ALABAMA STATE UNIVERSITY

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

SEPTEMBER 30, 2016 AND 2015

ALABAMA STATE UNIVERSITY
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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 years ended September 30, 2016 and 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 audits. We conducted our audits 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 audits 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 Alabama State University 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, 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, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 3–16 and the Schedule of the University's Proportionate Share of the Net Pension Liability and Schedule of the University's Contributions on pages 71 and 72 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 March 31, 2017, 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
March 31, 2017

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
Fiscal Years Ended September 30, 2016 and 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, 2016. 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 are indicators 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, deferred outflows and inflows, 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.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
Fiscal Years Ended September 30, 2016 and 2015
(Unaudited)

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 discussed on pages 60 through 63. 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

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
Current assets	$ 44,571,634	$ 46,199,052
Noncurrent assets		
Capital assets, net	289,778,389	298,868,078
Other	1,685,618	1,319,150
Deferred outflows	20,129,656	15,317,207
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 356,165,297	$ 361,703,487
LIABILITIES AND DEFERRED INFLOWS		
Current liabilities	$ 38,026,653	$ 40,027,921
Noncurrent liabilities	292,530,906	292,389,043
Deferred inflows	3,522,000	5,519,000
TOTAL LIABILITIES AND DEFERRED INFLOWS	334,079,559	337,935,964
NET POSITION		
Net investment in capital assets	81,448,514	83,164,399
Restricted	8,823,652	8,558,498
Unrestricted	(68,186,428)	(67,955,374)
TOTAL NET POSITION	$ 22,085,738	$ 23,767,523

The Governmental Accounting Standards Board issued Statement No. 68, *Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (GASB 68) in 2012. The provisions of this statement became effective for Alabama State University 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 including in a note disclosure.

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.

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 $7.8 million. The decrease of $1.5 million between 2015 and 2016 is primarily due to receivables from the Department of Education for federal student loans.

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. Short term investments increased $1,085,837 due primarily to an increase in market appreciation from normal fluctuation in an unpredictable market.

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 $290 million at September 30, 2016. The amount reported is net of accumulated depreciation of $134 million. The decrease of $9.1 million between fiscal years 2015 and 2016 is primarily a result of current year depreciation expense which totaled $11.1 million.

LIABILITIES

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2016, 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 $1.5 million is a result of the University having accruals in 2015 related to food services and technology services.

Hedging Derivative Liability

On June 30, 2016, Moody's affirmed the University's Revenue Bonds at "Ba1". On May 6, 2016, Standard & Poor's Ratings Services (S&P) affirmed its rating on the University's debt of "B" 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 2016, the University had debt outstanding of $211.8 million. Of this amount, $210 million was comprised of bonds, $800,000 in long-term leases, and $1 million in a note payable.

Net Pension Liability

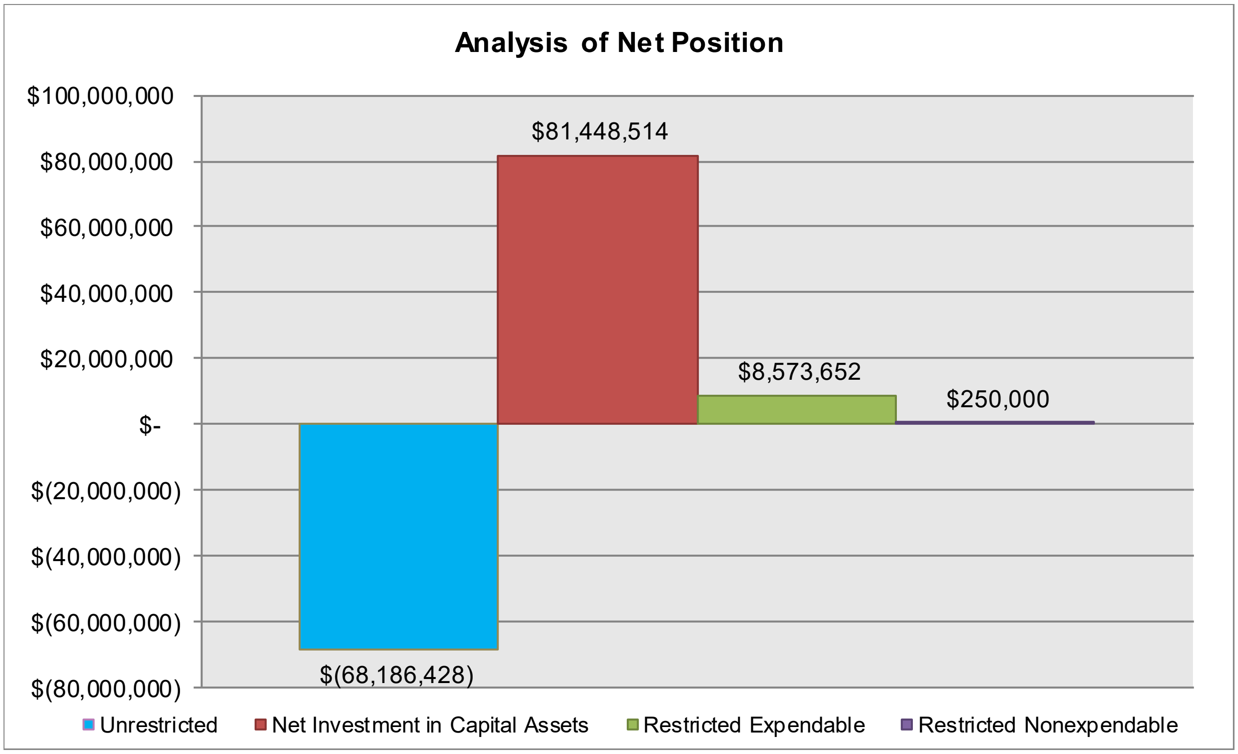
At the end of the fiscal year 2016, the University had a net pension liability of $80.7 million. The increase in net pension liability is a result of the state's actuarial valuation of the Teacher Retirement System experiencing an increased liability of $1 billion, of which the University's proportionate share was .77% or approximately $7 million.

Unearned Revenue

Unearned revenue represents payments received for tuition, fees, and room and board of $17.2 million net of deferred scholarships, allowances, and discounts of $2.5 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 $888,000 increase between fiscal years 2015 and 2016 based on increased allocations due to the number of days in the academic term within fiscal year 2015. The deferral rate is 41% compared with 39% in the previous year.

NET POSITION

Net position represents the difference between University assets and liabilities. Total net position at September 30, 2016, was $22.1 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 negative $68.1 million is primarily the result of recognizing the University's proportionate share of the employers' Teachers Retirement System (TRS) net pension liability and the resulting deferred inflows and outflows due to changes in actuarial expenses and assumptions.

