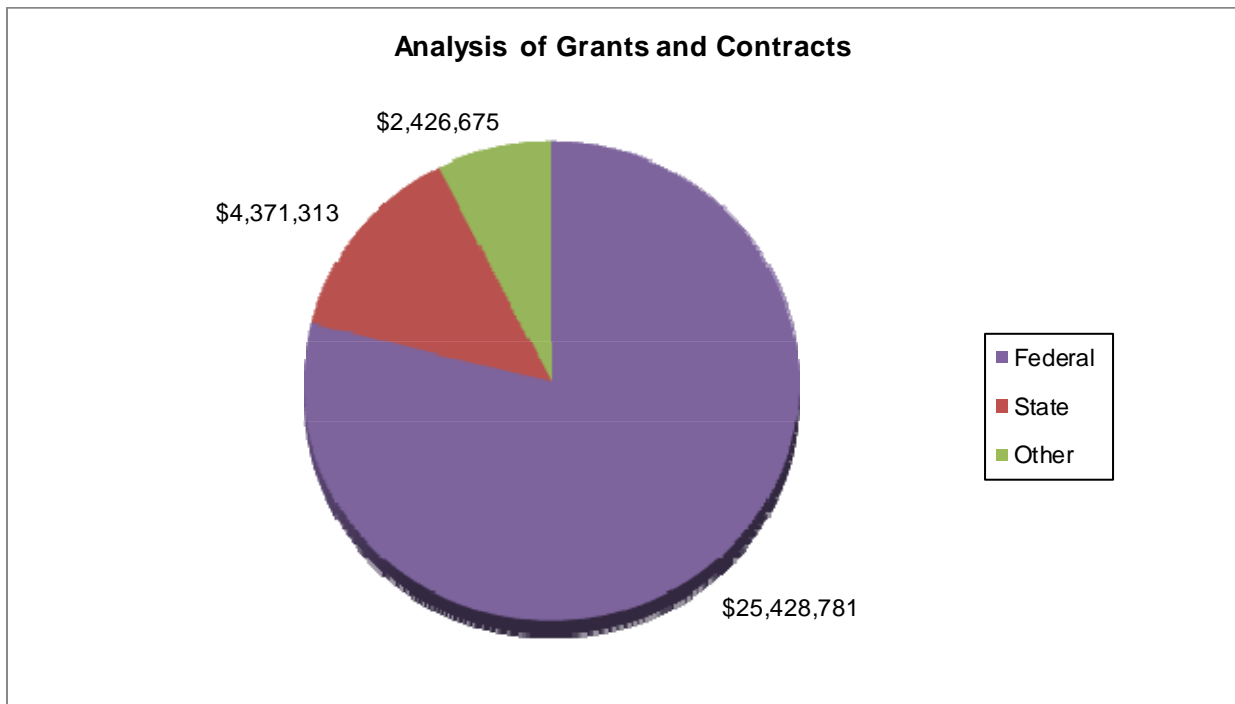
This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Deferred or non-reimbursable revenues are recorded when received, or when eligibility criteria have been met. Grants and contracts revenue decreased by \$2.4 million between fiscal years 2014 and 2015.

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The following table details the University's grant and contract awards for the fiscal years ended September 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
FEDERAL SOURCES		
Financial aid	\$ 17,767,800	\$ 19,149,108
Department of Education	4,508,977	5,493,510
National Science Foundation	1,606,930	1,650,283
Department of Health and Human Services	497,190	602,123
Other federal agencies	1,047,884	938,512
Total federal sources	<u>25,428,781</u>	<u>27,833,536</u>
STATE AND OTHER SOURCES		
Grants and contracts	4,371,313	4,870,993
Other sources	2,426,675	2,278,784
Total state and other sources	<u>6,797,988</u>	<u>7,149,777</u>
	<u><u>\$ 32,226,769</u></u>	<u><u>\$ 34,983,313</u></u>

The following is a graphic illustration of grant awards by source:



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Auxiliary Enterprises

Auxiliary enterprises consist of various enterprise entities that exist predominantly to furnish goods or services to students, faculty, staff or the general public and charge a fee directly related to the cost of those goods or services.

These include residence halls, apartments, food services, vending machines, and ticket sales, and are intended to be self-supporting. Auxiliary enterprise revenue decreased by \$1.5 million between fiscal years 2014 and 2015.

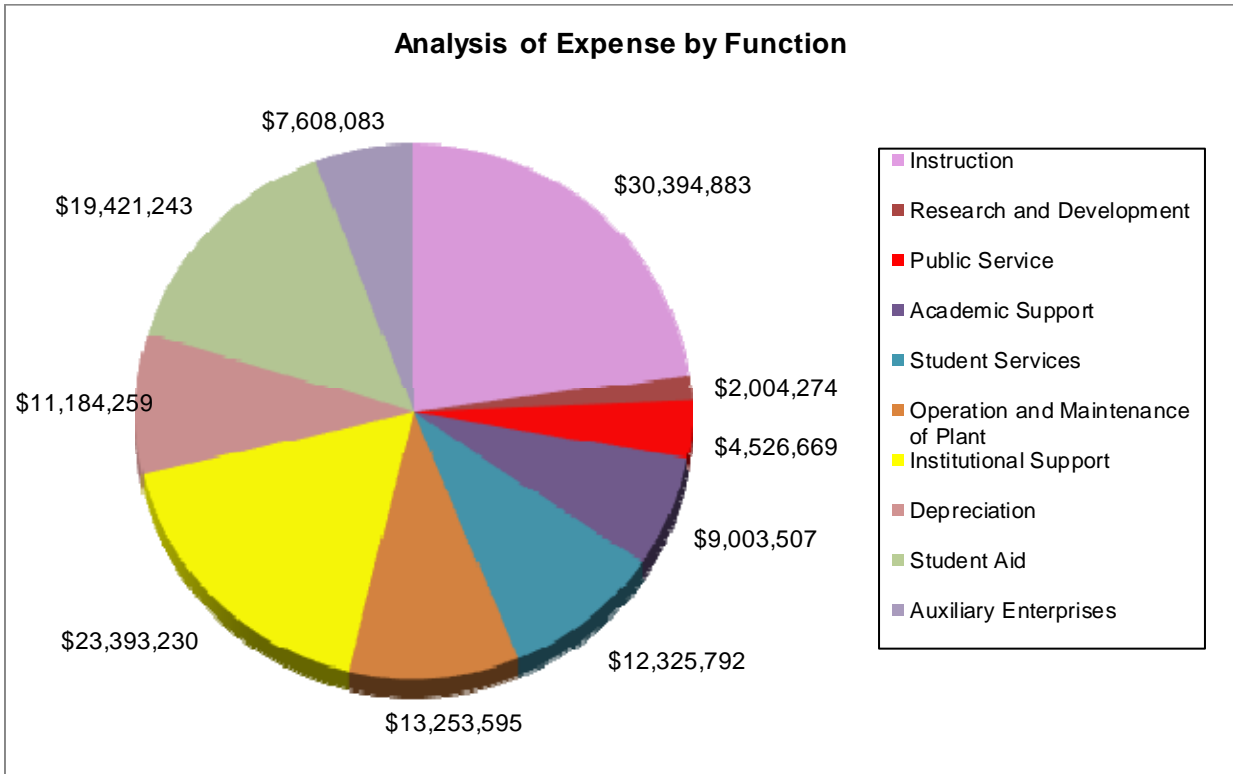
OPERATING EXPENSES

Operating expenses totaling \$133.1 million include salaries and benefits of \$69.6 million, materials and services of \$52.4 million, and depreciation of \$11.1 million. This represents a \$13.6 million decrease between fiscal years 2014 and 2015.

Expenses by Function

	<u>2015</u>	<u>2014</u>
Educational and General:		
Instruction	\$ 30,394,883	\$ 32,198,210
Research and development	2,004,274	1,921,644
Public service	4,526,669	5,990,260
Academic support	9,003,507	9,457,314
Student services	12,325,792	13,639,392
Operating and maintenance of plant	13,253,595	15,100,608
Institutional support	23,393,230	27,373,443
Depreciation	11,184,259	11,603,073
Student aid	19,421,243	20,806,712
Auxiliary Enterprises:		
Residential life	6,798,095	7,866,391
Other auxiliary expenses	809,988	728,320
Total operating expenses	<u>\$ 133,115,535</u>	<u>\$ 146,685,367</u>

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NONOPERATING REVENUES (EXPENSES)

State Appropriations

Annually, the State of Alabama appropriates funding for higher education. The University received \$41.9 million for fiscal year 2015. Of this total, \$41,880,782 was for operations and maintenance and \$47,886 was for capital expenditures. State appropriations decreased by \$2.1 million between fiscal years 2014 and 2015.

Investment Income, Net

Included in investment income are the earnings from endowment funds, pooled cash, and plant investments, as well as the realized and unrealized gains and losses on investments. Investment income decreased by \$1.5 million between fiscal years 2014 and 2015.

Interest on Capital Assets Related Debt

This includes the interest incurred for fiscal year 2015 on bond debt. The interest expense increased \$197,898 between 2014 and 2015.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
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OTHER CHANGES IN NET ASSETS

Capital Appropriations

Capital appropriations consist primarily of payments from the State of Alabama Public School and College Authority for capital expenditures. This amount totaled \$47,886 for fiscal year 2014–2015. Capital appropriations decreased by \$623,373 between fiscal years 2014 and 2015.

STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present the significant sources and uses of cash.

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents provided by (used in):		
Operating activities	\$ (30,918,004)	\$ (40,440,569)
Noncapital financing activities	47,911,977	43,376,870
Capital and related financing activities	(18,294,671)	(21,063,907)
Investing activities	<u>60,754</u>	<u>2,258,688</u>
Net decrease in cash and cash equivalents	(1,239,944)	(15,868,918)
Cash and cash equivalents at beginning of year	<u>15,425,459</u>	<u>31,294,377</u>
Cash and cash equivalents at end of year	<u>\$ 14,185,515</u>	<u>\$ 15,425,459</u>

The decrease in cash and cash equivalents of \$1.3 million is primarily the result of a decrease in revenue that was offset by reduced expenses.

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ENROLLMENT

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 2011 through 2015 academic years. Also indicated are the full-time equivalent students and the total number of on-campus credit hours taken by the students attending the University.

