

ALABAMA STATE UNIVERSITY
FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2018 AND 2017

**ALABAMA STATE UNIVERSITY
TABLE OF CONTENTS
SEPTEMBER 30, 2018 AND 2017**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3
FINANCIAL STATEMENTS	
Statements of Net Position	18
Statements of Revenues, Expenses, and Changes in Net Position	20
Statements of Cash Flows	22
Statements of Financial Position – Discretely Presented Component Units	24
Statements of Activities and Changes in Net Assets – Discretely Presented Component Units	25
Notes to the Financial Statements	26
REQUIRED SUPPLEMENTARY INFORMATION	
Schedules of the University's Proportionate Share of the Net Pension Liability and Employer Contributions (Unaudited)	76
Schedules of the University's Proportionate Share of the Net OPEB Liability and Employer Contributions (Unaudited)	77

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, 2018 and 2017, 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 opinions.

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, 2018 and 2017, 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.

Emphasis of Matter

As described in Note 1 to the financial statements, the University adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in 2018. Our opinion is not modified with respect to this matter.

Other Matters**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 17 and the supplementary information on pages 76 through 78 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 May 30, 2019, 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.



Montgomery, Alabama
May 30, 2019

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(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, 2018. 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
September 30, 2018 and 2017
(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 66 through 69. Complete financial statements of the individual component units can be obtained directly from the Vice President for Business & Finance.

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

	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS		
Current assets	\$ 64,347,893	\$ 52,343,449
Noncurrent assets		
Capital assets, net	273,606,553	281,044,233
Other	1,620,620	1,980,911
Deferred outflows	<u>26,256,208</u>	<u>18,755,891</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 365,831,274</u></u>	<u><u>\$ 354,124,484</u></u>
LIABILITIES AND DEFERRED INFLOWS		
Current liabilities	\$ 44,758,837	\$ 40,216,444
Noncurrent liabilities	315,731,657	280,940,594
Deferred inflows	<u>20,122,020</u>	<u>9,035,000</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u><u>380,612,514</u></u>	<u><u>330,192,038</u></u>
NET POSITION		
Net investment in capital assets	67,487,687	78,602,620
Restricted	14,457,126	12,475,402
Unrestricted	<u>(96,726,053)</u>	<u>(67,145,576)</u>
TOTAL NET POSITION	<u><u>\$ (14,781,240)</u></u>	<u><u>\$ 23,932,446</u></u>

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

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 \$10.9 million.

Endowment Investments

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

Other Short-Term Investments

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

Capital Assets, Net

Capital assets, net of related accumulated depreciation, consist of land, infrastructure, buildings, equipment, library collections and holdings, and construction in progress totaling \$273 million at September 30, 2018. The amount reported is net of accumulated depreciation of \$152 million. The decrease of \$7 million between fiscal years 2017 and 2018 is primarily a result of current year depreciation expense which totaled \$10.5 million and an increase in moveable equipment of \$3 million.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

LIABILITIES

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2018, for goods and services received prior to the end of the fiscal year.

Long-Term Debt

At the end of the fiscal year 2018, the University had debt outstanding of \$214.3 million. Of this amount, \$213 million was comprised of bonds, \$825,000 in long-term leases, and \$720,000 in a note payable. The \$213 million of bonds include \$146.3 million of bonds issued through the Rice Capital Access Program (RCAP) in 2018. Proceeds from the bonds were used to defease \$131.1 million of existing bonds in an advance refunding. In addition, the University paid \$2.2 million to terminate the Swap Agreement with JP Morgan. The University was required to establish an escrow account totaling 5% of the total loan draw. As of September 30, 2018, \$7.1 million was held in an escrow account to be used by the program trustee to satisfy any participant defaults in the program.

Net Pension Liability

At the end of the fiscal year 2018, the University had a net pension liability of \$66.1 million. The decrease in net pension liability is a result of the state's actuarial valuation of the Teacher's Retirement System of Alabama (TRS) experiencing a decreased liability of \$1 billion, of which the University's proportionate share was 0.67% or approximately \$11 million.

Postemployment Benefits Other Than Pensions

At the end of the fiscal year 2018, the University had a postemployment benefit other than pensions (OPEB) liability of \$44.2 million. This is a result of the state's valuation of the Alabama Public Education Employee's Health Insurance Plan. The University's proportionate share of the OPEB liability was 0.60%.