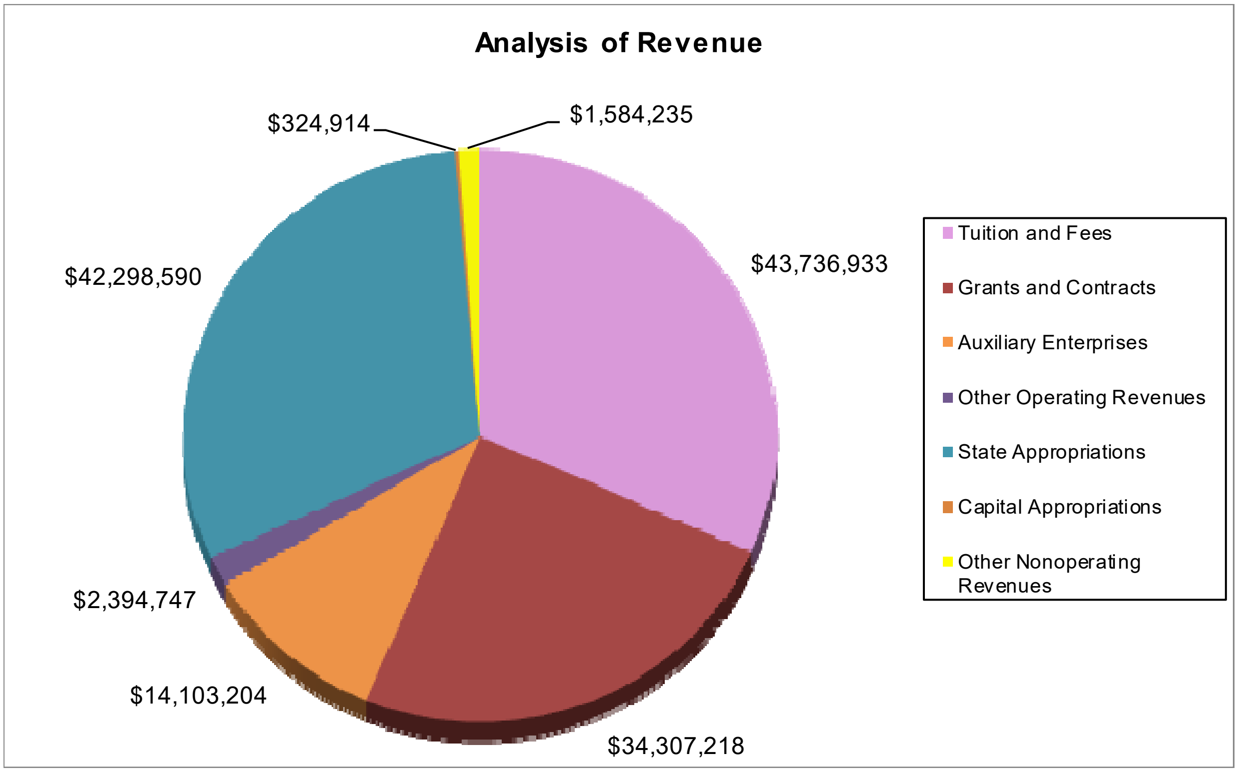
The decrease of approximately $1.7 million in the University's capital and debt related net position is primarily attributable to the following: 1) Depreciation expense and interest expense on debt of $11 million and $9 million, respectively. 2) Transfers in from other funds for debt service and capital assets of $16 million and $2 million.

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

	2016	2015
OPERATING REVENUES		
Tuition and fees	$ 43,736,933	$ 42,073,093
Grants and contracts	34,307,218	32,226,769
Auxiliary enterprises	14,103,204	14,474,142
Other operating revenues	2,394,747	2,614,141
Total operating revenues	94,542,102	91,388,145
OPERATING EXPENSES	130,360,201	133,115,535
Operating loss	(35,818,099)	(41,727,390)
NONOPERATING REVENUES (EXPENSES)		
State appropriations	42,298,590	41,880,782
Other nonoperating revenues (expenses), net	(8,487,190)	(10,036,812)
Net nonoperating revenues (expenses)	33,811,400	31,843,970
Loss before other changes in net position	(2,006,699)	(9,883,420)
OTHER CHANGES IN NET POSITION		
Capital appropriations	324,914	47,886
Decrease in net position	(1,681,785)	(9,835,534)
NET POSITION		
Net position at beginning of year	23,767,523	104,399,505
Effect of adoption of GASB 68 (Note 1)	-	(70,796,448)
Net position at beginning of year, restated	23,767,523	33,603,057
Net position at end of year	$ 22,085,738	$ 23,767,523

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
Fiscal Years Ended September 30, 2016 and 2015
(Unaudited)

REVENUES



Tuition and Fees for Services of Educational Activities

Tuition and fees assessed for educational purposes totaled $54.7 million. The tuition discounts and allowances were $11 million, resulting in a net tuition and fees of $43.7 million. This represents a $1.6 million increase in net tuition and fees between fiscal years 2015 and 2016. This is the result of a fiscal year 2016 decrease in tuition discounts and allowances.

Grants and Contracts

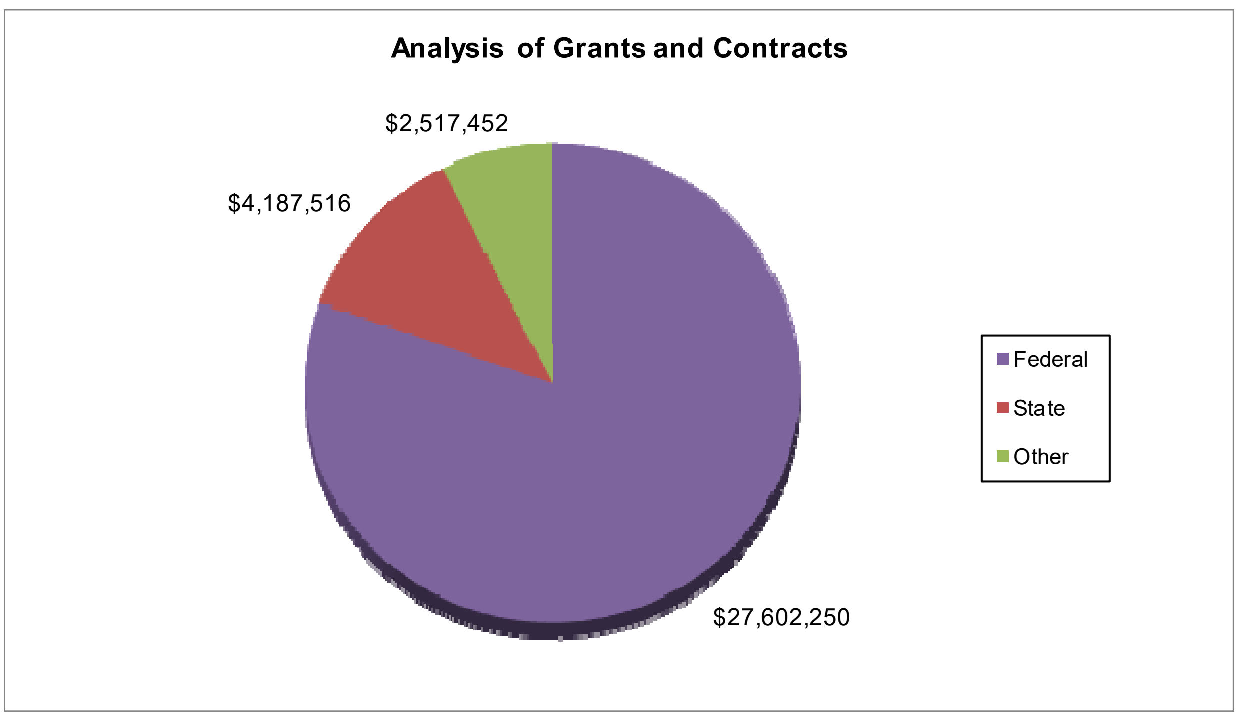
This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Deferred or non-reimbursable revenues are recorded when received, or when eligibility criteria have been met. Grants and contracts revenue increased by $2.1 million between fiscal years 2015 and 2016.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
Fiscal Years Ended September 30, 2016 and 2015
(Unaudited)

The following table details the University's grant and contract awards for the fiscal years ended September 30, 2016 and 2015:

	2016	2015
FEDERAL SOURCES		
Financial aid	$ 18,571,575	$ 17,767,800
Department of Education	5,421,068	4,508,977
National Science Foundation	1,719,805	1,606,930
Department of Health and Human Services	614,350	497,190
Other federal agencies	1,275,452	1,047,884
Total federal sources	27,602,250	25,428,781
STATE AND OTHER SOURCES		
Grants and contracts	4,187,516	4,371,313
Other sources	2,517,452	2,426,675
Total state and other sources	6,704,968	6,797,988
	$ 34,307,218	$ 32,226,769

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



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.