Fall Headcount Enrollment and Full-Time Equivalent

<u>Academic Year</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>	<u>Full-Time Equivalent</u>	<u>Total Credit Hours Taken</u>
2015	4,764	619	5,383	5,096	78,858
2014	4,803	707	5,510	5,197	77,535
2013	5,356	719	6,075	5,731	85,280
2012	5,130	686	5,816	5,575	79,440
2011	4,743	682	5,425	5,192	76,200

Student Admissions

The following tables show the total of new freshmen and transfer applications received, the number accepted, and the number who enrolled for the fall semesters of 2011 through 2015:

Fall Semester Freshmen Student Admissions

<u>Academic Year</u>	<u>Number of Applicants</u>	<u>Number Accepted</u>	<u>Percent Accepted</u>	<u>Number Enrolled</u>	<u>Percent Enrolled</u>
2015	8,356	4,004	48.0%	1,086	27.0%
2014	7,673	4,087	53.3%	1,090	26.7%
2013	7,446	4,036	54.2%	1,542	38.2%
2012	11,508	5,443	47.3%	1,561	28.7%
2011	8,764	4,058	46.3%	1,342	33.1%

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Fall Semester Transfer Student Admissions

<u>Academic Year</u>	<u>Number of Applicants</u>	<u>Number Accepted</u>	<u>Percent Accepted</u>	<u>Number Enrolled</u>	<u>Percent Enrolled</u>
2015	801	250	31.0%	124	50.0%
2014	817	279	34.1%	120	43.0%
2013	914	424	46.3%	225	53.0%
2012	890	324	36.4%	174	53.7%
2011	1,172	563	48.0%	199	35.0%

Student Cost per Credit Hour

Student tuition is based on a student's classification, full or part time, in-state or out-of-state. Tuition for graduate and part-time students is based on the number of credit hours taken. The tuition for an on-campus student, for the academic years indicated, are set forth below:

Student Cost Per Hour

<u>Student Classification</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>
Undergraduate, resident	\$ 289	\$ 289	\$ 289	\$ 263	\$ 263
Undergraduate, nonresident	578	578	578	526	526
Graduate, resident	343	343	343	312	312
Graduate, nonresident	686	686	686	624	624

Annual Full-Time

<u>Student Classification</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>	<u>2012-13</u>	<u>2011-12</u>
Undergraduate, resident	\$ 6,936	\$ 6,936	\$ 6,936	\$ 6,312	\$ 6,312
Undergraduate, nonresident	13,872	13,872	13,872	12,624	12,624
Graduate, resident	6,174	6,174	6,174	5,616	5,616
Graduate, nonresident	12,348	12,348	12,348	11,232	11,232

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Annual Estimated Total Costs

The cost of room and board and the estimated costs for two semesters for a resident undergraduate student for five academic years are set forth below:

Annual Room and Board and Estimated Total Costs

<u>Academic Year</u>	<u>Room and Board</u>	<u>Estimated Tuition, Fees, Books, and Miscellaneous</u>	<u>Estimated Total Costs</u>
2015	\$ 5,422	\$ 10,570	\$ 15,992
2014	5,422	10,320	15,742
2013	5,422	10,320	15,742
2012	5,366	9,532	14,898
2011	5,366	9,532	14,898

Generally, the University has enjoyed a very high residence hall occupancy rate for the past years. The University leased off-campus apartments to house additional students.

Residence Hall Occupancy Analysis

<u>Fall Semester</u>	<u>Number of Occupants</u>	<u>Percent of Occupancy</u>
2015	2,252	92.80%
2014	2,450	95.65%
2013	2,573	96.90%
2012	2,398	97.00%
2011	2,087	93.00%

Capital Budget

The Board of Trustees approved the capital budget for fiscal year 2014–2015. The sources of funds available for the capital needs are state capital outlay, federal outlay, and tax-exempt bond proceeds. During fiscal year 2015, the University expended approximately \$4.8 million on plant related projects. Currently, there is less than \$1 million left to be expended.

The University has developed a deferred maintenance list to address needs on the campus from various funding sources.

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Unaudited

OTHER SIGNIFICANT EVENTS

Analysis of Decrease in Net Position

The University continued cost cutting initiatives that reduced operating expenses by \$24.8 million to align with revenue projections in 2014. The reduction eliminated the need for operating reserves to balance its operating budget for fiscal year 2015. The mandate was to ensure there was no adverse effect on the quality of academic programs and student services. Every effort was made to balance the budget while maintaining program quality.

In summary, the decrease in the University's net position is primarily the result of a decrease in tuition and fee revenue, a decrease in athletic revenue due to a decrease in football game guarantees and ticket sales, and a reduction in consulting fees for advertising and promotions.

Termination Risk Associated with the Swap

In 2004, the University and JPMorgan entered into a swap agreement of which the terms and conditions of the swap are stipulated in the International Swaps and Derivatives Association, Inc. Master Agreement (Master Agreement) dated August 24, 2004. Under the Master Agreement, the University makes fixed monthly payments to JPMorgan at a rate of 3.2% and receives monthly floating rate payments at 68% of one month LIBOR. The Master Agreement stipulates that the University and JPMorgan have the right to terminate the swap upon the occurrence of certain events.

The Master Agreement further stipulates that a Termination Event has occurred if the University fails to maintain a Credit Rating of at least "BBB+" in the case of S&P and at least "A3" in the case of Moody's.

On January 21, 2014, Moody's downgraded the University's Revenue Bonds from "A3-" to "Baa1-". On January 20, 2015, S&P lowered its long-term rating on the University's debt to "B" from "BBB+" with a negative outlook.

The rating actions taken by both Moody's and S&P represent a termination event as stipulated in the Master Agreement. The Board of Trustees authorized the University to contact JPMorgan regarding options.

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The University contacted JPMorgan regarding the swap agreement and the possible refinancing of the auction rate bonds via written correspondence from the University President. In addition, representatives from STIFEL/Merchant Capital Division, The University's current bond underwriters, spoke with JPMorgan representatives. It was determined that due to changes in bond insurers (from FGIF to MBIA, and now to National), a termination event had not occurred due to National's ratings. Today, while the University's ratings fall below the required levels, National's ratings exceed the minimum ratings required, therefore a termination event has not occurred.

On March 24, 2015, a JPMorgan representative notified the University, by email to the bond underwriters, that the JPMorgan credit team approved a change in the swap agreement such that as long as National maintained a minimum rating by S&P of "A-" or a rating of "A3" with Moody's, the minimum rating requirement would be satisfied. The University has a signed "First Amendment Agreement" with JPMorgan.

STATUS OF THE FORENSIC AUDIT REQUESTED BY THE GOVERNOR OF THE STATE OF ALABAMA

In December 2012, at the direction of Governor Robert Bentley, ex officio President of the Board of Trustees of the University, Forensic Strategic Solutions (FSS) commenced an audit relating to various contracts of the University. FSS requested an extensive volume of documents from the University, which the University promptly provided to FSS. There are currently no pending document requests. In September 2013, FSS issued a preliminary report of its findings that expressly stated that its review was still in progress. To date, FSS has not issued its final report and the University has not been contacted for more information nor informed as to if and when a final report will be issued by FSS.

Contemporaneously, with the review being conducted by FSS, the University retained the firm of Warren Averett to conduct Agreed-Upon Procedures (AUP) related to the University's contracts. A copy of the report may be obtained at 915 S. Jackson Street, Montgomery, AL 36104.

FUTURE OUTLOOK

Although the University has experienced consecutive declining results, the decline in unrestricted net assets is lessening, which is evident with a \$5.8 million decrease in net position in 2015 (excluding the impact of GASB 68) compared to a \$7.9 million decrease in 2014 and reflects the University's ability to reverse the trend. Management drastically decreased 2015 operating expenses throughout the University without any negative impact in the area of academic quality and student services. No operating reserves were used to balance the budget. In order to maintain the new baseline set in 2014, the University reviewed and eliminated contracted services, reduced material services for supplies, and limited travel and training budgets. The University also realized salary savings as a result of a Board of Trustees approved reorganization and personnel attrition. The Center for Leadership and Public Policy was reorganized and relocated to the main campus, saving rent and salary expenses for the next fiscal year.

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In the summer 2015 term, Dual Enrollment programs allowing junior and senior level high school students to earn high school and college credits began. Agreements have been executed with multiple school systems (see table below). We will continue to open more programs throughout the current academic year.

Dual Enrollment Program

<u>School District</u>	<u>Start Date</u>
Barbour County School District	Fall 2016
Bessemer City Schools	Summer 2016
Birmingham City Schools	Fall 2016
Dallas County School District	Fall 2016
Dothan City Schools	Fall 2016
Eufaula Public Schools	Fall 2016
Fairfield City School District	Summer 2015
	Fall 2015
Henry County School District	Fall 2016
Houston Public Schools	Fall 2016
Macon County School District	Summer 2015
	Fall 2015
Midfield City District	Summer 2015
Mobile County Public Schools	Fall 2016
Montgomery Public Schools	Fall 2015
Selma City Schools	Spring 2016
Tuscaloosa City Schools	Fall 2016

In order to recruit more students in the local community (our core market), we held our first “ASU STEM” conference during the Magic City Classic in Birmingham in October 2015. Over 600 students attended the event, with several submitting applications for admission to the University. The University increased private visits to high schools and attendance at area college and career fairs. Personal phone calls, emails and hardcopy mailings are executed on a monthly basis. As we accept more students, the Admissions and Recruiting Office will establish a unique website for admitted students to begin early selection of classes and housing reservations. The students will be identified in the system and will “feel” a connection to the University, thus increasing the conversion rate to enrollment. The University has implemented several other recruitment efforts to help bolster net tuition revenue. The University expanded its international footprint with admission of international students from South Korea, Nigeria, India, and Ghana, to name a few. We have signed an agreement with Trinidad and Tobago for joint offerings in the Forensics program. International students are a strong source of revenue growth because they receive no financial aid, paying full tuition with no discounts.

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Online programs continue to supplement our program offerings. We expect this program to continue to grow. We graduated the first 12 students in the Accelerated Psychology Program (partial offerings online) in the last academic year. We have increased the reach of our online program with our engagement of Colloquy, an online management company, to implement two online graduate degree programs that began fall 2015. We now have the ability to offer non-Alabama certification programs, opening the programs to students throughout the country and at international locations. Strategic efforts are being made to increase the presence of international graduate students from selected countries. The University increased emphasis on the relationships with Community Colleges in Alabama and surrounding states. The online programs will facilitate broader access to the non-traditional students who pursue more technology driven education alternatives.

Football game guarantees will increase significantly over the next three years. The Athletic Director has finalized the "ASU Future Non-Conference Football Schedule" as shown below:

2016

University of Texas – San Antonio (\$450,000) September 3, 2016

2017

Troy University (\$300,000) September 9, 2017

2018

University of South Alabama (\$300,000) October 13, 2018

Auburn University (\$515,000) November 17, 2018

Some members of the athletic support group, Hornet Pride 365, have pledged \$1,200 per year for the next 5 years to support an Athletic Academic Center for our student athletes that bring so much notoriety to the University. This facility will provide a space to ensure our students are studying in a comfortable environment.