Unearned Revenue

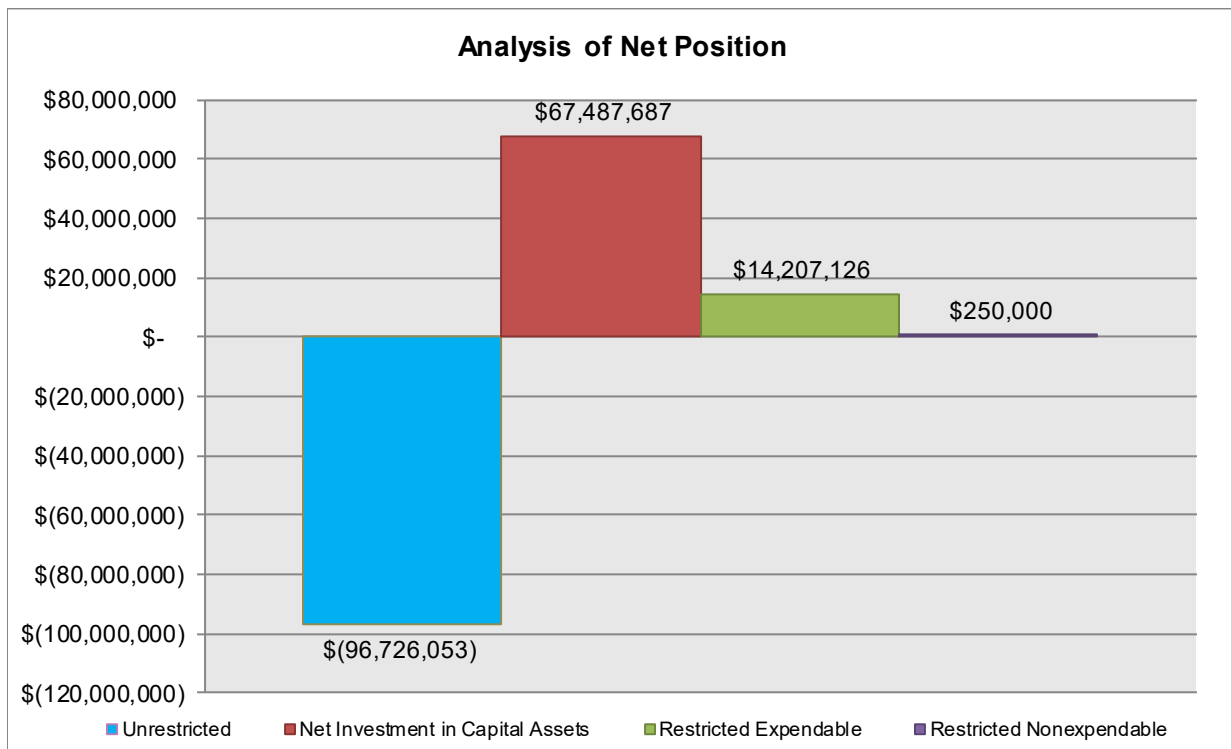
Unearned revenue represents payments received for tuition, fees, and room and board of \$16.9 million net of deferred scholarships, allowances, and discounts of \$2.7 million relating to a future period. Examples of unearned revenue are fall tuition, fees, room and board, and grants where funding has been received but not expended.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

NET POSITION

Net position represents the difference between University assets and liabilities. Total net position at September 30, 2018, was (\$14.8) million.

During 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement revises existing standards for measuring and reporting retiree health benefits provided by the University to its employees. This resulted in an adjustment to unrestricted net position of \$(38,681,603) as of October 1, 2017 (note 1). The standard was not applied retroactively to the 2017 financial statements because the state pension plan did not provide the necessary information.



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.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

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 \$96.7 million is primarily the result of recognizing the University's proportionate share of the employers' net pension liability and total OPEB liability, as well as the resulting deferred inflows and outflows due to changes in actuarial expenses and assumptions.