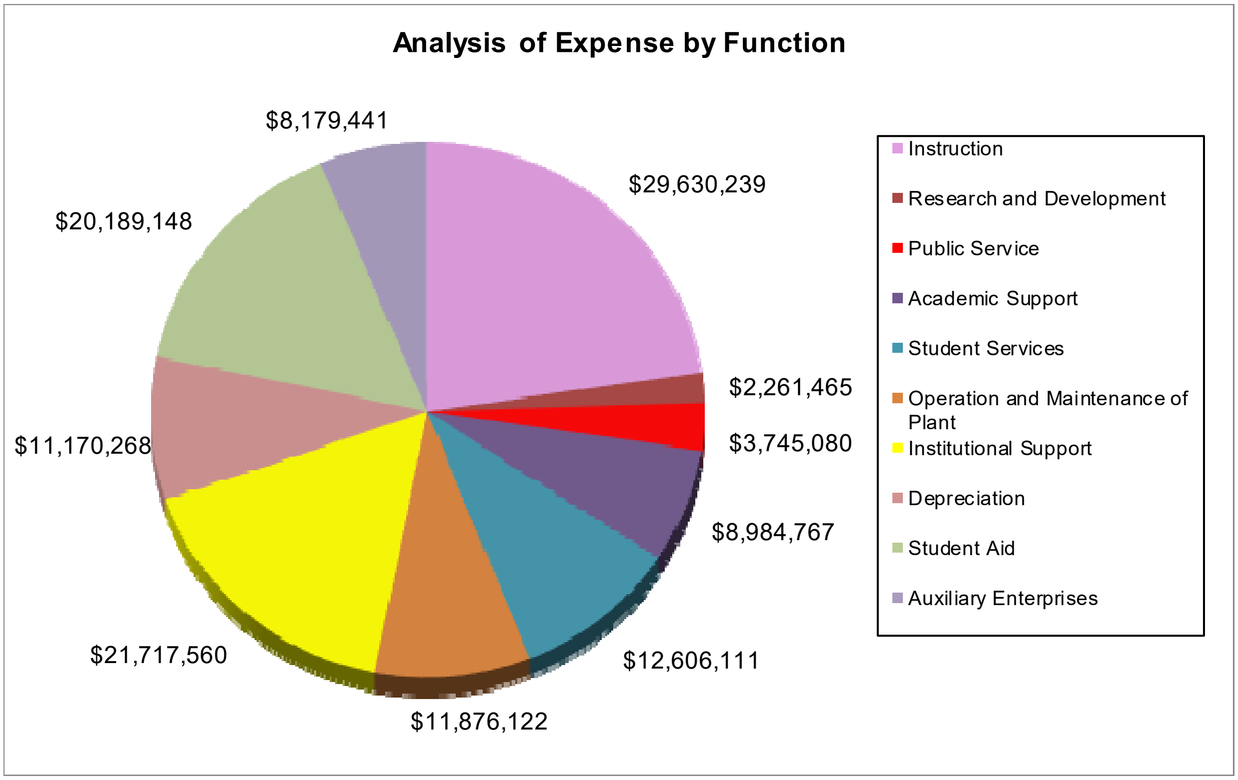
These include residence halls, apartments, food services, vending machines, and ticket sales, and are intended to be self-supporting. Auxiliary enterprise revenue decreased by $371,000 between fiscal years 2015 and 2016.

OPERATING EXPENSES

Operating expenses totaling $130 million include salaries and benefits of $68.3 million, materials and services of $50.6 million, and depreciation of $11.1 million. This represents a $2.7 million decrease between fiscal years 2015 and 2016, due to the University streamlining of expenses for the fiscal year 2016.

Expenses by Function

	2016	2015
Educational and General:		
Instruction	$ 29,630,239	$ 30,394,883
Research and development	2,261,465	2,004,274
Public service	3,745,080	4,526,669
Academic support	8,984,767	9,003,507
Student services	12,606,111	12,325,792
Operation and maintenance of plant	11,876,122	13,253,595
Institutional support	21,717,560	23,393,230
Depreciation	11,170,268	11,184,259
Student aid	20,189,148	19,421,243
Auxiliary Enterprises:		
Residential life	7,619,911	6,798,095
Other auxiliary expenses	559,530	809,988
Total operating expenses	$ 130,360,201	$ 133,115,535



NONOPERATING REVENUES (EXPENSES)

State Appropriations

Annually, the State of Alabama appropriates funding for higher education. The University received $42.6 million for fiscal year 2016. Of this total, $42.3 million was for operations and maintenance and $324,914 was for capital expenditures. State appropriations increased by $700,000 between fiscal years 2015 and 2016.

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 increased by $1.3 million between fiscal years 2015 and 2016, primarily due to an increase In market appreciation from normal fluctuation in an unpredictable market.

Interest on Capital Assets Related Debt

This includes the interest incurred for fiscal year 2016 on bond debt. The interest expense decreased $163,030 between 2015 and 2016.

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 $324,914 for fiscal year 2015–2016. Capital appropriations increased by $277,028 between fiscal years 2015 and 2016. The increase is primarily due to capital appropriations for the construction of the National Historic Trail Interpretive and Scenic Byway Tourist Center.

STATEMENTS OF CASH FLOWS

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

	2016	2015
Cash and cash equivalents provided by (used in):		
Operating activities	$ (23,354,909)	$ (30,918,004)
Noncapital financing activities	41,122,748	47,911,977
Capital and related financing activities	(19,503,110)	(18,294,671)
Investing activities	8,877	60,754
Net decrease in cash and cash equivalents	(1,726,394)	(1,239,944)
Cash and cash equivalents at beginning of year	14,185,515	15,425,459
Cash and cash equivalents at end of year	$ 12,459,121	$ 14,185,515

The decrease in cash and cash equivalents of $1.7 million is primarily the result of an increase in principal payments on capital debt related to the Montgomery Public Educational Building Authority Revenue Bonds (PEBA) series 2005 capital lease. In addition, there was an overall decrease in cash flows used in operating activities due primarily due to a decrease in cash paid to suppliers of $4 million and a decrease in cash paid to employees of $2 million. These decreases are consistent with the University's streamlining of expenses for fiscal year 2016. There was also a decrease of $6.7 million in cash flows provided by noncapital financing activities. This was primarily due to the reduction of draws on the line of credit and increased paydowns on the line of credit in 2016.

ENROLLMENT

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 2012 through 2016 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

Academic Year	Undergraduate	Graduate	Total	Full-Time Equivalent	Total Credit Hours Taken
2016	4,727	591	5,318	5,090	77,870
2015	4,764	619	5,383	5,096	78,858
2014	4,544	707	5,251	4,936	77,535
2013	5,356	719	6,075	5,731	85,280
2012	5,130	686	5,816	5,575	79,440

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 2012 through 2016:

Fall Semester Freshmen Student Admissions

Academic Year	Number of Applicants	Number Accepted	Percent Accepted	Number Enrolled	Percent Enrolled
2016	9,053	4,155	45.8%	1,163	28.0%
2015	8,356	4,004	48.0%	1,086	27.1%
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%

Fall Semester Transfer Student Admissions

Academic Year	Number of Applicants	Number Accepted	Percent Accepted	Number Enrolled	Percent Enrolled
2016	825	280	33.9%	154	55.0%
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%

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

Student Classification	2016–17	2015–16	2014–15	2013–14	2012–13
Undergraduate, resident	$ 289	$ 289	$ 289	$ 289	$ 263
Undergraduate, nonresident	578	578	578	578	526
Graduate, resident	343	343	343	343	312
Graduate, nonresident	686	686	686	686	624

Annual Full-Time

Student Classification	2016–17	2015–16	2014–15	2013–14	2012–13
Undergraduate, resident	$ 6,936	$ 6,936	$ 6,936	$ 6,936	$ 6,312
Undergraduate, nonresident	13,872	13,872	13,872	13,872	12,624
Graduate, resident	6,174	6,174	6,174	6,174	5,616
Graduate, nonresident	12,348	12,348	12,348	12,348	11,232

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

Academic Year	Room and Board	Estimated Tuition, Fees, Books, and Miscellaneous	Estimated Total Costs
2016	$ 5,422	$ 10,820	$ 16,242
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

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

Fall Semester	Number of Occupants	Percent of Occupancy
2016	2,223	89.24%
2015	2,252	92.80%
2014	2,450	95.65%
2013	2,573	96.90%
2012	2,398	97.00%

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. Throughout the year, resources have been strategically allocated to highest priorities in a manner that supports achievement of the mission.