MORE PROMISE OF NEW REVENUE STREAMS

We have a signed agreement with the Nuclear Regulatory Commission for the University to be the national host for Nuclear Power Security Training. The program will be open to anyone seeking such training in the country. Some portions will be classroom, while other portions will be conducted online.

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The University has solidified itself as a participant in the Department of Defense Mentor Protégé Program. The University President recently signed a Memorandum of Understanding (MOU) with ProSource Technology, Inc. (PTI) and its affiliated small business consortium, to form a Long-Term Strategic Alliance in pursuit of and capture of Program Procurements, ADA Compliance Transition Plan Update and Comprehensive Facilities Master Planning (with student interns and faculty from the University to support), and as a Mentor in the federal Mentor-Protégé programs. The University agrees to support PTI and/or its affiliated small business consortium partners in earning federal, state, local, and commercial contracts that are related to the core competencies of both the University and PTI and/or its affiliates. The MOU is in effect for two years from the date of signing. We are already engaged with Teledyne Brown Engineering and Tec-Masters, both of Huntsville, Alabama. We partnered on a proposal with L-3 Com through the National Geospatial Intelligence Agency. Our business office is appropriately staffed/equipped to handle the special reporting requirements of this new type of activity.

Mr. Steve Harvey, the entertainer, author, radio and television personality, reached out to the University and expressed his desire to sponsor the Turkey Day Classic, beginning in fall 2016. The University has entered into an agreement with East 112th Street Productions, LLC. (112th) in this regard. 112th will be the entity overseeing management, corporate sponsorship, event planning, and marketing services for the 2016 Turkey Day Classic. Mr. Harvey will also play a part in increasing revenue at the "New ASU Stadium" by building out the restaurant at the stadium. We believe this will be a popular location for networking, community events, and private meetings.

Lastly, the University is in the planning stages of launching a Capital Campaign. The Campaign has a target of \$12,000,000 over a three-year period launching in the winter of 2016. The launch of this campaign is subject to final Board of Trustees and Office of the President approval. The campaign funds are expected to come from alumni, faculty and staff, corporations, foundations, parents, and friends. The funds raised for the Capital Campaign will go toward academics (programs and scholarships), the University endowment, restricted funds, University reserves and capital/physical plant areas. As the University transitions to the start of the Capital Campaign, there are some obvious advantages. Those advantages or strengths include a visible and engaged, high profile president, improved data base systems, multiple existing regular communication channels, advancement team engagement, donor intelligence, a two-year record of timely and consistent donor acknowledgments and lastly, established individual donor relationships. Through a 15-year University endowment growth period, 1996–2010, the University was able to establish a comprehensive data base of target constituents as well as gather donor behavior data. The University conducted a feasibility study that consolidated past donor giving data that provides a level of intelligence of donor preference and giving potential.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
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The President and the Administrative Council remain committed to a strong financial future for the University. Management continues to evaluate and review current policies and procedures in an effort to enhance operational efficiency and fiscal stability while providing excellent services to its students and constituents. The administration is working to raise money and offer programs to increase enrollment and student retention. Despite a challenging environment, the University matched declining revenues by reducing expenses to maintain financial stability. For fiscal year 2015, the University continued to successfully accommodate reduced revenues with cost cutting strategies and right sizing of the University. Throughout the year, resources have been strategically allocated to highest priorities in a manner that supports achievement of the mission.

Wanda L. P. Smith
Vice President for Business and Finance
January 29, 2016

**ALABAMA STATE UNIVERSITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

ASSETS AND DEFERRED OUTFLOWS

CURRENT ASSETS

Unrestricted Assets:

Cash and cash equivalents \$ 1,520,471

Stadium Fund:

Cash and cash equivalents 110

Endowments:

Cash and cash equivalents 346,055

Short-term investments 11,127,981

Accounts receivable (net of allowance of \$7,754,549) 14,928,671

Prepaid expenses 170,092

Inventories 8,036

Total unrestricted assets 28,101,416

Restricted Assets:

Grants and Contracts:

Cash and cash equivalents 5,957,811

Grants receivable 3,448,552

Accounts receivable 18,100

Student Loans:

Cash and cash equivalents 627,838

Endowments:

Cash and cash equivalents 99,886

Short-term investments 1,879,682

Capital Projects and Debt Service:

Cash and cash equivalents 5,633,302

Short-term investments 206,195

Agency Funds:

Cash and cash equivalents 42

Other receivables 47,507

Total restricted assets 17,918,915

Total current assets 46,020,331

NONCURRENT ASSETS

Student loans receivable 1,319,150

Capital assets, net 298,868,078

Total noncurrent assets 300,187,228

DEFERRED OUTFLOWS OF RESOURCES

Hedging derivative 4,108,840

Deferred amount on debt refunding 3,257,774

Deferred employer retirement contribution 7,950,593

Total deferred outflows of resources 15,317,207

TOTAL ASSETS AND DEFERRED OUTFLOWS \$ 361,524,766

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2015**

LIABILITIES

CURRENT LIABILITIES

Payable from Unrestricted Assets:

Accounts payable and accrued liabilities	\$ 4,897,734
Student accounts payable	45,960
Unearned revenue	16,355,692
Line of credit	5,733,815
Current portion of compensated absences	742,765
Total payable from unrestricted assets	<u>27,775,966</u>

Payable from Restricted Assets:

Grants and contracts accounts payable	4,812,439
Unearned revenue	471,236
Current portion of long-term debt	6,789,559
Total payable from restricted assets	<u>12,073,234</u>
Total current liabilities	<u>39,849,200</u>

NONCURRENT LIABILITIES

Noncurrent portion of compensated absences	1,602,179
Hedging derivative liability	4,108,840
Long-term debt, net	213,075,250
Net pension liability	73,602,774
Total noncurrent liabilities	<u>292,389,043</u>
Total liabilities	<u>332,238,243</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows related to pensions	<u>5,519,000</u>
Total liabilities and deferred inflows	<u>337,757,243</u>

NET POSITION

Net investment in capital assets	<u>83,164,399</u>
Restricted	
Nonexpendable:	
Scholarships	<u>250,000</u>
Expendable:	
Scholarships	685,646
Other	7,622,852
Total restricted expendable	<u>8,308,498</u>
Total restricted	<u>8,558,498</u>
Unrestricted	<u>(67,955,374)</u>
Total net position	<u>\$ 23,767,523</u>

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2015

OPERATING REVENUES

Student tuition and fees (net of scholarships of \$12,234,825)	\$ 42,073,093
Federal grants and contracts	25,428,781
State grants and contracts	4,371,313
Nongovernmental grants and contracts	2,426,675
Sales and services of auxiliary enterprises	13,094,574
Intercollegiate athletics	1,379,568
Other operating revenue	2,614,141
Total operating revenues	<u>91,388,145</u>

OPERATING EXPENSES

Educational and General:

Instruction	30,394,883
Research and development	2,004,274
Public service	4,526,669
Academic support	9,003,507
Student services	12,325,792
Operation and maintenance of plant	13,253,595
Institutional support	23,393,230
Depreciation	11,184,259
Student aid	19,421,243

Auxiliary Enterprises:

Residential life	6,798,095
Other auxiliary expenses	809,988
Total operating expenses	<u>133,115,535</u>

Operating loss	<u>(41,727,390)</u>
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See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

NONOPERATING REVENUES (EXPENSES)

State appropriations	\$ 41,880,782
Investment loss, net	(160,520)
Interest expense	(11,099,081)
Amortization expense	(320,543)
Gifts and donations	372,863
Federal subsidies for interest on Build America and Recovery Bonds	<u>1,170,469</u>
Net nonoperating revenues	<u>31,843,970</u>

Loss before other changes in net position	<u>(9,883,420)</u>
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OTHER CHANGES IN NET POSITION

Capital appropriations	<u>47,886</u>
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CHANGE IN NET POSITION

Decrease in net position	<u>(9,835,534)</u>
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Net position at beginning of year, as previously reported	<u>104,399,505</u>
Effect of adoption of GASB 68 (Note 1)	<u>(70,796,448)</u>
Net position at beginning of year, as adjusted	<u>33,603,057</u>

Net position at end of year	<u><u>\$ 23,767,523</u></u>
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See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from tuition and fees	\$ 43,199,615
Cash received from grants and contracts	33,642,184
Cash received from auxiliary enterprises	14,474,142
Cash received from other sources	2,708,219
Cash paid to suppliers for goods and services	(50,691,717)
Cash paid to employees for services	(54,829,204)
Cash paid for scholarships	(19,421,243)
	<u>(30,918,004)</u>
Net cash used in operating activities	
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State appropriations	41,880,782
Gift and donations	372,863
Gifts and grants for other than capital purposes:	
FFEL lending receipts	45,174,758
FFEL lending disbursements	(45,174,758)
SEOG lending receipts	268,578
SEOG lending disbursements	(268,578)
Proceeds from short-term debt	85,680,755
Principal paid on short-term debt	(79,946,940)
Interest paid on short-term debt	(75,483)
	<u>47,911,977</u>
Net cash provided by noncapital financing activities	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital appropriations received	47,886
Purchase of capital assets	(1,881,133)
Net proceeds from issuance of capital leases	35,633
Principal paid on capital debt and leases	(6,614,836)
Interest paid on capital debt and leases	(11,052,692)
Federal subsidies for interest on Build America and Recovery Bonds	1,170,471
	<u>(18,294,671)</u>
Net cash used in capital and related financing activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	282,520
Proceeds from sale of investments	17,998,378
Purchase of investments	(18,220,144)
	<u>60,754</u>
Net cash provided by investing activities	
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(1,239,944)</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>15,425,459</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 14,185,515</u></u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2015**

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES**

Operating loss	\$ (41,727,390)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	11,184,259
Loss on disposal of capital assets	158
Pension expense	374,733
Changes in assets and liabilities:	
Accounts receivable, net	1,125,400
Grants receivable	1,744,817
Prepaid expenses	213,150
Inventories	1,164
Student loans receivable	244,517
Compensated absences	(254,136)
Accounts payable and accrued liabilities	(3,345,957)
Unearned revenue	(478,719)
Net cash used in operating activities	<u>\$ (30,918,004)</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF FINANCIAL POSITION
2015**

ASSETS

CURRENT ASSETS

Unrestricted Assets:

Cash and cash equivalents	\$ 497,580
Due from Alabama State University	133,242
Total unrestricted assets	630,822

Restricted Assets:

Grants and Contracts:

Cash and cash equivalents	273,511
Short-term investments	1,698,570

Endowments:

Cash and cash equivalents	8,457,125
Short-term investments	68,439,079
Accrued interest and dividends	26,834

Total restricted assets	78,895,119
Total current assets	79,525,941

NONCURRENT ASSETS

Employee loans receivable, net	40,943
Total noncurrent assets	40,943

TOTAL ASSETS	\$ 79,566,884
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NET ASSETS

Unrestricted	\$ 497,580
Temporarily restricted	24,804,501
Permanently restricted	54,264,803

TOTAL NET ASSETS	\$ 79,566,884
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See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED 2015**

OPERATING REVENUES	
Contributions	\$ 1,870,499
Total operating revenues	<u>1,870,499</u>
OPERATING EXPENSES	
Educational and General:	
Program services	1,332,099
Supporting services	<u>34,740</u>
Total operating expenses	<u>1,366,839</u>
Operating income	<u>503,660</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income – net	1,356,267
Realized and unrealized gains on investments	3,100,286
Transfer out	(84,400)
Trustee expenses	<u>(102,574)</u>
Net nonoperating revenues (expenses)	<u>4,269,579</u>
CHANGE IN NET ASSETS	4,773,239
NET ASSETS AT BEGINNING OF YEAR	<u>74,793,645</u>
NET ASSETS AT END OF YEAR	<u>\$ 79,566,884</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Alabama State University (the University) are described below to enhance the usefulness of the financial statements to the reader.