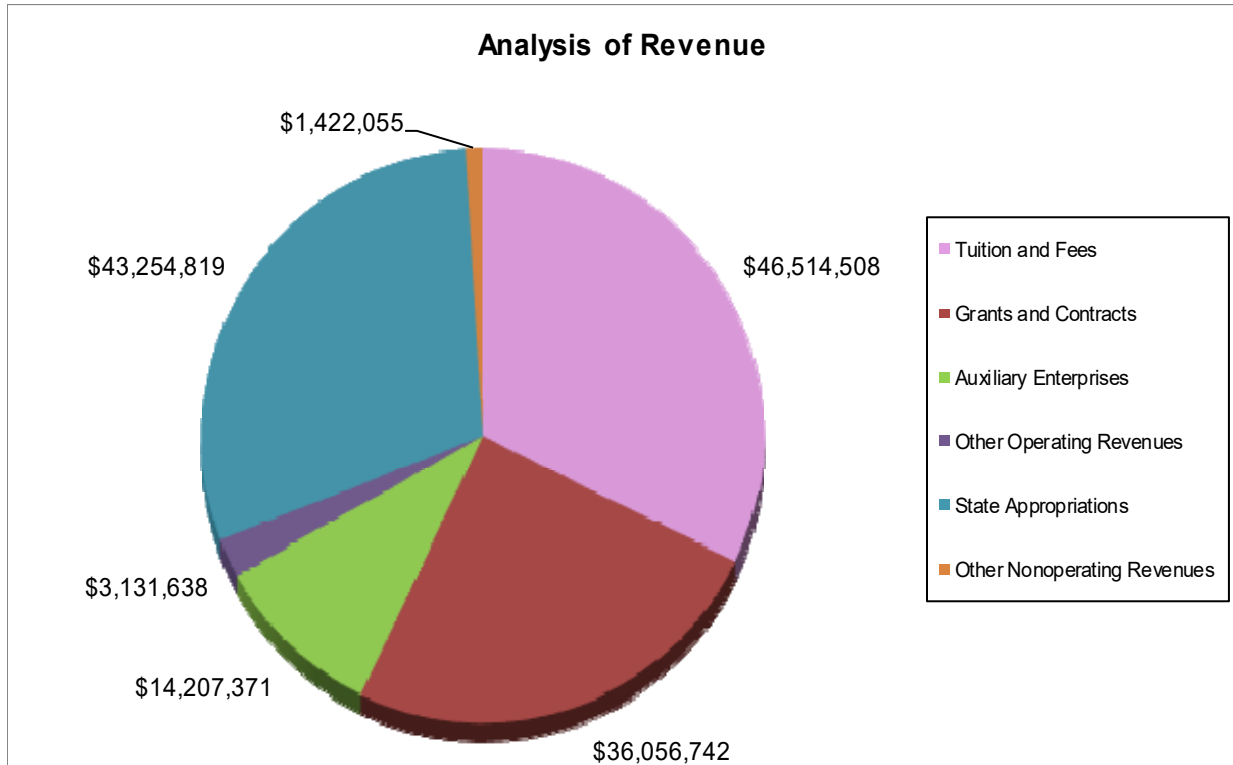
The decrease of approximately \$11.1 million in the University's net investment in capital assets net position is primarily attributable to the following: 1) Depreciation expense of \$10.4 million. 2) Transfers in from other funds for debt service and capital assets of \$16.3 million and \$500,000, respectively.

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

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Tuition and fees	\$ 46,514,508	\$ 45,278,162
Grants and contracts	36,056,742	34,973,508
Auxiliary enterprises	14,207,371	15,222,362
Other operating revenues	3,131,638	2,605,573
Total operating revenues	<u>99,910,259</u>	<u>98,079,605</u>
OPERATING EXPENSES	<u>133,936,290</u>	<u>131,156,644</u>
Operating loss	<u>(34,026,031)</u>	<u>(33,077,039)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	43,254,819	42,946,136
Other nonoperating revenues (expenses), net	<u>(9,260,871)</u>	<u>(8,965,509)</u>
Net nonoperating revenues (expenses)	<u>33,993,948</u>	<u>33,980,627</u>
Income (loss) before other changes in net position	<u>(32,083)</u>	<u>903,588</u>
OTHER CHANGES IN NET POSITION		
Capital appropriations	<u>-</u>	<u>943,120</u>
Increase (decrease) in net position	<u>(32,083)</u>	<u>1,846,708</u>
NET POSITION		
Net position at beginning of year, as previously reported	<u>23,932,446</u>	<u>22,085,738</u>
Adoption of GASB 75 (Note 1)	<u>(38,681,603)</u>	<u>-</u>
Net position at beginning of year, as adjusted	<u>(14,749,157)</u>	<u>22,085,738</u>
Net position at end of year	<u><u>\$ (14,781,240)</u></u>	<u><u>\$ 23,932,446</u></u>

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

REVENUES



Tuition and Fees for Services of Educational Activities

Tuition and fees assessed for educational purposes totaled \$57.6 million. The tuition discounts and allowances were \$11.1 million, resulting in net tuition and fees of \$46.5 million. This represents a \$1.2 million increase in net tuition and fees between fiscal years 2017 and 2018. This is primarily due to a 20% increase in tuition and fees effective Fall 2018.