On June 16, 2016, the Southern Association of Colleges and Schools, Commission on Colleges (SACSCOC) approved the Bachelor of Science in Biomedical Engineering (BSBME) and the Master of Social Work (MSW) programs. Both programs were approved by the Alabama Commission on Higher Education (ACHE). ACHE also approved a new Bachelors of Interdisciplinary Studies degree.

Alabama State University's Board of Trustees approved a 20% increase in Tuition & Required Fees at its Board meeting in September of 2016. This increase was approved to become effective beginning the Fall 2017 Semester.

Alondrea Pritchett
Assistant Vice President for Business and Finance
March 31, 2017

ALABAMA STATE UNIVERSITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	$ 1,631,082	$ 1,520,471
Stadium Fund:		
Cash and cash equivalents	902	110
Endowments:		
Cash and cash equivalents	349,290	346,055
Short-term investments	12,213,818	11,127,981
Accounts receivable (net of allowance of $7,754,549)	13,434,075	15,107,392
Prepaid expenses	249,698	170,092
Inventories	6,378	8,036
Total unrestricted assets	27,885,243	28,280,137
Restricted Assets:		
Grants and Contracts:		
Cash and cash equivalents	5,695,001	5,957,811
Grants receivable	3,959,073	3,448,552
Accounts receivable	18,049	18,100
Student Loans:		
Cash and cash equivalents	416,032	627,838
Endowments:		
Cash and cash equivalents	67,885	99,886
Short-term investments	1,999,581	1,879,682
Capital Projects and Debt Service:		
Cash and cash equivalents	4,298,887	5,633,302
Short-term investments	184,334	206,195
Agency Funds:		
Cash and cash equivalents	42	42
Other receivables	47,507	47,507
Total restricted assets	16,686,391	17,918,915
Total current assets	44,571,634	46,199,052
NONCURRENT ASSETS		
Student loans receivable	1,685,618	1,319,150
Capital assets, net	289,778,389	298,868,078
Total noncurrent assets	291,464,007	300,187,228
DEFERRED OUTFLOWS OF RESOURCES		
Hedging derivative	4,653,286	4,108,840
Deferred amount on debt refunding	2,929,649	3,257,774
Deferred employer retirement contribution	12,546,721	7,950,593
Total deferred outflows of resources	20,129,656	15,317,207
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 356,165,297	$ 361,703,487

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2016 AND 2015

	2016	2015
LIABILITIES		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts payable and accrued liabilities	$ 4,255,412	$ 5,076,455
Student accounts payable	1,163	45,960
Unearned revenue	17,244,135	16,355,692
Line of credit	4,267,414	5,733,815
Current portion of compensated absences	703,742	742,765
Total payable from unrestricted assets	26,471,866	27,954,687
Payable from Restricted Assets:		
Grants and contracts accounts payable	4,982,132	4,812,439
Unearned revenue	328,115	471,236
Current portion of long-term debt	6,244,540	6,789,559
Total payable from restricted assets	11,554,787	12,073,234
Total current liabilities	38,026,653	40,027,921
NONCURRENT LIABILITIES		
Noncurrent portion of compensated absences	1,592,649	1,602,179
Hedging derivative liability	4,653,286	4,108,840
Long-term debt, net	205,586,989	213,075,250
Net pension liability	80,697,982	73,602,774
Total noncurrent liabilities	292,530,906	292,389,043
Total liabilities	330,557,559	332,416,964
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	3,522,000	5,519,000
Total liabilities and deferred inflows	334,079,559	337,935,964
NET POSITION		
Net investment in capital assets	81,448,514	83,164,399
Restricted		
Nonexpendable:		
Scholarships	250,000	250,000
Expendable:		
Scholarships	773,544	685,646
Other	7,800,108	7,622,852
Total restricted expendable	8,573,652	8,308,498
Total restricted	8,823,652	8,558,498
Unrestricted	(68,186,428)	(67,955,374)
Total net position	$ 22,085,738	$ 23,767,523

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Student tuition and fees (net of scholarships of $11,047,094 and $12,234,825)	$ 43,736,933	$ 42,073,093
Federal grants and contracts	27,602,250	25,428,781
State grants and contracts	4,187,516	4,371,313
Nongovernmental grants and contracts	2,517,452	2,426,675
Sales and services of auxiliary enterprises	12,640,933	13,094,574
Intercollegiate athletics	1,462,271	1,379,568
Other operating revenue	2,394,747	2,614,141
Total operating revenues	94,542,102	91,388,145
OPERATING EXPENSES		
Educational and General:		
Instruction	29,630,239	30,394,883
Research and development	2,261,465	2,004,274
Public service	3,745,080	4,526,669
Academic support	8,984,767	9,003,507
Student services	12,606,111	12,325,792
Operation and maintenance of plant	11,876,122	13,253,595
Institutional support	21,717,560	23,393,230
Depreciation	11,170,268	11,184,259
Student aid	20,189,148	19,421,243
Auxiliary Enterprises:		
Residential life	7,619,911	6,798,095
Other auxiliary expenses	559,530	809,988
Total operating expenses	130,360,201	133,115,535
Operating loss	(35,818,099)	(41,727,390)

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 42,298,590	$ 41,880,782
Investment income (loss), net	1,192,752	(160,520)
Interest expense	(10,936,051)	(11,099,081)
Amortization expense	(328,126)	(320,543)
Gifts and donations	421,094	372,863
Federal subsidies for interest on Build America and Recovery Bonds	1,163,141	1,170,469
Net nonoperating revenues	33,811,400	31,843,970
Loss before other changes in net position	(2,006,699)	(9,883,420)
OTHER CHANGES IN NET POSITION		
Capital appropriations	324,914	47,886
CHANGE IN NET POSITION		
Decrease in net position	(1,681,785)	(9,835,534)
Net position at beginning of year, as previously reported	23,767,523	104,399,505
Effect of adoption of GASB 68 (Note 1)	-	(70,796,448)
Net position at beginning of year, as adjusted	23,767,523	33,603,057
Net position at end of year	$ 22,085,738	$ 23,767,523

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tuition and fees	$ 45,224,285	$ 43,199,615
Cash received from grants and contracts	33,489,792	33,642,184
Cash received from auxiliary enterprises	14,103,204	14,474,142
Cash received from other sources	3,266,524	2,708,219
Cash paid to suppliers for goods and services	(46,766,121)	(50,691,717)
Cash paid to employees for services	(52,483,445)	(54,829,204)
Cash paid for scholarships	(20,189,148)	(19,421,243)
Net cash used in operating activities	(23,354,909)	(30,918,004)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	42,298,590	41,880,782
Gifts and donations	421,094	372,863
Gifts and grants for other than capital purposes:		
FFEL lending receipts	48,616,069	45,174,758
FFEL lending disbursements	(48,616,069)	(45,174,758)
SEOG lending receipts	336,148	268,578
SEOG lending disbursements	(336,148)	(268,578)
Proceeds from short-term debt	81,452,978	85,680,755
Principal paid on short-term debt	(82,919,379)	(79,946,940)
Interest paid on short-term debt	(130,535)	(75,483)
Net cash provided by noncapital financing activities	41,122,748	47,911,977
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	324,914	47,886
Purchase of capital assets	(2,080,580)	(1,881,133)
Net proceeds from issuance of capital leases	-	35,633
Principal paid on capital debt and leases	(7,954,559)	(6,614,836)
Interest paid on capital debt and leases	(10,956,026)	(11,052,692)
Federal subsidies for interest on Build America and Recovery Bonds	1,163,141	1,170,471
Net cash used in capital and related financing activities	(19,503,110)	(18,294,671)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	215,992	282,520
Proceeds from sale of investments	22,383,850	17,998,378
Purchase of investments	(22,590,965)	(18,220,144)
Net cash provided by investing activities	8,877	60,754
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,726,394)	(1,239,944)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,185,515	15,425,459
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,459,121	$ 14,185,515