Reporting Entity

The accompanying basic financial statements present the financial position and activities of the University, which is a component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of the basic financial statements and the aggregate discretely presented component units of the State of Alabama that are attributable to the transactions of the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization is included as a component unit. Accordingly, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the entities discussed below as component units.

The University has adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amends GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization, and the financial benefits/burden between the primary government and the potential component unit. The statement also clarifies reporting and disclosure requirements for those organizations. Based on the criteria as of September 30, 2015, the University reports the Alabama State University Foundation, Inc. (the Foundation) and the Trust for Educational Excellence at Alabama State University (the Trust) as discretely presented component units. These component units are described in greater detail in Note 13.

The fiscal years of the Trust and the Foundation are different from that of the University. The fiscal year of the Trust is July 31, 2015 and the fiscal year of the Foundation is December 31, 2014. These component units are presented in the report on their respective fiscal years. Complete financial statements of the individual component units can be obtained directly from the University's administrative office.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reporting Entity – Continued

The Trust and the Foundation financial statements have been prepared on the accrual basis, reporting under the Financial Accounting Standards Board (FASB). Net assets and revenues, expenses, gains, and losses are based on the existence or absence of donor-imposed restrictions. Net assets of the component units and changes therein are classified as follows in their separately issued financial statements:

- Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently but permit the Trust and the Foundation to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Trust and the Foundation to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of the Trust and the Foundation.
- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

It is the policy to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted resources are available.

Revenue and Expense Recognition

The University classifies its revenues and expenses as operating or nonoperating in the accompanying statement of revenues, expenses, and change in net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations.

Operating revenues include activities that have characteristics of exchange transactions, such as (1) student tuition and fees, (2) sales and services of auxiliary enterprises, (3) certain federal, state, and local grants and contracts that are essentially contracts for services, and (4) interest earned on loans.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources such as state appropriations and investment income.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

Management has evaluated subsequent events through January 29, 2016, which is the date the financial statements were issued.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash on hand and demand deposits.

Investments

Investments are reported at fair value in the Statement of Net Position. Investment income, including realized and unrealized gains and losses on investments, is presented in the Statement of Revenues, Expenses and Changes in Net Position.

Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible amounts is based on collection history. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

Inventories

Inventories are valued at the lower of cost or market and are recorded as expenditures when consumed rather than when purchased.

Restricted Assets

Restricted assets consist of monies and other resources which are restricted legally as described below:

Grants and Contracts – These assets represent federal, state, and local government grants and contract revenues restricted for student aid, research and development, and other educational programs.

Capital Projects and Debt Service – These assets represent capital debt proceeds that are restricted for designated capital projects and portions of bond proceeds deposited in the Debt Service Reserve Account or Capital Projects Account, pursuant to the terms of trust debentures.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, which include property, plant, equipment, software, and library holdings, are reported in the statement of net position at historical cost or at fair value at date of donation, less accumulated depreciation. Depreciation has been provided over the estimated useful lives using the straight-line method.

Estimated useful lives by asset category are as follows:

Buildings	10–35 years
Infrastructure improvements	5–30 years
Machinery and equipment	5–15 years
Furniture and fixtures	5–15 years
Library holdings	15 years

Cost of constructed fixed assets includes interest during the construction period. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service.

For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year.

When property and equipment are disposed, the related cost and accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in current operations. Maintenance and repairs are expensed as incurred.

Interest Capitalization

Interest cost related to construction financing is capitalized, net of interest revenue earned on the borrowed proceeds, from the time of borrowing until construction is substantially complete and the asset is placed in service.

Unearned Revenue

Unearned revenue represents payments received for services, goods, tuition and fees, room and board, or property damage liability charges relating to a future period. Unearned revenue also includes amounts received in advance from grant and contract sponsors that have not yet been earned under the terms of the agreement. The amounts are recognized as revenue in the following fiscal year.

Bond Issuance Costs and Deferred Loss on Bond Refunding

Bond premium and discounts, and deferred loss on refunding on long-term indebtedness are deferred and amortized over the term of the related debt.

Bond issuance costs are expensed during the current period.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

The University's employees earn vacation leave at graduated rates based on their length of service (one day per month of service initially) and up to 36 days of unused leave may be carried over to the following year. Sick leave is earned at the rate of eight hours for each month of service. The University funds sick leave as taken.

An accrual is recorded for accumulated unpaid vacation pay. As of September 30, 2015, accrued vacation pay totaled \$2,344,944. Because sick pay does not vest and will only be paid to employees on approved sick leave, no accrued liability has been recorded.

Net Position

Net position is classified into the following four categories according to external donor restrictions or availability of assets for satisfaction of University obligations:

- Net investment in capital assets – this component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.
- Restricted-nonexpendable – this component of net position consists of endowments and similar type assets whose use is limited by donors or other outside sources and, as a condition of the gift, the principal is to be maintained in perpetuity.
- Restricted-expendable – this component of net position consists of resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.
- Unrestricted – this component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts, and interest income. While unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees, it is available for use at the discretion of the governing board to meet current expenses for any purpose.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Scholarship Allowances and Student Aid

Financial aid to students is reported under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents that portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method followed by the University, scholarship allowances are computed by allocating the cash payments to students, excluding payments for services, on the ratio of using aid not considered to be third party aid to total aid.

Management Estimates and Assumptions

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

Income Tax Status

The University is exempt from federal income taxes under the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The University's discretely presented component units follow the provisions of Accounting Standards Codification (ASC) guidance relating to uncertainty in income taxes. This guidance requires entities to assess their uncertain tax positions for the likelihood that they would be overturned upon Internal Revenue Service (IRS) examination or upon examination by state taxing authorities. In accordance with this guidance, the component units have determined that there are no positions at their respective year-ends, which they would be unable to substantiate. The component units have filed their tax returns through 2014. The tax returns for years ended 2012 and thereafter are subject to audit by the taxing authorities.

Cost Sharing Multiple-employer Pension Plan

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers' Retirement System of Alabama (TRS). The TRS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Recently Adopted Accounting Pronouncements

In 2015, the University adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. GASB Statement No. 68 changes accounting and financial reporting for entities participating in a cost sharing plan. GASB Statement No. 68 required the University to record its share, as determined by an independent actuary, of the net unfunded pension liability, and its share of the changes in the net pension liability of the TRS. The adoption of the provisions of GASB Statement No. 68 resulted in a restatement of beginning unrestricted net position at October 1, 2014 by decreasing unrestricted net position \$70,796,448. See Note 8 for further discussion.

2. CASH AND CASH EQUIVALENTS

The University's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, as amended by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires certain disclosures related to interest rate and credit risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations.

Custodial Credit Risk of Bank Deposits

At year-end, the bank balance of the University's funds was either covered by federal depository insurance or secured by collateral through the Alabama State Treasury's Security for Alabama Funds Enhancement (SAFE) Program. Under the SAFE program, the University's funds are protected through a collateral pool administered by the Alabama State Treasury.

As of September 30, 2015, the University has \$3,320,858 on deposit in money market funds that are exposed to custodial risk because they are uninsured and collateralized with investment securities held by a financial institution's trust department, but not in the University's name. The securities are direct obligations of, or fully guaranteed by, the United States of America.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

3. INVESTMENTS

In accordance with the Policies of the Board of Trustees of the University, the types of investments which may be purchased include United States government securities, federal agency securities, obligations of commercial banks, including certificates of deposit, money markets, repurchase agreements, banker's acceptances, treasury bills, commercial paper, obligations of corporations, municipal notes and bonds, and investment programs offered through the Pooled Endowment Fund (the Fund). The Fund, which includes the Trust, as well as other endowment holdings of the University, is subject to review by the Board of Trustees.

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, requires certain investments to be recorded at fair value. The University's investments, with a remaining maturity of more than one year at the time of purchase, are reported at fair value in accordance with GASB Statement No. 31.