Grants and Contracts

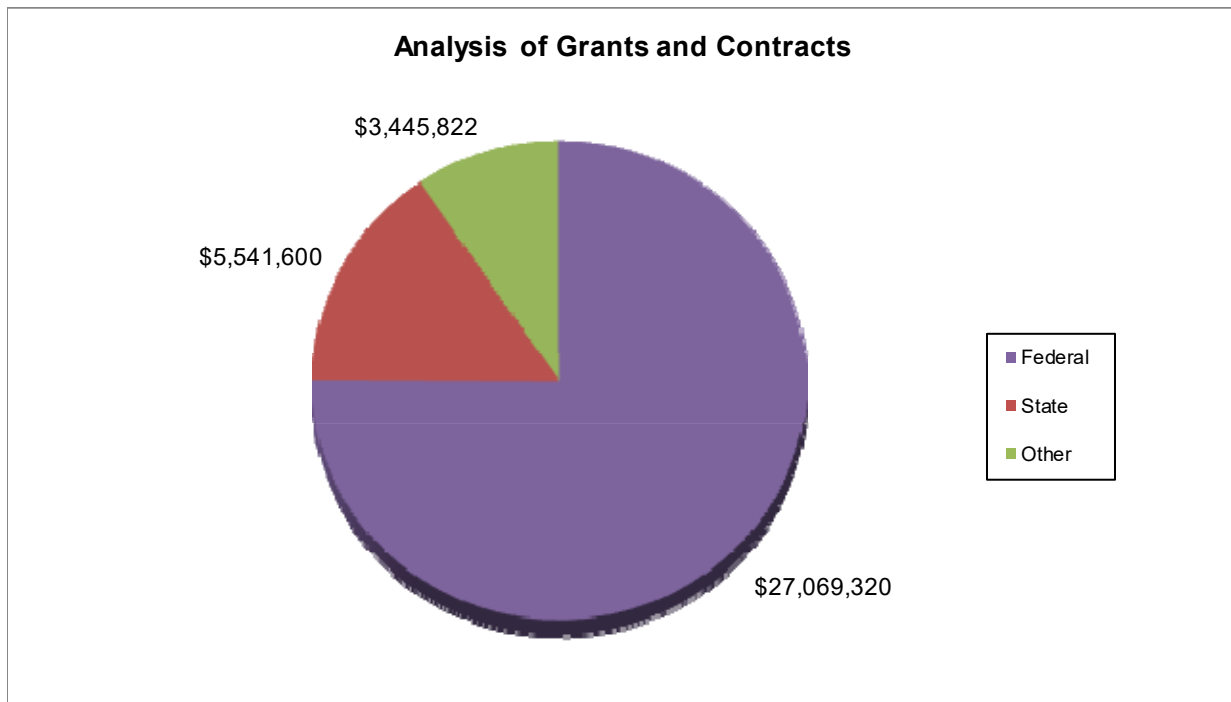
This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Deferred or non-reimbursable revenues are recorded when received, or when eligibility criteria have been met. Grants and contracts revenue increased by \$1.1 million between fiscal years 2017 and 2018.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

The following table details the University's grant and contract awards for the fiscal years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
FEDERAL SOURCES		
Financial aid	\$ 12,419,078	\$ 15,542,736
Department of Education	12,329,265	9,675,776
National Science Foundation	965,269	1,818,716
Department of Health and Human Services	799,739	836,534
Other federal agencies	555,969	537,129
Total federal sources	<u>27,069,320</u>	<u>28,410,891</u>
STATE AND OTHER SOURCES		
Grants and contracts	5,541,600	3,676,089
Other sources	3,445,822	2,886,528
Total state and other sources	<u>8,987,422</u>	<u>6,562,617</u>
	<u><u>\$ 36,056,742</u></u>	<u><u>\$ 34,973,508</u></u>

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



ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

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 \$448,000 between fiscal years 2017 and 2018.