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

	2016	2015
Operating loss	$ (35,818,099)	$ (41,727,390)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	11,170,268	11,184,259
Loss on disposal of capital assets	-	158
Pension expense	502,080	374,733
Changes in assets and liabilities:		
Accounts receivable, net	1,673,369	1,125,400
Grants receivable	(510,521)	1,744,817
Prepaid expenses	(79,606)	213,150
Inventories	1,658	1,164
Student loans receivable	(366,468)	244,517
Compensated absences	(48,553)	(254,136)
Accounts payable and accrued liabilities	(624,359)	(3,345,957)
Unearned revenue	745,322	(478,719)
Net cash used in operating activities	$ (23,354,909)	$ (30,918,004)

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	$ 572,261	$ 497,580
Due from ASU Foundation	60	-
Due from Alabama State University	105,367	133,242
Total unrestricted assets	677,688	630,822
Restricted Assets:		
Grants and Contracts:		
Cash and cash equivalents	370,132	360,211
Short-term investments	1,698,641	1,698,570
Endowments:		
Cash and cash equivalents	9,124,533	8,457,125
Short-term investments	68,427,003	68,439,079
Accrued interest and dividends	48,154	26,834
Total restricted assets	79,668,463	78,981,819
Total current assets	80,346,151	79,612,641
NONCURRENT ASSETS		
Employee loans receivable, net	-	40,943
Total noncurrent assets	-	40,943
TOTAL ASSETS	$ 80,346,151	$ 79,653,584
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 13,440	$ -
TOTAL LIABILITIES	13,440	-
NET ASSETS		
Unrestricted	559,336	585,270
Temporarily restricted	25,616,627	25,302,081
Permanently restricted	54,156,748	53,766,233
TOTAL NET ASSETS	80,332,711	79,653,584
TOTAL LIABILITIES AND NET ASSETS	$ 80,346,151	$ 79,653,584

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED 2016 AND 2015

	2016	2015
OPERATING REVENUES		
Contributions	$ 1,065,940	$ 1,870,499
Total operating revenues	1,065,940	1,870,499
OPERATING EXPENSES		
Educational and General:		
Program services	1,629,110	1,332,099
Supporting services	77,897	34,740
Total operating expenses	1,707,007	1,366,839
Operating income (loss)	(641,067)	503,660
NONOPERATING REVENUES (EXPENSES)		
Investment income, net	1,418,176	1,356,267
Realized and unrealized gains (losses) on investments	(13,683)	3,100,286
Transfer out	-	(84,400)
Trustee fees	(84,299)	(102,574)
Net nonoperating revenues (expenses)	1,320,194	4,269,579
CHANGE IN NET ASSETS	679,127	4,773,239
NET ASSETS AT BEGINNING OF YEAR, RESTATED (SEE NOTE 14)	79,653,584	74,880,345
NET ASSETS AT END OF YEAR, RESTATED	$ 80,332,711	$ 79,653,584

See notes to the financial statements.

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, 2016 and 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 14.

The fiscal years of the Trust and the Foundation are different from that of the University. The fiscal years of the Trust are July 31, 2016 and 2015 and the fiscal years of the Foundation are December 31, 2015 and 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.

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 statements of revenues, expenses, and changes 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events
Management has evaluated subsequent events through March 31, 2017, 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
In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, investments are reported at fair value in the statements of net position, and investment income, including realized and unrealized gains and losses on investments, is presented in the statements 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Capital Assets

Capital assets, which include property, plant, equipment, software, and library holdings, are reported in the statements 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.

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, 2016 and 2015, accrued vacation pay totaled $2,296,391 and $2,344,944, respectively. 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.

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 FASB 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 2016. The tax returns for years ended 2014 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.

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.

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, 2016, the University has $3,338,501 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.

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.

The University's investments consisted of the following as of September 30:

Type of Investment	2016	2015
U.S. Government Guaranteed Securities	$ 184,334	$ 206,194
Mutual Funds – Bonds Only	5,545,083	5,465,403
Mutual Funds – Bonds and Equity Mix or Equity Only	6,751,792	3,171,900
Other	1,197	-
Domestic Common and Preferred Stocks	1,915,327	4,370,361
Total	$ 14,397,733	$ 13,213,858

Custodial Credit Risk of Investments

Rating (Moody's)	2016	2015
U.S. Government Guaranteed Securities	$ 184,334	$ 206,194
Mutual Funds – Bonds Only (Unrated)	5,545,083	5,465,403
Total	$ 5,729,417	$ 5,671,597

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.

3. INVESTMENTS – CONTINUED

Credit Risk – Continued

The University's exposure to credit risk and concentration of credit risk at September 30, 2016 is as follows:

Credit Rating		Carrying and Fair Value	% of Total Investments
Aaa	Ishares Core Total U.S. Bond ETF	$ 1,855,044	32.38%
Aaa	U.S. Treasury Obligations	184,333	3.22%
Aaa	Federated Prime Obligations INSTL	115,161	2.01%
Aa2	Western Asset Core Plus Bond	1,047,532	18.28%
Aa2	Vanguard Total Bond Market Index Fund	1,050,225	18.33%
A3	Powershares Build America Bond	115,452	2.02%
A1	Dodge and Cox Income Fund	1,038,242	18.12%
A1	PIMCO Total Return Active ETF	104,927	1.83%
A1	PIMCO Low Duration Active ETF	107,719	1.88%
B	Powershares Senior Loan	110,781	1.93%
	Total Investments in Debt Securities	$ 5,729,416	100.00%

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

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%

3. INVESTMENTS – CONTINUED

Interest Rate Risk

At September 30, 2016 and 2015, the maturity dates of the University's debt instruments were as follows:

	Investment Maturities at Fair Value (in Years)					
Type of Investment	**Less Than 1**	**1 – 5**	**6 – 10**	**More Than 10**	**Totals 9/30/16**	**Totals 9/30/15**
Debt Securities:						
U.S. Government Guaranteed Securities	$ 184,333	$ -	$ -	$ -	$ 184,333	$ 206,194
Mutual Funds – Bonds Only	-	1,256,742	4,172,889	115,452	5,545,083	5,465,403
Total Debt Securities	$ 184,333	$ 1,256,742	$ 4,172,889	$ 115,452	5,729,416	5,671,597
Equities:						
Domestic Common and Preferred Stocks					1,915,327	4,370,361
Mutual Funds – Bonds and Equity Mix or Equity Only					6,751,792	3,171,900
Other					1,198	-
Total Equities					8,668,317	7,542,261
Total Investments					$ 14,397,733	$ 13,213,858

4. CHANGE IN CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2016 and 2015, was as follows:

	Balance 10/1/15	Additions	Reductions/ Transfers	Balance 9/30/16
Land	$ 21,152,897	$ -	$ -	$ 21,152,897
Construction in progress	584,262	1,517,025	854,642	1,246,645
Buildings	273,711,371	854,642	-	274,566,013
Equipment	17,340,667	535,605	191,684	17,684,588
Library holdings	10,107,410	27,949	-	10,135,359
Intangible software	11,744,019	-	-	11,744,019
Infrastructure	86,942,823	-	-	86,942,823
Total capital assets	421,583,449	2,935,221	1,046,326	423,472,344
Less accumulated depreciation for:				
Buildings	84,386,414	6,258,199	-	90,644,613
Equipment	11,426,759	1,144,652	191,684	12,379,727
Library holdings	9,285,623	162,472	-	9,448,095
Intangible software	2,348,804	587,201	-	2,936,005
Infrastructure	15,267,771	3,017,744	-	18,285,515
Total accumulated depreciation	122,715,371	11,170,268	191,684	133,693,955
Capital assets, net	$ 298,868,078	$ (8,235,047)	$ 854,642	$ 289,778,389

	Balance 10/1/14	Additions	Reductions/ Transfers	Balance 9/30/15
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	419,860,166	5,752,865	4,029,582	421,583,449
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	111,688,805	11,184,259	157,693	122,715,371
Capital assets, net	$ 308,171,361	$ (5,431,394)	$ 3,871,889	$ 298,868,078

Depreciation expense for the years ended September 30, 2016 and 2015, totaled $11,170,268 and $11,184,259, respectively.