Investments of the University, by type, at fair value, are as follows at September 30, 2015:

U.S. Government Guaranteed Securities	\$ 206,194
Mutual Funds – Bonds Only	5,465,403
Mutual Funds – Bonds and Equity Mix or Equity Only	3,171,900
Domestic Common and Preferred Stocks	<u>4,370,361</u>
Total	<u><u>\$ 13,213,858</u></u>

Investment Risk Factors

Many factors can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

The University Investment Policies limit investment in U.S. Government, agency or corporate bonds to securities with a minimum "BBB" rating, at the time of purchase, by Moody's or Standard and Poor's. Additionally, the University Investment Policies require that not more than 10% of the fixed income may be invested in high yield bonds or global bonds.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

3. INVESTMENTS – CONTINUED

Credit Risk – Continued

The University's exposure to credit risk and concentration of credit risk at September 30, 2015 is as follows:

Credit Quality Ratings of Debt Securities

Credit Rating		Carrying and Fair Value	% of Total Investments
Aaa	Ishares Core Total U.S. Bond ETF	\$ 3,076,349	54.24%
Aaa	U.S. Treasury Obligations	206,194	3.64%
Aa2	PIMCO Total Return Active ETF	229,376	4.04%
Aa2	PowerShares Build America Bond	230,873	4.07%
A2	Dodge and Cox Income Fund	442,495	7.80%
A2	Western Asset Core Plus Bond	446,288	7.87%
A1	Loomis Sayles Bond – Avg. Quality	442,835	7.81%
A1	Ishares 0-5 year Inv. Grade Corp. Bond ETF	169,662	2.99%
B	Calamos Convertible & High Income Fund	225,487	3.98%
B	PowerShares Senior Loan	202,038	3.56%
Total Investments in Debt Securities		\$ 5,671,597	100.00%

Interest Rate Risk

At September 30, 2015, the maturity dates of the University's debt instruments were as follows:

Type of Investment	Investment Maturities at Fair Value (in Years)				Totals 9/30/15	Totals 9/30/14
	Less Than 1	1 – 5	6 – 10	More Than 10		
<i>Debt Securities:</i>						
U.S. Government						
Guaranteed Securities	\$ 206,194	\$ -	\$ -	\$ -	\$ 206,194	\$ 221,164
Mutual Funds – Bonds Only	-	601,076	4,187,166	677,161	5,465,403	5,779,680
Total Debt Securities	\$ 206,194	\$ 601,076	\$ 4,187,166	\$ 677,161	5,671,597	6,000,844
<i>Equities:</i>						
Domestic Common and Preferred Stocks					4,370,361	5,714,487
Mutual Funds – Bonds and Equity Mix or Equity Only					3,171,900	1,719,801
Total Equities					7,542,261	7,434,288
Total Investments					\$ 13,213,858	\$ 13,435,132

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

4. CHANGE IN CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2015, was as follows:

	<u>Balance 10/1/14</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance 9/30/15</u>
Land	\$ 21,088,976	\$ 63,921	\$ -	\$ 21,152,897
Construction in progress	3,400,121	1,055,873	3,871,732	584,262
Buildings	270,283,601	3,427,770	-	273,711,371
Equipment	16,760,300	738,217	157,850	17,340,667
Library holdings	10,084,288	23,122	-	10,107,410
Intangible software	11,744,019	-	-	11,744,019
Infrastructure	86,498,861	443,962	-	86,942,823
Total capital assets	<u>419,860,166</u>	<u>5,752,865</u>	<u>4,029,582</u>	<u>421,583,449</u>
Less accumulated depreciation for:				
Buildings	78,143,059	6,243,355	-	84,386,414
Equipment	10,440,337	1,144,115	157,693	11,426,759
Library holdings	9,093,779	191,844	-	9,285,623
Intangible software	1,761,603	587,201	-	2,348,804
Infrastructure	12,250,027	3,017,744	-	15,267,771
Total accumulated depreciation	<u>111,688,805</u>	<u>11,184,259</u>	<u>157,693</u>	<u>122,715,371</u>
Capital assets, net	<u>\$ 308,171,361</u>	<u>\$ (5,431,394)</u>	<u>\$ 3,871,889</u>	<u>\$ 298,868,078</u>

Depreciation expense for the year ended September 30, 2015, totaled \$11,184,259.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

5. ACCOUNTS RECEIVABLE

Accounts receivable include State appropriations, federal grants and contracts, local grants and contracts, uncollected student tuition, fees, and room and board charges.

Accounts Receivable

Tuition, fees, and room and board	\$ 17,823,981
State grants and contracts	1,679,702
Federal student loans	2,457,887
Other	<u>721,650</u>
	22,683,220
Allowance for doubtful accounts	<u>(7,754,549)</u>
Total	<u>\$ 14,928,671</u>

Student Loans Receivable

Perkins Loans:	
Loans advanced	<u>\$ 9,594,953</u>
Less:	
Loans assigned to U.S. Government	(652,420)
Principal collected	(6,934,179)
Principal cancellations	<u>(689,204)</u>
	<u>(8,275,803)</u>
Total	<u>\$ 1,319,150</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

6. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2015, was as follows:

	Balance 10/1/2014	Additions	Deductions	Balance 9/30/2015	Due Within One Year
1965 Revenue Bonds, Faculty Housing, 3.75% interest, due semi-annually through 2015, on November 1 and May 1	\$ 6,000	\$ -	\$ 6,000	\$ -	\$ -
1982 Dormitory Revenue Bonds, 3% interest, due semi-annually through 2022	405,000	-	45,000	360,000	45,000
2003 Series B General Tuition and Fee Revenue Bonds, 1.10% – 5.25% interest, due semi-annually through 2033 on March 1 and September 1	460,000	-	460,000	-	-
2004 Series B General Fee Revenue Bonds, auction rate, due through March 1, 2033	21,750,000	-	400,000	21,350,000	900,000
2006 Series General Tuition and Fee Revenue Bonds, 4.625% – 5.25% interest, due semi-annually through 2036 on February 1 and November 1	41,810,000	-	-	41,810,000	-
2008 Series General Tuition and Fee Revenue Bonds, 4.00% – 5.00% interest, due semi-annually through 2038 on May 1 and November 1	33,935,000	-	825,000	33,110,000	860,000
2009 Series General Tuition and Fee Revenue Bonds, 2.00% – 5.43% interest, due semi-annually through 2039 on March 1 and September 1	31,985,000	-	700,000	31,285,000	730,000
2010 Series General Tuition and Fee Revenue Bonds, 2.4% interest, due semi-annually through 2040 on March 1 and September 1	52,610,000	-	1,230,000	51,380,000	1,255,000
2012 Series A General Tuition and Fee Revenue Bonds, 2.00% – 5.00% interest, due semi-annually through 2042 on March 1 and September 1	27,970,000	-	1,815,000	26,155,000	1,860,000
2012 Series B General Tuition and Fee Revenue Bonds, 2.00% – 5.40% interest, due semi-annually through 2039 on March 1 and September 1	11,135,000	-	215,000	10,920,000	215,000
	222,066,000	-	5,696,000	216,370,000	5,865,000
Unamortized bond discount	(1,356,438)	-	(53,045)	(1,303,393)	-
Unamortized bond premium	848,569	-	56,960	791,609	-
Bonds payable, net	221,558,131	-	5,699,915	215,858,216	5,865,000
Capital lease obligations	3,449,796	35,633	738,836	2,746,593	744,559
Notes payable	1,440,000	-	180,000	1,260,000	180,000
Total long-term debt	<u>\$ 226,447,927</u>	<u>\$ 35,633</u>	<u>\$ 6,618,751</u>	<u>\$ 219,864,809</u>	<u>\$ 6,789,559</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable

On March 1, 2012, the University issued the General Tuition and Fee Revenue Bonds, Series 2012-A (Tax Exempt), in the amount of \$31,475,000 and the General Tuition and Fee Revenue Bonds, Series 2012-B (Taxable), in the amount of \$11,550,000 (Series 2012 Bonds). The Series 2012 Bonds were for the purposes of (1) refunding certain indebtedness of the University, (2) paying amounts due under an option agreement and a debt service deposit agreement relating to the refunded indebtedness, (3) providing funds to complete the acquisition, construction, and equipping of a football stadium on the campus of the University and related improvements.

The Series 2012-A and 2012-B Bonds will fully mature by March 1, 2042 and March 1, 2039, respectively. Interest payments are due semi-annually on March 1 and September 1, of each year, beginning September 1, 2012, at rates ranging from 2.00% to 5.40%.

On December 1, 2010, the University issued the General Tuition and Fee Revenue Bonds, Series 2010 (Series 2010 Bonds), in the amount of \$55,000,000. The Series 2010 Bonds were for the purpose of providing funds to pay a portion of the costs of acquiring, constructing, and equipping a football stadium on the campus. General Tuition and Fee Revenue Bonds issued in 2011 include \$55,000,000 of fixed rate taxable Build America and Recovery Bonds.

The Series 2010 Bonds will fully mature by September 1, 2040. Interest payments are due semi-annually on March 1 and September 1, of each year, beginning March 1, 2011, at rates ranging from 2.40% to 5.125%.

On August 1, 2009, the University issued the Alabama State University General Tuition and Fee Revenue Bonds, Series 2009 (Series 2009 Bonds), in the amount of \$35,000,000. The Series 2009 Bonds were for the purposes of providing funds (1) to pay a portion of the costs of acquiring, constructing, and renovating certain capital improvements to the facilities of the University, (2) to pay for the purchase and implementation of an Enterprise Resource Planning (ERP) System for internal information management, (3) to pay for the acquisition of real property adjacent to and surrounding the University's campus, and (4) to pay for minor renovations to existing facilities on the University's campus.

The Series 2009 Bonds will fully mature by September 1, 2039. Interest payments are due semi-annually on March 1 and September 1, of each year, beginning March 1, 2010, at rates ranging from 2.00% to 5.43%.

The University is to maintain a minimum amount in a debt service reserve fund for the Series 2009 Bonds. The minimum amount was maintained at September 30, 2015.

On May 1, 2008, the University issued the Alabama State University General Tuition and Fee Revenue Bonds, Series 2008 (Series 2008 Bonds), in the amount of \$37,615,000. The Series 2008 Bonds were issued for the purposes of providing funds (1) to pay a portion of the costs of acquiring, constructing, and renovating certain capital improvements to the facilities of the University, (2) to pay the premium on a surety bond to be furnished by Assured Guaranty Corporation in respect of a

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable – Continued

debt service reserve fund, (3) to deposit an amount sufficient to pay six months interest into the capitalized interest fund, and (4) to pay the costs incurred in connection with the issuance of the Series 2008 Bonds.

The Series 2008 Bonds will fully mature by November 1, 2038. Interest payments are due semi-annually on May 1 and November 1, of each year, beginning on November 1, 2008, at rates ranging from 4.00% to 5.00%.

The University is to maintain a minimum amount in a debt service reserve fund for the Series 2008 Bonds. The minimum amount was maintained at September 30, 2015.

On August 1, 2006, the University issued \$41,810,000 in Alabama State University General Tuition and Fee Revenue Bonds, Series 2006 (Series 2006 Bonds). The Series 2006 Bonds were issued for the purposes of providing funds to (1) pay a portion of the costs of acquiring, constructing, and renovating certain capital improvements to the facilities of the University, including reimbursement to the University of funds already expended for such purposes (2006 Capital Improvement), (2) pay the premium on a surety bond to be furnished by Syncora Guarantee, Inc. (formerly known as XL Capital Assurance, Inc.) in respect of a debt service reserve fund, and (3) pay the costs incurred in connection with the issuance of the Series 2006 Bonds.

The Series 2006 Bonds will fully mature by August 1, 2036. Interest payments are due semi-annually on February 1 and August 1, of each year, beginning on February 1, 2007, at rates ranging from 4.625% to 5.25%.