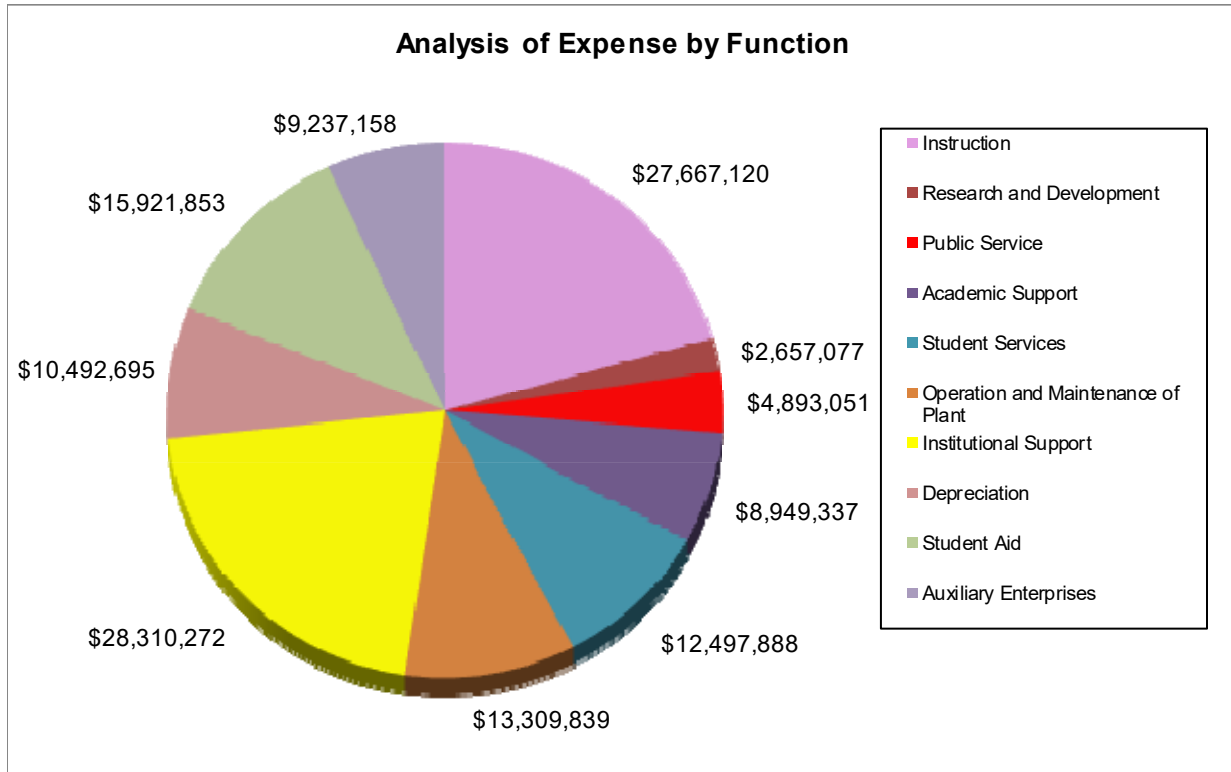
OPERATING EXPENSES

Operating expenses totaling \$134 million include salaries and benefits of \$67 million, materials and services of \$56.5 million, and depreciation of \$10.5 million. This represents a \$2.8 million increase between fiscal years 2017 and 2018, due to the University increasing expenses for material services for the fiscal year 2018.

Expenses by Function

	<u>2018</u>	<u>2017</u>
Educational and General:		
Instruction	\$ 27,667,120	\$ 29,330,409
Research and development	2,657,077	3,106,792
Public service	4,893,051	3,304,556
Academic support	8,949,337	8,823,833
Student services	12,497,888	12,521,450
Operation and maintenance of plant	13,309,839	11,718,174
Institutional support	28,310,272	24,747,339
Depreciation	10,492,695	10,953,608
Student aid	15,921,853	18,392,756
Auxiliary Enterprises:		
Residential life	8,217,126	7,445,816
Other auxiliary expenses	1,020,032	811,911
Total operating expenses	<u>\$ 133,936,290</u>	<u>\$ 131,156,644</u>

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)



NONOPERATING REVENUES (EXPENSES)

State Appropriations

Annually, the State of Alabama appropriates funding for higher education. The University received \$43.2 million for fiscal year 2018 for operations and maintenance. State appropriations increased by \$303,000 between fiscal years 2017 and 2018.

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 remained relatively flat between fiscal years 2017 and 2018.

Interest on Capital Assets Related Debt

This includes the interest incurred for fiscal year 2018 on bond debt. The interest expense decreased \$1.9 million.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

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 \$943,120 for fiscal year 2017. The University did not receive capital appropriations for fiscal year 2018 resulting in a decrease of \$943,120. The decrease is primarily due to capital appropriations for the construction of the National Historic Trail Interpretive and Scenic Byway Tourist Center in fiscal year 2017.