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

	2016	2015
Tuition, fees, room and board	$ 17,683,748	$ 17,823,981
State grants and contracts	1,843,486	1,679,702
Federal Student Loans	1,422,004	2,457,887
Other	239,386	721,650
	21,188,624	22,683,220
Allowance for doubtful accounts	(7,754,549)	(7,754,549)
Total	$ 13,434,075	$ 14,928,671

Student Loans Receivable

	2016	2015
Perkins Loan:		
Loans advanced	$ 10,386,817	$ 9,594,953
Less:		
Loans assigned to U.S. Government	(652,420)	(652,420)
Principal collected	(7,356,792)	(6,934,179)
Principal cancellations	(691,987)	(689,204)
	(8,701,199)	(8,275,803)
Total	$ 1,685,618	$ 1,319,150

6. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2016, was as follows:

	Balance 10/1/15	Additions	Deductions	Balance 9/30/16	Due Within One Year
1982 Dormitory Revenue Bonds, 3% interest, due semi-annually through 2022	$ 360,000	$ -	$ 45,000	$ 315,000	$ 50,000
2004 Series B General Fee Revenue Bonds, auction rate, due through March 1, 2033	21,350,000	-	900,000	20,450,000	925,000
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	33,110,000	-	860,000	32,250,000	895,000
2009 Series General Tuition and Fee Revenue Bonds, 2.00% – 5.43% interest, due semi-annually through 2039 on March 1 and September 1	31,285,000	-	730,000	30,555,000	770,000
2010 Series General Tuition and Fee Revenue Bonds, 2.4% interest, due semi-annually through 2040 on March 1 and September 1	51,380,000	-	1,255,000	50,125,000	1,285,000
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	26,155,000	-	1,860,000	24,295,000	1,910,000
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	10,920,000	-	215,000	10,705,000	220,000
	216,370,000	-	5,865,000	210,505,000	6,055,000
Unamortized bond discount	(1,303,393)	-	(53,045)	(1,250,348)	-
Unamortized bond premium	791,609	-	131,766	659,843	-
Bonds payable, net	215,858,216	-	5,943,721	209,914,495	6,055,000
Capital lease obligations	2,746,593	-	1,909,560	837,034	9,540
Notes payable	1,260,000	-	180,000	1,080,000	180,000
Total long-term debt	$ 219,864,809	$ -	$ 8,033,281	$ 211,831,529	$ 6,244,540

6. LONG-TERM DEBT – CONTINUED

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

	Balance 10/1/14	Additions	Deductions	Balance 9/30/15	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	$ 226,447,927	$ 35,633	$ 6,618,751	$ 219,864,809	$ 6,789,559

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, 2016.

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

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, 2016.

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, 2016.

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.

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, 2016.

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 were paid off as of September 30, 2015.

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.

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.

6. LONG-TERM DEBT – CONTINUED

Bonds Payable – Continued
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:

	Principal	Interest	Interest Rate Swap, Net	Net Cash Flows
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	6,210,000	9,007,104	538,030	15,755,134
2022-2026	37,505,000	40,903,886	2,365,933	80,774,819
2027-2031	47,960,000	31,648,130	1,224,563	80,832,693
2032-2036	54,650,000	19,247,002	114,292	74,011,294
2037-2041	25,770,000	6,016,893	-	31,786,893
2042	13,540,000	121,687	-	13,661,687
	$ 210,505,000	$ 145,124,759	$ 6,563,655	$ 362,193,414

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, 2016 of 3.11%.

Interest expense for the years ended September 30, 2016 and 2015, totaled $10,936,051 and $11,099,081, respectively.

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:

	Principal	Interest	Total
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	180,000	10,384	190,384
2022	180,000	4,785	184,785
	$ 1,080,000	$ 116,058	$ 1,196,058

Line of Credit
The University has an unsecured line of credit with Regions Bank for $7,000,000. The line of credit matures on September 15, 2017, and has an effective interest rate of 2.5%. Short-term debt activity for the years ended September 30, 2016 and 2015, is as follows:

	2016	2015
Balance at beginning of year	$ 5,733,815	$ -
Draws	81,452,978	85,680,755
Payments	(82,919,379)	(79,946,940)
Balance at end of year	$ 4,267,414	$ 5,733,815

6. LONG-TERM DEBT – CONTINUED

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 2016.

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:

	2016	2015
Asset		
Phone system	$ 2,569,263	2,569,263
MIS Data Center Lease	856,761	856,761
Digibook Scanner	35,635	35,635
Less accumulated depreciation	(3,268,926)	(2,856,885)
Total*	$ 192,733	$ 604,774

*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, 2016.

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

2017	$ 53,468
2018	45,851
2019	43,313
2020	43,313
2021	43,313
2022-2026	964,780
Total minimum lease payments	1,194,038
Less amount representing interest	357,004
Present value of minimum lease payments	$ 837,034

7. HEDGING DERIVATIVE INSTRUMENT

The University held the following derivative instrument at September 30, 2016 and 2015:

		Change in Fair Value		Fair Value	
Type	Notional Amount	Classification	Increase (Decrease)	Classification	Liability
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-fixed Interest Rate Swap					
2004 Bonds					
September 30, 2016	$ 20,450,000	Deferred Outflow of Resources	$ 544,446	Hedging Derivative Liability	$ (4,653,286)
September 30, 2015	$ 21,350,000	Deferred Outflow of Resources	$ 369,111	Hedging Derivative Liability	$ (4,108,840)

The terms of the derivative instrument held at September 30, 2016 and 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, 2016 and 2015, the synthetic interest rate on the swapped portion of the 2004 general revenue bonds was 3.11% and 3.10%, respectively. The fair value of the pay-fixed rate swap 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, 2016 and 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.

7. HEDGING DERIVATIVE INSTRUMENT – CONTINUED

Credit Risk
As of September 30, 2016 and 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.

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 Standard and Poor's 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 Standard and Poor's and at least "A3" in the case of Moody's.

Currently, the mark-to-market value of the outstanding swap agreement is a negative $4.7 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.