The University is to maintain a minimum amount in a debt service reserve fund for the Series 2006 Bonds. The minimum amount was maintained at September 30, 2015.

On August 27, 2004, the University issued \$24,425,000 in Alabama State University General Tuition and Fee Revenue Bonds, Series 2004 (Series 2004 Bonds). The Series 2004 Bonds were issued for the purposes of providing funds to (1) advance refund a portion of the General Fee Revenue Bonds, Series 2003B, (2) pay a portion of the costs of certain capital improvement projects, and (3) pay the costs associated with the issuance of the bonds. The Series 2004 Bonds are auction rate bonds, which bear interest that fluctuates on each auction date. The bonds have an auction period of 35 days and have a maximum auction rate of 14%. Payment of the principal and interest on the bonds is insured by Financial Guaranty Insurance Company (FGIC). FGIC has had its AAA rating substantially downgraded by each of the rating agencies.

The Series 2004 Bonds are currently in failed auction rate mode. As a result the interest rate is calculated based on the University's fixed rate payment under the Swap Agreement (3.222%) plus the difference between the current auction rate and 68% of the 30-day LIBOR.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable – Continued

The University entered into an interest rate swap agreement (Swap Agreement) with a swap counterparty on a notional amount equal to the aggregate principal amount of the Series 2004 Bonds. This was for the purpose of hedging the exposure of the University against interest rate fluctuations arising from the variable rates borne by the Series 2004 Bonds. Under the Swap Agreement, the University will be the fixed rate payer, and the swap counterparty will be the floating rate payer, paying a floating rate based on the USD-LIBOR-BBA Index, which may vary from the actual rate payable by the University on the Series 2004 Bonds.

The University is to maintain a minimum amount in a debt service reserve fund for the Series 2004 Bonds. The minimum amount was maintained at September 30, 2015.

On March 6, 2003, the University issued \$25,000,000 in Alabama State University General Tuition and Fee Revenue Bonds, Series 2003B (Series 2003B Bonds). The Series 2003B Bonds were issued for the purposes of providing funds to (1) pay a portion of the costs of acquiring certain capital improvements to the facilities of the University, and (2) pay the costs associated with the issuance of the Bonds.

The Series 2003B Bonds mature annually on March 1, beginning in 2004 and will be fully matured by March 1, 2033. Principal payments are due semi-annually on March 1 and September 1, of each year, beginning on September 1, 2003, at rates ranging from 1.10% to 5.25%.

The Series 2003B Bonds constitute a special limited obligation of the University, payable solely out of (1) the revenues and receipts to be derived by the University from the general tuition and other fees, and (2) revenues derived from the operation of student housing facilities.

On August 27, 2004, the University refunded \$20,170,000 of the Series 2003B Bonds, as described above, leaving an un-refunded balance of \$4,370,000.

On January 22, 2002, the University issued the Alabama State University General Tuition and Fee Refunding Revenue Bonds, Series 2002A (Tax Exempt) (Series 2002A Bonds) and 2002B (Taxable) (Series 2002B Bonds), in the amounts of \$29,125,000 and \$6,775,000, respectively.

The Series 2002A Bonds were issued for the purposes of providing funds to (1) pay a portion of the costs of acquiring certain capital improvements to the facilities of the University, including reimbursement to the University of funds previously expended for such purposes, (2) refund a portion of the Series 1993 Bonds, (3) refund the Series 1995 Bonds, (4) refund the Series 2002 Bonds, (5) refund the Series 2001B Bonds, (6) repay the Southern Normal Mortgage debt, and (7) pay the costs of issuing the Series 2002A Bonds.

The Series 2002B Bonds were issued for the purposes of providing funds to (1) refund the remaining portion of the Series 1993 Bonds not refunded by the Series 2002A Bonds, and (2) pay the costs incurred in connection with the issuance of the Series 2002B Bonds.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable – Continued

The net proceeds from the issuance of the Series 2002A and 2002B Bonds of \$34,644,211 (after an original issue discount of \$330,729 and payment of \$1,004,750 of issuance cost) plus an additional \$4,412,187 of the Series 1993, 1995, and 2001 sinking fund deposits with trustee were used to establish a new capital projects account to be used for future capital expenditures, pay off the Southern Normal Mortgage Note outstanding in the amount of \$653,209, and to defease the Series 1993, 1995, and 2001 bonds in an advance refunding.

The University incurred a loss on defeasance of approximately \$3,069,048 that was deferred and is being amortized over the life of the new debt in accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*. The Series 2002A Bonds mature no later than January 1, 2023, and require semi-annual interest payments on January 1 and July 1, beginning July 1, 2002, at rates ranging between 1.90% and 5.00%. Principal payments on the Series 2002A Bonds are due annually, beginning January 1, 2003.

The Series 2002B Bonds are Term Bonds that mature no later than January 1, 2022, and require semi-annual interest payments on January 1 and July 1, beginning July 1, 2002, at rates ranging between 4.65% and 8.50%. Principal payments on the Series 2002B Bonds are due no earlier than January 1, 2020.

The University, through the defeasance, reduced its aggregate debt service payments by approximately \$8,858,000 over the next 10 years and will obtain an economic gain (difference between the present value of debt service of the refunded bonds and the Series 2002 Revenue Refunding Bonds) of approximately \$2,508,000.

The trustee holds sinking fund deposits, including earnings on investments of these deposits. Revenues from student tuition and fees sufficient to pay the annual debt service are pledged to secure the bonds. Principal and interest maturity requirements on bond debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Interest Rate Swap, Net</u>	<u>Net Cash Flows</u>
2016	\$ 5,865,000	\$ 10,006,237	\$ 649,990	\$ 16,521,227
2017	6,055,000	9,828,710	621,611	16,505,321
2018	6,245,000	9,646,331	592,455	16,483,786
2019	6,440,000	9,458,314	562,521	16,460,835
2020	6,130,000	9,246,702	544,250	15,920,952
2021-2025	35,435,000	42,351,597	2,510,548	80,297,145
2026-2030	45,875,000	33,776,753	1,477,250	81,129,003
2031-2035	54,075,000	21,956,421	255,020	76,286,441
2036-2040	36,710,000	8,378,132	-	45,088,132
2041-2042	13,540,000	481,800	-	14,021,800
	<u>\$ 216,370,000</u>	<u>\$ 155,130,997</u>	<u>\$ 7,213,645</u>	<u>\$ 378,714,642</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable – Continued

Interest on the variable rate 2004 General Revenue Bonds is calculated based upon the synthetic rate at September 30, 2015 of 3.10%.

Interest expense for the year ended September 30, 2015, totaled \$11,099,081.

The University capitalized interest of \$50,462 in fiscal year 2015.

Note Payable

On August 30, 2012, the University entered into a note payable with BBVA Compass in the amount of \$1,800,000. The note was for the purpose of providing funds to purchase a scoreboard for the football stadium. The note will mature on December 1, 2022. Principal and interest payments are due semi-annually beginning on December 1, 2012, at a rate of 4.5%. Principal and interest maturity requirements on the note payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 180,000	\$ 40,146	\$ 220,146
2017	180,000	34,109	214,109
2018	180,000	28,178	208,178
2019	180,000	22,246	202,246
2020	180,000	16,356	196,356
2021-2022	360,000	15,169	375,169
	<u>\$ 1,260,000</u>	<u>\$ 156,204</u>	<u>\$ 1,416,204</u>

Line of Credit

The University has an unsecured line of credit with Regions Bank for \$7,000,000. The line of credit matures on March 31, 2016, and has an effective interest rate of 2.5%. Short-term debt activity for the year ended September 30, 2015, is as follows:

Balance at beginning of year	\$ -
Draws	85,680,755
Payments	<u>(79,946,940)</u>
Balance at end of year	<u>\$ 5,733,815</u>

Interest Earnings on Sinking Fund Deposits

Monthly principal and interest payments are forwarded by the University and held by the trustee until such payments are due. Normally, these deposits would earn interest income and increase the amount of deposits held by the trustee. However, on June 6, 1995, the University received \$400,000 and entered into a forward purchase agreement for the rights to use all principal and interest payments forwarded to the trustee in advance of the actual due date. The rights to use these advances extend through fiscal year 2015.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

6. LONG-TERM DEBT – CONTINUED

Capital Lease Obligations

The University has entered into lease agreements as lessee for financing the acquisition of property and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Asset</u>	
Phone system	\$ 2,569,263
MIS Data Center Lease	856,761
Digibook Scanner	35,635
Less accumulated depreciation	<u>(2,856,885)</u>
Total*	<u><u>\$ 604,774</u></u>

*In fiscal year 2013, the University sold the lighting infrastructure originally purchased and used as collateral through a capital lease. As a result, they substituted as collateral five properties with a net book value of \$1,362,912 at September 30, 2015.

The future minimum lease obligations and the net present value of these lease payments as of September 30 are:

2016	\$ 852,238
2017	263,230
2018	258,436
2019	253,394
2020	255,564
2021	252,408
2022-2026	<u>1,261,725</u>
Total minimum lease payments	3,396,995
Less amount representing interest	<u>650,402</u>
Present value of minimum lease payments	<u><u>\$ 2,746,593</u></u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

7. HEDGING DERIVATIVE INSTRUMENT

The University held the following derivative instrument at September 30, 2015:

Type	Notional Amount	Change in Fair Value		Fair Value	
		Classification	Increase (Decrease)	Classification	Liability
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-fixed Interest Rate Swap					
2004 Bonds					
September 30, 2015	<u>\$ 21,350,000</u>	Deferred Outflow of Resources	<u>\$ 369,111</u>	Hedging Derivative Liability	<u>\$ (4,108,840)</u>

The terms of the derivative instrument held at September 30, 2015, are as follows:

Type	Objective	Effective Date	Maturity Date	Terms
Pay-fixed Interest Rate Swap	Hedge changes in cash flows on General Revenue 2004 Series Bonds	8/27/2004	3/01/2033	Pay 3.222% Receive 68% 30-day LIBOR* Rate

*LIBOR is the London Interbank Offering Rate

As of September 30, 2015, the synthetic interest rate on the swapped portion of the 2004 general revenue bonds was 3.10%. The fair value of the pay-fixed rate swaps was estimated through forecasting expected cash flows that are discounted. The University's interest rate swap hedging derivatives have been determined to be effective using the synthetic instrument method.

Interest Rate Risk

The University is exposed to interest rate risk on its interest rate swap. The fair value of this instrument is sensitive to interest rate changes. Because rates have changed since the effective date of the swap, a negative fair value existed at September 30, 2015. The negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating lower synthetic interest rates. Because the coupons on the University's variable-rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. As the yield curve rises, the value of the swap will increase and as rates fall, the value of the swap will decrease.