STATEMENTS OF CASH FLOWS

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

	2018	2017
Cash and cash equivalents provided by (used in):		
Operating activities	\$ (27,838,851)	\$ (23,025,817)
Noncapital financing activities	44,334,185	43,236,769
Capital and related financing activities	(11,115,119)	(17,263,578)
Investing activities	5,184,366	246,252
Net increase (decrease) in cash and cash equivalents	10,564,581	3,193,626
Cash and cash equivalents at beginning of year	15,652,747	12,459,121
Cash and cash equivalents at end of year	\$ 26,217,328	\$ 15,652,747

The increase in cash and cash equivalents of \$10.6 million is primarily the net of principal payments and proceeds on short-term debt. The University also had a reduction in capital debt related to the Montgomery Public Educational Building Authority Revenue Bonds (PEBA) series 2005 capital lease. Cash flows from operating activities decreased by \$4.8 million. This was due primarily to a \$6.9 million increase in cash paid to suppliers for goods and services.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

ENROLLMENT

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 2014 through 2018 academic years. Also indicated are the full-time equivalent students and the total number of on-campus credit hours taken by the students attending the University.

Fall Headcount Enrollment and Full-Time Equivalent

<u>Academic Year</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>	<u>Full-Time Equivalent</u>	<u>Total Credit Hours Taken</u>
2018	3,903	510	4,413	4,234	61,363
2017	4,208	552	4,760	4,539	67,786
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

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 2014 through 2018:

Fall Semester Freshmen Student Admissions

<u>Academic Year</u>	<u>Number of Applicants</u>	<u>Number Accepted</u>	<u>Percent Accepted</u>	<u>Number Enrolled</u>	<u>Percent Enrolled</u>
2018	7,783	7,607	97.7%	1,038	13.6%
2017	6,842	6,696	97.9%	967	14.4%
2016	9,053	4,155	45.9%	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%

Fall Semester Transfer Student Admissions

<u>Academic Year</u>	<u>Number of Applicants</u>	<u>Number Accepted</u>	<u>Percent Accepted</u>	<u>Number Enrolled</u>	<u>Percent Enrolled</u>
2018	370	305	82.4%	147	48.2%
2017	436	132	30.3%	102	77.3%
2016	825	280	33.9%	154	55.0%
2015	801	250	31.0%	124	50.0%
2014	817	279	34.1%	120	43.0%

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

Student Cost per Credit Hour

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

Student Cost Per Hour

<u>Student Classification</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
Undergraduate, resident	\$ 347	\$ 347	\$ 289	\$ 289	\$ 289
Undergraduate, nonresident	694	694	578	578	578
Graduate, resident	412	412	343	343	343
Graduate, nonresident	824	824	686	686	686

Annual Full-Time

<u>Student Classification</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>
Undergraduate, resident	\$ 8,328	\$ 8,328	\$ 6,936	\$ 6,936	\$ 6,936
Undergraduate, nonresident	16,656	16,656	13,872	13,872	13,872
Graduate, resident	7,416	7,416	6,174	6,174	6,174
Graduate, nonresident	14,832	14,832	12,348	12,348	12,348

Annual Estimated Total Costs

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

Annual Room and Board and Estimated Total Costs

<u>Academic Year</u>	<u>Room and Board</u>	<u>Estimated Tuition, Fees, Books, and Miscellaneous</u>	<u>Estimated Total Costs</u>
2018	\$ 6,050	\$ 12,668	\$ 18,718
2017	5,422	12,668	18,090
2016	5,422	10,820	16,242
2015	5,422	10,570	15,992
2014	5,422	10,320	15,742

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

The University has enjoyed a very high residence hall occupancy rate for the past several years and the expectation is that in the future the occupancy will continue to increase.

Residence Hall Occupancy Analysis

<u>Fall Semester</u>	<u>Number of Occupants</u>	<u>Percent of Occupancy</u>
2018	2,075	92.00%
2017	2,136	91.32%
2016	2,223	89.24%
2015	2,252	92.80%
2014	2,450	95.65%

The Administration remains committed to a strong and vibrant 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 are strategically allocated to highest priorities in a manner that supports achievement of the University's mission. The University has undertaken an active and precise effort to address years of deferred maintenance and the enhancement of the campus grounds.

President Ross has been focusing on building partnerships with local businesses, community leaders, Community Colleges throughout the State of Alabama and with the Southern Association of Colleges and Universities, Commission on Colleges. Memorandums of Understanding (MOU) were signed with five Community Colleges; Bishop State Community College, Enterprise Community College, Chattahoochee Valley Community College, Lawson State Community College and Wallace State Community College in Hanceville. These MOUs provide a pathway for students who have achieved their two-year or associate degrees to enroll at ASU to attain their bachelor's degrees at Alabama State University.