8. FAIR VALUE MEASUREMENT

The University follows GASB Statement No. 72 – *Fair Value Measurement and Application* for guidance related to fair value measurements and disclosures. This guidance provides a framework for measuring fair value and a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities. These inputs include: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers or in which little information is released publicly; (c) inputs other than quoted prices that are observable for the asset or liability; or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 inputs are unobservable inputs for the assets or liabilities and may require a degree of professional judgement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

8. FAIR VALUE MEASUREMENT – CONTINUED

The following tables summarize the University's investments within the fair value hierarchy as of September 30, 2016 and 2015:

	September 30, 2016			
	Fair Value Measurement at Report Date Using			
	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
U.S. Government Guaranteed Securities	$ 184,333	$ 184,333	$ -	$ -
Mutual Funds – Bonds Only	5,545,083	5,545,083	-	-
Mutual Funds – Bonds and Equity Mix or Equity Only	6,751,792	6,751,792	-	-
Other	1,198	1,198	-	-
Domestic Common and Preferred Stocks	1,915,327	1,915,327	-	-
	$ 14,397,733	$ 14,397,733	$ -	$ -
Derivative Instrument				
Hedging Derivative Instrument – Pay-fixed Interest Rate Swap	$ (4,653,286)	$ -	$ (4,653,286)	$ -

8. FAIR VALUE MEASUREMENT – CONTINUED

	September 30, 2015			
	Fair Value Measurement at Report Date Using			
	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
U.S. Government Guaranteed Securities	$ 206,194	$ 206,194	$ -	$ -
Mutual Funds – Bonds Only	5,465,403	5,465,403	-	-
Mutual Funds – Bonds and Equity Mix or Equity Only	3,171,900	3,171,900	-	-
Domestic Common and Preferred Stocks	4,370,361	4,370,361	-	-
	$ 13,213,858	$ 13,213,858	$ -	$ -
Derivative Instrument				
Hedging Derivative Instrument – Pay-fixed Interest Rate Swap	$ (4,108,840)	$ -	$ (4,108,840)	$ -

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. The University's Level 1 investments primarily consist of investments in U.S. government guaranteed securities, mutual funds, and domestic common and preferred stocks. When quoted prices in active markets are not available, fair values are based on evaluated prices received from the University's custodian of investments.

The University's Level 2 investments consist of a pay-fixed interest rate swap which was estimated through forecasting expected cash flows that are discounted. The University's interest rate swap hedging derivative has been determined to be effective using the synthetic instrument method.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used as of September 30, 2016 and 2015.

9. 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.

9. 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 years ended September 30, 2016 and 2015 was 11.94% and 11.71% of annual pay for Tier 1 members and 10.84% 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 $5,689,859 and $5,819,937 for the years ended September 30, 2016 and 2015, respectively.

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

At September 30, 2016 and 2015, the University reported a liability of $80,697,982 and $73,602,774, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014 and 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, 2015 and 2014, the University's proportion was 0.771072% and 0.810196%, respectively, which was an increase of 0.01581268% and 0.028016% from its proportion measured as of September 30, 2014 and 2013, respectively.

9. 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 years ended September 30, 2016 and 2015, the University recognized pension expense of approximately $5,850,703 and $6,032,816, respectively. At September 30, 2016 and 2015, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

September 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 437,000
Net difference between projected and actual earnings on pension plan investments	5,283,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,718,000	3,085,000
Employer contributions subsequent to measurement date	5,545,721	-
	$ 12,546,721	$ 3,522,000

September 30, 2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 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

9. DEFINED BENEFIT COST SHARING PLAN – CONTINUED

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

Deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date in the amount of $5,545,721 will be recognized as a reduction of the net pension liability in the year ending September 30, 2017. 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,	
2017	$ 674,000
2018	674,000
2019	674,000
2020	1,626,000
2021	(169,000)
	$ 3,479,000

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2014 and 2013, respectively, 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

9. DEFINED BENEFIT COST SHARING PLAN – CONTINUED

Actuarial Assumptions – Continued

The actuarial assumptions used in the actuarial valuation as of September 30, 2014 and 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%
	100.00%	

* Includes assumed rate of inflation of 2.5%

9. 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 (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
University's proportionate share of collective net pension liability	$ 106,758	$ 80,698	$ 58,596

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 years ended September 30, 2016 and 2015. 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, 2015 and 2014. The auditors' report dated October 17, 2016 and May 1, 2015, respectively, 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, 2015 and 2014, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

10. 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 years ended September 30, 2016 and 2015. The University paid $1,542,758 and $1,393,776 for 324 and 318 retirees for the years ended September 30, 2016 and 2015, respectively. 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 2). Tier 2 members employer contributions are 10.84%. Eligibility for benefits for Tier 2 begins at age 62 with completion of 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).

10. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

The required monthly contribution rates for fiscal year 2016 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 Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse – $416
- 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/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – with Non-Medicare Eligible Spouse – $275
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible – $109
- Family Coverage/Medicare Eligible Retired Member and Spousal Dental Medicare Eligible – $119
- 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 $50.00 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.

10. OTHER POST-EMPLOYMENT BENEFITS – CONTINUED

Surviving Spouse Rates

- Surviving Spouse Non-Medicare Eligible – $740
- Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible – $987
- Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible – $1,033
- Surviving Spouse Medicare Eligible – $425
- Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible – $679
- Surviving Spouse Medicare Eligible and Dependent Medicare Eligible – $725

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.

11. 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:

Months of Continuous Service	Annual Leave Earned per Month
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 years ended September 30, 2016 and 2015, is included on the financial statements as a compensated absence liability.

12. 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:

2017	$ 692,316
2018	155,784
	$ 848,100

Rent expense for all operating leases totaled $901,931 and $924,759 for the years ended September 30, 2016 and 2015, respectively.

13. CONSTRUCTION COMMITMENTS

As of September 30, 2016, the University had commitments on construction of capital projects as follows:

Gross commitments	$ 3,287,786
Spent-to-date	(1,307,574)
Net commitments	$ 1,980,212

14. COMPONENT UNITS

Details of the Foundation's net assets at December 31, 2015 and 2014, and the Trust's net assets at July 31, 2016 and 2015, are as follows:

	FY 2016–2015			FY 2015–2014		
	Foundation	Trust	Totals	Foundation	Trust	Totals
ASSETS						
CURRENT ASSETS						
Unrestricted assets:						
Cash and cash equivalents	$ 572,261	$ -	$ 572,261	$ 497,580	$ -	$ 497,580
Due from ASU Foundation	-	60	60	-	-	-
Due from Alabama State University	-	105,367	105,367	-	133,242	133,242
Total unrestricted assets	572,261	105,427	677,688	497,580	133,242	630,822
Restricted assets:						
Grants and contracts:						
Cash and cash equivalents	370,132	-	370,132	360,211	-	360,211
Short-term investments	1,698,641	-	1,698,641	1,698,570	-	1,698,570
Endowments:						
Cash and cash equivalents	-	9,124,533	9,124,533	-	8,457,125	8,457,125
Short-term investments	-	68,427,003	68,427,003	-	68,439,079	68,439,079
Accrued interest and dividends	-	48,154	48,154	-	26,834	26,834
Total restricted assets	2,068,773	77,599,690	79,668,463	2,058,781	76,923,038	78,981,819
Total current assets	2,641,034	77,705,117	80,346,151	2,556,361	77,056,280	79,612,641
NONCURRENT ASSETS						
Employee loans receivable, net	-	-	-	40,943	-	40,943
Total noncurrent assets	-	-	-	40,943	-	40,943
TOTAL ASSETS	$ 2,641,034	$ 77,705,117	$ 80,346,151	$ 2,597,304	$ 77,056,280	$ 79,653,584
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable	$ 13,440	$ -	$ 13,440	$ -	$ -	$ -
NET ASSETS						
Unrestricted	559,336	-	559,336	585,270	-	585,270
Temporarily restricted	868,258	24,748,369	25,616,627	812,034	24,490,047	25,302,081
Permanently restricted	1,200,000	52,956,748	54,156,748	1,200,000	52,566,233	53,766,233
TOTAL NET ASSETS	2,627,594	77,705,117	80,332,711	2,597,304	77,056,280	79,653,584
TOTAL LIABILITIES AND NET ASSETS	$ 2,641,034	$ 77,705,117	$ 80,346,151	$ 2,597,304	$ 77,056,280	$ 79,653,584

14. COMPONENT UNITS – CONTINUED

Details of the Foundation's revenues, expenses, and changes in net assets for the years ended December 31, 2015 and 2014, and the Trust's revenues, expenses, and changes in net assets for the years ended July 31, 2016 and 2015, are as follows:

	FY 2016–2015			FY 2015–2014		
	Foundation	Trust	Totals	Foundation	Trust	Totals
OPERATING REVENUES						
Contributions	$ 998,811	$ 67,129	$ 1,065,940	$ 1,725,358	$ 145,141	$ 1,870,499
Total operating revenues	998,811	67,129	1,065,940	1,725,358	145,141	1,870,499
OPERATING EXPENSES						
Educational and general:						
Program services	917,276	711,834	1,629,110	980,404	351,695	1,332,099
Supporting services	77,897	-	77,897	34,740	-	34,740
Total operating expenses	995,173	711,834	1,707,007	1,015,144	351,695	1,366,839
Operating income (loss)	3,638	(644,705)	(641,067)	710,214	(206,554)	503,660
NONOPERATING REVENUES (EXPENSES)						
Investment income, net	24,521	1,393,655	1,418,176	49,922	1,306,345	1,356,267
Realized and unrealized gains (losses) on investments	2,131	(15,814)	(13,683)	38,683	3,061,603	3,100,286
Transfer out	-	-	-	(84,400)	-	(84,400)
Trustee fees	-	(84,299)	(84,299)	(17,992)	(84,582)	(102,574)
Net nonoperating revenues (expenses)	26,652	1,293,542	1,320,194	(13,787)	4,283,366	4,269,579
CHANGE IN NET ASSETS	30,290	648,837	679,127	696,427	4,076,812	4,773,239
NET ASSETS AT BEGINNING OF YEAR. RESTATED*	2,597,304	77,056,280	79,653,584	1,900,877	72,979,468	74,880,345
NET ASSETS AT END OF YEAR, RESTATED	$ 2,627,594	$ 77,705,117	$ 80,332,711	$ 2,597,304	$ 77,056,280	$ 79,653,584

*Net assets restated to record a certificate of deposit previously unrecorded.

Fair Value Measurement

The discretely presented component units of the University follow the provisions of the FASB ASC 820, *Fair Value Measurement*, 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 FASB ASC 820, fair value measurements are disclosed by level within that hierarchy.

14. COMPONENT UNITS – CONTINUED

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 FASB ASC 820 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.

14. COMPONENT UNITS – CONTINUED

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 2016–2015			
	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
Equities	$ 1,151,353	$ 1,151,353	$ -	$ -
Equity Mutual Funds	38,894,821	38,894,821	-	-
Fixed Income Mutual Funds	29,532,182	29,532,182	-	-
Bond and Equity Mutual Funds	547,288	547,288	-	-
	$ 70,125,644	$ 70,125,644	$ -	$ -

	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
Equities	$ 1,155,028	$ 1,155,028	$ -	$ -
Equity Mutual Funds	38,765,971	38,765,971	-	-
Fixed Income Mutual Funds	29,673,108	29,673,108	-	-
Bond and Equity Mutual Funds	543,542	543,542	-	-
	$ 70,137,649	$ 70,137,649	$ -	$ -

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, 2016:

	Unrestricted	Restricted Expendable	Restricted Nonexpendable	Total
Donor-restricted endowment funds	$ -	$ 1,817,466	$ 250,000	$ 2,067,466
Board-designated endowment funds	11,519,186	-	-	11,519,186
	$ 11,519,186	$ 1,817,466	$ 250,000	$ 13,586,652

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

	Unrestricted	Restricted Expendable	Restricted Nonexpendable	Total
Donor-restricted endowment funds	$ -	$ 1,729,568	$ 250,000	$ 1,979,568
Board-designated endowment funds	10,430,114	-	-	10,430,114
	$ 10,430,114	$ 1,729,568	$ 250,000	$ 12,409,682

15. ENDOWMENTS – CONTINUED

University Endowments – Continued

Changes in the University's endowment net assets consist of the following for the year ended September 30, 2016:

	Unrestricted	Restricted Expendable	Restricted Nonexpendable	Total
Endowment net assets at beginning of year	$ 10,430,114	$ 1,729,568	$ 250,000	$ 12,409,682
Contributions	295	-	-	295
Interest and dividends, net of investment expenses	185,694	13,972	-	199,666
Realized and unrealized gains on investments	899,333	77,676	-	977,009
Appropriation of endowment assets for expenditure	3,750	(3,750)	-	-
Change in endowment net assets	1,089,072	87,898	-	1,176,970
	$ 11,519,186	$ 1,817,466	$ 250,000	$ 13,586,652

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

	Unrestricted	Restricted Expendable	Restricted Nonexpendable	Total
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)
	$ 10,430,114	$ 1,729,568	$ 250,000	$ 12,409,682

15. ENDOWMENTS – CONTINUED

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) and temporarily restricted endowment funds restricted by donors and the Decree.

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 years ended July 31, 2016 and December 31, 2015, respectively.

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets at beginning of year, restated	$ 25,302,081	$ 53,766,233	$ 79,068,314
Investment return:			
Interest and dividends, net of investment expenses	1,078,955	327,339	1,406,294
Realized and unrealized losses on investments	(10,251)	(3,953)	(14,204)
Total investment return	1,068,704	323,386	1,392,090
Contributions and additions	959,250	67,129	1,026,379
Appropriation of endowment assets for expenditure	(1,713,408)	-	(1,713,408)
Endowment net assets at end of year, restated	$ 25,616,627	$ 54,156,748	$ 79,773,375

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

	Temporarily Restricted	Permanently Restricted	Total
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	1,016,869	321,406	1,338,275
Realized and unrealized gains on investments	2,296,205	804,084	3,100,289
Total investment return	3,313,074	1,125,490	4,438,564
Contributions and additions	1,188,869	644,831	1,833,700
Appropriation of endowment assets for expenditure	(1,119,524)	(19,232)	(1,138,756)
Correction of an error	(270,448)	(556,675)	(827,123)
Endowment net assets at end of year	$ 25,302,081	$ 53,766,233	$ 79,068,314

15. ENDOWMENTS – CONTINUED

Endowments of the University's Component Units – Continued

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.

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. 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 that this Statement will have on its financial statements, but expects the impact to be material.

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.

The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* in December 2015. This Statement amends the scope and applicability of GASB 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2015. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

17. RECENTLY ISSUED ACCOUNTING STANDARDS – CONTINUED

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units* in January 2016. This Statement clarifies the display requirements in GASB 14 by requiring these component units to be blended into the primary state or local government's financial statements in a manner similar to a department or activity of the primary government. The guidance addresses diversity in practice regarding the presentation of not-for-profit corporations in which the primary government is the sole corporate member. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2016. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* in March 2016. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2016. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 82, *Pension Issues* in March 2016. This Statement is designed to improve consistency in the application of the pension standards by clarifying or amending related areas of existing guidance. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2016. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflows of resources related to such obligations. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2018. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 84, *Fiduciary Activities* in January 2017. This Statement establishes criteria for identifying fiduciary activities of all state and local governments and clarifies whether and how business-type activities should report their fiduciary activities. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2018. 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, 2016

Year Ended*	University's proportion of the net pension liability	University's proportionate share of the net pension liability	University's covered payroll	University's proportionate share of the net pension liability as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of the total pension liability
9/30/2014	0.771072%	$ 80,697,982	$ 47,310,904	170.57%	67.51%
9/30/2015	0.810196%	73,602,774	49,256,359	149.43%	71.01%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.
* The data provided in the schedule is as of the measurement date of the University's net pension liability, which is as of the beginning of the University's fiscal year.

See independent auditors' report.

ALABAMA STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S CONTRIBUTIONS (UNAUDITED)
TEACHERS' RETIREMENT PLAN OF ALABAMA
SEPTEMBER 30, 2016

Year Ended	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contributions Excess / (Deficiency)	University's Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
09/30/15	$ 5,819,937	$ 5,819,937	$ -	$ 49,256,359	11.82%
09/30/16	5,689,859	5,689,859	-	47,310,904	12.03%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See independent auditors' report.

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, 2014 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, 2014, 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.