Credit Risk

As of September 30, 2015, the University is not exposed to credit risk because the swap has a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the University would be exposed to credit risk in the amount of the derivative's fair value.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
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7. HEDGING DERIVATIVE INSTRUMENT – CONTINUED

Basis Risk

The University receives 68% of 1-month LIBOR Index from J.P. Morgan Chase Bank (JPMorgan) and pays a floating rate to its bondholders set by the Remarketing Agent. The University incurs basis risk when its bonds trade at a yield above 68% of 1-month LIBOR Index. If the relationship of the University's bonds trade to a percentage of LIBOR greater than 68%, the University will experience an increase in debt service above the fixed rate on the swap.

Termination Risk

The interest rate swap agreement has a stated termination date of March 1, 2033; however, the University and counterparty, JPMorgan have the right to terminate the agreement prior to such date upon the occurrence of certain extraordinary events, and further, JPMorgan has retained an option to terminate the agreement at any time on or after March 1, 2012 for any reason with no obligation to make any termination payment other than the amount of any regular periodic payment accruing to the termination date. In addition, if the University terminates the agreement prior to March 1, 2033, the University would be liable to the counterparty for a payment equal to the swap's negative fair value.

The Master Agreement, a legal document executed on August 24, 2004 and amended on March 23, 2015, between the University and JPMorgan stipulates the terms and conditions of the 2004 Auction Rate Bonds and the accompanying Swap Agreement and First Amendment Agreement. Among other things, the Master Agreement is the controlling document which defines events that represent a termination event. Part 6.ii states that the following shall each constitute an Additional Termination Event with respect to Party B (the University), upon the occurrence of which, Party A (JPMorgan), may designate an Early Termination Date without the consent of the Swap Insurer: (b)(i) the Swap Insurer fails to maintain a claims paying ability rating of at least "A-" in the case of S&P or at least "A3" in the case of Moody's or (b)(ii)(3) Party B fails to maintain a credit rating of at least "BBB+" in the case of S&P and at least "A3" in the case of Moody's.

Currently, the mark-to-market value of the outstanding swap agreement is a negative \$4.1 million (approximate). Once a termination event has occurred, JPMorgan could terminate the swap agreement and request a payment in the amount of the negative value or the University could post collateral equivalent to the mark to market.

Rollover Risk

The University is not exposed to rollover risk, because the maturity dates for hedged variable-rate bonds and the interest rate swap agreement are the same, March 2033.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
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8. DEFINED BENEFIT COST SHARING PLAN

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan administered by the TRS.

Plan Description

The TRS was established in September 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after ten years of creditable service. Tier 1 TRS members who retire after age sixty with ten years or more creditable service or with twenty-five years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the higher monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest three of the last ten years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age sixty-two with ten years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest five of the last ten years) for each year of service. Members are eligible for disability retirement if they have ten years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status, and eligibility for retirement.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

8. DEFINED BENEFIT COST SHARING PLAN – CONTINUED

Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered Tier 1 members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2014 was 11.71% of annual pay for Tier 1 members and 11.08% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were \$5,712,593 for the year ended September 30, 2015.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the University reported a liability of \$73,602,774 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actual valuation as of September 30, 2013. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2014, the University's proportion was 0.810196%, which was an increase of 0.028016% from its proportion measured as of September 30, 2013.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

8. DEFINED BENEFIT COST SHARING PLAN – CONTINUED

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

For the year ended September 30, 2015, the University recognized pension expense of approximately \$6,032,816. At September 30, 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 5,519,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,238,000	-
Employer contributions subsequent to measurement date	5,712,593	-
	\$ 7,950,593	\$ 5,519,000

Deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date in the amount of \$5,712,593 will be recognized as a reduction of the net pension liability in the year ending September 30, 2016. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30,	
2016	\$ 860,000
2017	860,000
2018	860,000
2019	860,000
2020	(159,000)
	\$ 3,281,000

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

8. DEFINED BENEFIT COST SHARING PLAN – CONTINUED

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.5% – 8.25%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012. Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rate of return for each major asset class are as follows:

	Target Allocation	Long-term Expected Rate of Return*
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
	<u>100.00%</u>	

* Includes assumed rate of inflation of 2.5%

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

8. DEFINED BENEFIT COST SHARING PLAN – CONTINUED

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage point higher (9%) than the current rate (in thousands):

	1% Decrease	Current Rate	1% Increase
	(7.00%)	(8.00%)	(9.00%)
University's proportionate share of collective net pension liability	\$ 100,270	\$ 73,603	\$ 51,001

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the *GASB Statement No. 67 Report for the Teachers' Retirement System of Alabama* prepared as of September 30, 2014. The auditors' report dated May 1, 2015, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the sum of all participating entities as of September 30, 2014, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

9. OTHER POST-EMPLOYMENT BENEFITS

The University offers post-employment health care benefits to all employees who officially retire from the University. Health care benefits are offered through the State of Alabama Public Education Employees Health Insurance Plan (PEEHIP) with TRS or the University's self-insured Retiree Medical Plan (the Plan), which is available for select employees who are not eligible for PEEHIP or those who were grandfathered in as Civil Service employees. Eligibility for benefits for either option begins at age 60 with at least 10 years of service or at any age with 25 years of service. Retirees must have been enrolled in the active employees' health care plan for the last six of those years in order to be eligible for coverage under the Plan.

The University applies GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-retirement Benefits Other than Pensions*. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services.

Alabama Retired Education Employees' Health Care Trust is a cost sharing multiple-employer defined benefit health care plan administered by PEEHIP. PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan were subject to a lifetime contract maximum of \$1,000,000 for each covered individual. The *Code of Alabama 1975*, Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers.

The required contribution rate of the employer was \$825 per employee per month in the year ended September 30, 2015. The University paid \$1,393,776 for 318 retirees for the year ended September 30, 2015. The required contribution rate is determined by PEEHIP in accordance with state statute. Effective January 1, 2013, the system was amended to provide a new benefit structure (Tier II). Tier II members employer contributions are 10.84%. Eligibility for benefits for Tier II begins at age 62 with completion at least 10 years of creditable service (age 56 with 10 years of creditable service for a full-time certified firefighter, police officer or correctional officer).

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

9. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

The required monthly contribution rates for fiscal year 2015 are as follows:

Retired Member Rates

- Individual Coverage/Non-Medicare Eligible – \$151
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – \$391
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible – \$250
- Individual Coverage/Medicare Eligible Retired Member – \$10
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – \$250
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible – \$109
- Tobacco surcharge – \$28 per month
- PEEHIP Supplemental Plan – \$0
- Optional Plans (Hospital Indemnity, Cancer, Dental, Vision) – up to two optional plans can be taken by retirees at no cost if the retiree is not also enrolled in one of the Hospital Medical Plans. Otherwise, they can purchase the Optional Plans at the normal monthly rate of \$38.00 or \$45.00 for family dental.
- Members who retired on or after October 1, 2005, and before January 1, 2012, pay 2% of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by 2%.
- Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012, are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium will no longer apply. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five year period.

Surviving Spouse Rates

- Surviving Spouse Non-Medicare Eligible – \$700
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible – \$934
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible – \$907
- Surviving Spouse Medicare Eligible – \$354
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible – \$595
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible – \$568

The complete financial report for PEEHIP can be obtained on the PEEHIP website at <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
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10. ACCUMULATED UNPAID ANNUAL AND SICK LEAVE

The Board of Trustees determines annual and sick leave policies for the University's employees. The annual and sick leave policies adopted by the University are as follows:

No liability is recorded for sick leave. Substantially, all employees of the University earn twelve days of sick leave each year with unlimited accumulation.

Faculty members employed on a nine or ten-month contract do not earn annual leave. All twelve-month employees (faculty and staff) earn annual leave as follows:

<u>Months of Continuous Service</u>	<u>Annual Leave Earned per Month</u>
Less than 60 months	1 day
60–119 months	1.25 days
120–239 months	1.5 days
240–over months	2 days

The maximum accumulation of annual leave is 36 days. Payment is made to employees for unused annual leave at termination or retirement. The liability for unused annual leave for the year ended September 30, 2015, is included on the financial statements as a compensated absence liability.

11. OPERATING LEASES

In January 2011, the University entered into an agreement for the lease of four motor coaches. The term of the lease requires 40 monthly installments of \$23,060.

In January 2015, the University entered into an agreement for the lease of a copier fleet. The term of the lease requires 36 monthly installments of \$51,928.

Future minimum lease payments are as follows:

2016	\$ 901,931
2017	692,316
2018	<u>155,784</u>
	<u>\$ 1,750,031</u>

Rent expense for all operating leases totaled \$924,759 for the year ended September 30, 2015.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
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12. CONSTRUCTION COMMITMENTS

As of September 30, 2015, the University had commitments on construction of capital projects as follows:

Gross commitments	\$ 3,620,864
Spent-to-date	<u>(593,852)</u>
Net commitments	<u>\$ 3,027,012</u>

13. COMPONENT UNITS

Details of the Foundation's net assets at December 31, 2014, and the Trust's net assets at July 31, 2015, are as follows:

	FY 2015–2014		
	<u>Foundation</u>	<u>Trust</u>	<u>Totals</u>
ASSETS			
CURRENT ASSETS			
Unrestricted assets:			
Cash and cash equivalents	\$ 497,580	\$ -	\$ 497,580
Due from Alabama State University	-	133,242	133,242
Total unrestricted assets	<u>497,580</u>	<u>133,242</u>	<u>630,822</u>
Restricted assets:			
Grants and contracts:			
Cash and cash equivalents	273,511	-	273,511
Short-term investments	1,698,570	-	1,698,570
Endowments:			
Cash and cash equivalents	-	8,457,125	8,457,125
Short-term investments	-	68,439,079	68,439,079
Accrued interest and dividends	-	26,834	26,834
Total restricted assets	<u>1,972,081</u>	<u>76,923,038</u>	<u>78,895,119</u>
Total current assets	<u>2,469,661</u>	<u>77,056,280</u>	<u>79,525,941</u>
NONCURRENT ASSETS			
Employee loans receivable, net	40,943	-	40,943
Total noncurrent assets	<u>40,943</u>	<u>-</u>	<u>40,943</u>
TOTAL ASSETS	<u>\$ 2,510,604</u>	<u>\$ 77,056,280</u>	<u>\$ 79,566,884</u>
NET ASSETS			
Unrestricted	\$ 497,580	\$ -	\$ 497,580
Temporarily restricted	314,454	24,490,047	24,804,501
Permanently restricted	1,698,570	52,566,233	54,264,803
TOTAL NET ASSETS	<u>\$ 2,510,604</u>	<u>\$ 77,056,280</u>	<u>\$ 79,566,884</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