The University has partnered with the U. S. Department of Veteran Affairs to become a Defense Acquisitions University and forged a partnership with Apple that includes initiatives related to faculty development and student internships.

The administration has enhanced student recruitment efforts. A major recruitment effort was The 2019 President's Tour. This two week effort by students, faculty, staff and administrators shared the good news of Alabama State University in towns and cities across the States of Alabama and Georgia and was an overwhelming success. This tour also offered the opportunity to reengage with Alumni.

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2018 and 2017
(Unaudited)

The University has added new degree programs, which include a Bachelor of Fine Arts in dance and a master's in prosthetics and orthotics.

The President has also been promoting CommUniversity through his active engagement on and off campus and with the University's Alumni. The University continues to strengthen its ties with more than 100 businesses, corporations and graduate school programs via our Fall and Spring Opportunity Fairs, where students have the opportunity to exchange information with potential employers and graduate school representatives. The focus of Alumni engagement is to significantly increase Alumni participation.

The Board of Trustees was presented the 2018/19 Development Plan which has been initiated. ASU raised \$2.76 million in 2018, over \$1 million more than the previous year, while increasing the number of gifts to 4,127 as compared to 1,918 in 2017.



Bill Hopper
Interim Vice President for Business & Finance
May 30, 2019

**ALABAMA STATE UNIVERSITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	\$ 7,351,764	\$ 5,971,033
Stadium Fund:		
Cash and cash equivalents	920	907
Endowments:		
Cash and cash equivalents	332,952	549,345
Short-term investments	8,853,635	13,106,499
Accounts receivable (net of allowance of \$10,898,011 and \$9,254,549, respectively)	21,099,925	15,638,574
Prepaid expenses	21,417	216,952
Inventories	5,852	2,621
Total unrestricted assets	<u>37,666,465</u>	<u>35,485,931</u>
Restricted Assets:		
Grants and Contracts:		
Cash and cash equivalents	5,830,176	4,692,672
Grants receivable	5,801,122	5,423,338
Accounts receivable	28,856	11,771
Student Loans:		
Cash and cash equivalents	347,319	207,595
Endowments:		
Cash and cash equivalents	69,777	72,978
Short-term investments	2,086,379	2,059,640
Capital Projects and Debt Service:		
Cash and cash equivalents	12,284,420	4,158,175
Short-term investments	185,830	183,800
Agency Funds:		
Cash and cash equivalents	-	42
Other receivables	47,549	47,507
Total restricted assets	<u>26,681,428</u>	<u>16,857,518</u>
Total current assets	<u>64,347,893</u>	<u>52,343,449</u>
NONCURRENT ASSETS		
Student loans receivable	1,620,620	1,980,911
Capital assets, net	273,606,553	281,044,233
Total noncurrent assets	<u>275,227,173</u>	<u>283,025,144</u>
DEFERRED OUTFLOWS OF RESOURCES		
Hedging derivative	-	3,063,160
Deferred amount on debt refunding	8,289,479	2,595,826
Deferred outflows related to pensions	10,049,718	13,096,905
Deferred outflows related to OPEB	7,917,011	-
Total deferred outflows of resources	<u>26,256,208</u>	<u>18,755,891</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 365,831,274</u>	<u>\$ 354,124,484</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2018 AND 2017**

	2018	2017
LIABILITIES		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts payable and accrued liabilities	\$ 5,719,868	\$ 5,651,186
Student accounts payable	1,349	1,003
Unearned revenue	16,917,575	17,195,327
Line of credit	5,630,369	4,676,292
Current portion of compensated absences	599,977	657,911
Total payable from unrestricted assets	28,869,138	28,181,719
Payable from Restricted Assets:		
Grants and contracts accounts payable	4,593,706	4,865,794
Unearned revenue	506,522	741,437
Current portion of long-term debt	10,789,471	6,427,494
Total payable from restricted assets	15,889,699	12,034,725
Total current liabilities	44,758,837	40,216,444
NONCURRENT LIABILITIES		
Noncurrent portion of compensated absences	1,753,074	1,612,568
Hedging derivative liability	-	3,063,160
Long-term debt, net	203,602,089	199,160,001
Net pension liability	66,081,091	77,104,865
Postemployment benefits other than pensions	44,295,403	-
Total noncurrent liabilities	315,731,657	280,940,594
Total liabilities	360,490,494	321,157,038
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	15,287,000	9,035,000
Deferred inflows related to OPEB	4,835,020	-
Total deferred inflows of resources	20,122,020	9,035,000
Total liabilities and deferred inflows	380,612,514	330,192,038
NET POSITION		
Net investment in capital assets	67,487,687	78,602,620
Restricted:		
Nonexpendable:		
Scholarships	250,000	250,000
Expendable:		
Scholarships	862,234	838,697
Other	13,344,892	11,386,705
Total restricted expendable	14,207,126	12,225,402
Total restricted	14,457,126	12,475,402
Unrestricted	(96,726,053)	(67,145,576)
Total net position	\$ (14,781,240)	\$ 23,932,446