13. COMPONENT UNITS – CONTINUED

Details of the Foundation’s revenues, expenses, and change in net assets for the year ended December 31, 2014, and the Trust’s revenues, expenses, and change in net assets for the year ended July 31, 2015, are as follows:

	FY 2015–2014		
	Foundation	Trust	Totals
OPERATING REVENUES			
Contributions	\$ 1,725,358	\$ 145,141	\$ 1,870,499
Total operating revenues	<u>1,725,358</u>	<u>145,141</u>	<u>1,870,499</u>
OPERATING EXPENSES			
Educational and general:			
Program services	980,404	351,695	1,332,099
Supporting services	34,740	-	34,740
Total operating expenses	<u>1,015,144</u>	<u>351,695</u>	<u>1,366,839</u>
Operating income (loss)	<u>710,214</u>	<u>(206,554)</u>	<u>503,660</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income, net	49,922	1,306,345	1,356,267
Realized and unrealized gains on investments	38,683	3,061,603	3,100,286
Transfer out	(84,400)	-	(84,400)
Trustee fees (expenses)	<u>(17,992)</u>	<u>(84,582)</u>	<u>(102,574)</u>
Net nonoperating revenues (expenses)	<u>(13,787)</u>	<u>4,283,366</u>	<u>4,269,579</u>
CHANGE IN NET ASSETS	696,427	4,076,812	4,773,239
NET ASSETS AT BEGINNING OF YEAR	<u>1,814,177</u>	<u>72,979,468</u>	<u>74,793,645</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,510,604</u>	<u>\$ 77,056,280</u>	<u>\$ 79,566,884</u>

14. FAIR VALUE MEASUREMENT

The discretely presented component units of the University follow the provisions of the ASC for fair value measurement of financial assets and liabilities. These provisions define fair value, establish a framework for measuring fair value and expand disclosure about fair value measurement. These provisions also emphasize that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under the provisions of the ASC, fair value measurements are disclosed by level within that hierarchy.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

14. FAIR VALUE MEASUREMENT – CONTINUED

For each asset and liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated for purposes of applying these provisions. The valuation premise is a concept that determines whether an asset is measured on a stand-alone basis or in combination with other assets. For purposes of applying these provisions, the discretely presented component units measure their assets and liabilities on a stand-alone basis then aggregate assets and liabilities with similar characteristics for disclosure purposes.

The provisions of the ASC establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Component Units. Unobservable inputs are inputs that reflect the discretely presented component unit's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the discretely presented component units have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

If the determination of fair value measurement for a particular asset or liability is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability measured.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

14. FAIR VALUE MEASUREMENT – CONTINUED

The following fair value hierarchy table presents information about the University's discretely presented component units' assets measured at fair value on a recurring basis as of the report date:

	FY 2015 – 2014			
	Fair Value Measurement at Report Date Using			
Fair Value	Quoted Prices in Active Markets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
U.S. Agency Securities	\$ 1,409,813	\$ 1,409,813	\$ -	\$ -
Corporate Bonds	288,757	288,757	-	-
Equity Funds	38,765,971	38,765,971	-	-
Fixed Income Mutual Funds	29,673,108	29,673,108	-	-
	<u>\$ 70,137,649</u>	<u>\$ 70,137,649</u>	<u>\$ -</u>	<u>\$ -</u>

15. ENDOWMENTS

University Endowments

The University's endowment pool consists of one donor-restricted endowment fund and several board-designated endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of restrictions imposed by the donor.

All endowment funds are managed by a professional investment advisor. The investment advisor invests all endowment funds consistent with the University approved Statement of Investment Policies and Objectives (the Statement). The Statement is intended to provide guidance for the management of the pooled endowment fund subject to review by the Board of Trustees. The Statement is consistent with the United States District Court Decree in Knight v. the State of Alabama entered August 1, 1995.

University endowment net assets consist of the following as of September 30, 2015:

	Unrestricted	Restricted Expendable	Restricted Nonexpendable	Total
Donor-restricted endowment funds	\$ -	\$ 1,719,917	\$ 250,000	\$ 1,969,917
Board-designated endowment funds	10,613,349	-	-	10,613,349
	<u>\$ 10,613,349</u>	<u>\$ 1,719,917</u>	<u>\$ 250,000</u>	<u>\$ 12,583,266</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

15. ENDOWMENTS – CONTINUED

University Endowments – Continued

Changes in the University's endowment net assets consist of the following for the year ended September 30, 2015:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 10,613,349	\$ 1,719,917	\$ 250,000	\$ 12,583,266
Interest and dividends, net of investment expenses	257,695	11,244	-	268,939
Realized and unrealized gains on investments	(440,930)	5,907	-	(435,023)
Appropriation of endowment assets for expenditure	-	(7,500)	-	(7,500)
Change in endowment net assets	(183,235)	9,651	-	(173,584)
	<u>\$ 10,430,114</u>	<u>\$ 1,729,568</u>	<u>\$ 250,000</u>	<u>\$ 12,409,682</u>

Endowments of the University's Component Units

The endowments of the University's discretely presented component units consist of individual funds established for a variety of purposes. The endowments include donor-restricted endowment funds and funds restricted pursuant to a Judge's Decree from the United States District Court, Northern District of Alabama, Southern Division (Knight v. the State of Alabama) (the Decree). Net assets associated with endowment funds are classified and reported based on the existence or absence of restrictions imposed by donors and by the Decree.

Interpretation of Relevant Law

The State of Alabama adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective January 1, 2009. The Board of Trustees of the University's discretely presented component units have determined the Component Units must adhere first and foremost to the Judge's Decree. The Component Units seek to support and improve educational excellence at the University.

The endowment net assets of the University's discretely presented component units are comprised of nonexpendable (permanently restricted) endowment funds restricted by donors and the Decree.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

15. ENDOWMENTS – CONTINUED

Endowments of the University’s Component Units – Continued

Interpretation of Relevant Law – Continued

The following depicts the endowment funds, as well as the activity for the endowment funds for the Trust and the Foundation for the year ended July 31, 2015 and December 31, 2014, respectively.

	<u>Expendable</u>	<u>Nonexpendable</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 22,190,110	\$ 52,571,819	\$ 74,761,929
Investment return:			
Interest and dividends, net of investment expenses	1,011,461	326,337	1,337,798
Realized and unrealized gains on investments	2,296,205	889,787	3,185,992
Total investment return	3,307,666	1,216,124	4,523,790
Contributions and additions	704,696	144,831	849,527
Appropriation of endowment assets for expenditure	(1,133,505)	-	(1,133,505)
Endowment net assets at end of year	<u>\$ 25,068,967</u>	<u>\$ 53,932,774</u>	<u>\$ 79,001,741</u>

Return Objectives and Risk Parameters

The primary investment objectives are: (1) to maximize the total financial return on assets, using prudent management techniques and (2) to preserve the growth of principal in constant dollars so as to provide under a prudent spending rule policy a consistent level of real growth of budgetary support from the endowment funds. Endowment gifts will serve to increase rather than maintain the real purchasing power of the endowment funds, thereby fostering growth and enhancement of the Component Units’ financial resources. The endowment fund will be substantially enlarged by virtue of superior investment management and limitation of cash withdrawals.

Strategies Employed for Achieving Objectives

To satisfy these long-term rate-of-return objectives, the University’s component units rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The component units target a diversified asset allocation to achieve these long-term objectives within prudent risk parameters.

The following are recommended allocations. Decisions on actual allocations will be made by the investment manager taking into consideration market conditions and risks.

- Equities ratio of 50% – 75%.
- Fixed income ratio of 25% – 50%.
- Real estate (for example, real estate investment trusts) to be determined based on the size of the portfolio. However, should not exceed 10% – 15%.
- Venture capital not permitted unless specifically approved by the finance committee.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

15. ENDOWMENTS – CONTINUED

Endowments of the University’s Component Units – Continued

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The current spending policy is to distribute an amount equal to 3% to 4% of a trailing three-year market value. According to the Decree, the principal of any public funds, gifts, grants, monies or property received by the component units shall be maintained in perpetuity with at least 25% of the annual income earned thereon to be reinvested in the corpus. Accordingly, the investment income included in nonexpendable (permanently restricted) net assets has been calculated as 25% of total investment income, net of Trustee fees.

The portion of income not annually reinvested is to be used for educational purposes at Alabama State University and is, therefore, included in restricted expendable (temporarily restricted) net position in the accompanying financial statements until the related expenses have been incurred.

16. CONTINGENT LIABILITIES

The University is a defendant in various lawsuits whose outcome is not presently determinable. In the opinion of the University’s counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the University.

17. RECENTLY ISSUED ACCOUNTING STANDARDS

The GASB issued Statement No. 72, *Fair Value Measurement and Application* in February 2015. The objective of this Statement is to address accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68* in June 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2015**

17. RECENTLY ISSUED ACCOUNTING STANDARDS – CONTINUED

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* in June 2015. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in June 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* in June 2015. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

**ALABAMA STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (UNAUDITED)
TEACHERS' RETIREMENT PLAN OF ALABAMA
SEPTEMBER 30, 2015**

University's proportion of the net pension liability	0.810196%
University's proportionate share of the net pension liability	\$ 73,602,774
University's covered-employee payroll	49,256,359
University's proportionate share of the net pension liability as a percentage of its covered-employee payroll	149.43%
Plan fiduciary net position as a percentage of the total pension liability	71.01%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

**ALABAMA STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTIONS (UNAUDITED)
TEACHERS' RETIREMENT PLAN OF ALABAMA
SEPTEMBER 30, 2015**

Contractually required contribution	\$ 5,819,937
Contributions in relation to the contractually required contribution	<u>5,819,937</u>
Contribution deficiency (excess)	<u><u>\$ -</u></u>
University's covered-employee payroll	\$ 49,256,359
Contributions as a percentage of covered-employee payroll	11.82%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

**ALABAMA STATE UNIVERSITY
NOTE TO REQUIRED SUPPLEMENTARY SCHEDULES
SEPTEMBER 30, 2015**

1. SUMMARY OF COST SHARING PENSION PLAN PROVISIONS AND ASSUMPTIONS

Employees of Alabama State University (the University) are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System (TRS) of the State of Alabama.

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.5% – 8.25%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of the fiscal year 2012.

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females. The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rate of return by the target asset allocation percentage and by adding expected inflation.

Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.