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES		
Student tuition and fees (net of scholarships of \$11,137,353 and \$10,584,560)	\$ 46,514,508	\$ 45,278,162
Federal grants and contracts	27,069,320	28,410,891
State grants and contracts	5,541,600	3,676,089
Nongovernmental grants and contracts	3,445,822	2,886,528
Sales and services of auxiliary enterprises	11,787,854	12,236,522
Intercollegiate athletics	2,419,517	2,985,840
Other operating revenue	3,131,638	2,605,573
Total operating revenues	99,910,259	98,079,605
OPERATING EXPENSES		
Educational and General:		
Instruction	27,667,120	29,330,409
Research and development	2,657,077	3,106,792
Public service	4,893,051	3,304,556
Academic support	8,949,337	8,823,833
Student services	12,497,888	12,521,450
Operation and maintenance of plant	13,309,839	11,718,174
Institutional support	28,310,272	24,747,339
Depreciation	10,492,695	10,953,608
Student aid	15,921,853	18,392,756
Auxiliary Enterprises:		
Residential life	8,217,126	7,445,816
Other auxiliary expenses	1,020,032	811,911
Total operating expenses	133,936,290	131,156,644
Operating loss	(34,026,031)	(33,077,039)

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 43,254,819	\$ 42,946,136
Investment income, net	960,270	1,198,459
Interest expense	(9,077,384)	(10,997,648)
Amortization expense	(472,585)	(333,823)
Gifts and donations	290,071	21,150
Federal subsidies for interest on Build America and Recovery Bonds	1,131,984	1,146,353
Other nonoperating expenses	<u>(2,093,227)</u>	<u>-</u>
Net nonoperating revenues (expenses)	<u>33,993,948</u>	<u>33,980,627</u>
Income (loss) before other changes in net position	<u>(32,083)</u>	<u>903,588</u>
OTHER CHANGES IN NET POSITION		
Capital appropriations	<u>-</u>	<u>943,120</u>
CHANGE IN NET POSITION		
Increase (decrease) in net position	<u>(32,083)</u>	<u>1,846,708</u>
Net position at beginning of year, as previously reported	23,932,446	22,085,738
Adoption of GASB 75 (Note 1)	<u>(38,681,603)</u>	<u>-</u>
Net position at beginning of year, as adjusted	<u>(14,749,157)</u>	<u>22,085,738</u>
Net position at end of year	<u>\$ (14,781,240)</u>	<u>\$ 23,932,446</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tuition and fees	\$ 41,049,125	\$ 43,796,735
Cash received from grants and contracts	36,255,720	33,839,468
Cash received from auxiliary enterprises	14,207,371	15,222,362
Cash received from other sources	2,389,405	1,627,775
Cash paid to suppliers for goods and services	(54,490,733)	(47,534,604)
Cash paid to employees for services	(51,327,886)	(51,584,797)
Cash paid for scholarships	(15,921,853)	(18,392,756)
Net cash used in operating activities	<u>(27,838,851)</u>	<u>(23,025,817)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	43,254,819	42,946,136
Gifts and donations	290,071	21,150
Gifts and grants for other than capital purposes:		
FFEL lending receipts	37,149,723	45,206,668
FFEL lending disbursements	(37,149,723)	(45,206,668)
SEOG lending receipts	294,173	295,068
SEOG lending disbursements	(294,173)	(295,068)
Proceeds from short-term debt	88,492,775	78,794,186
Principal paid on short-term debt	(87,538,698)	(78,385,308)
Interest paid on short-term debt	(164,782)	(139,395)
Net cash provided by noncapital financing activities	<u>44,334,185</u>	<u>43,236,769</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	-	943,120
Purchase of capital assets	(3,098,084)	(2,219,452)
Principal paid on capital debt and leases	(6,427,494)	(6,244,540)
Interest paid on capital debt and leases	(9,661,929)	(10,889,059)
Proceeds from bond refunding	146,352,807	-
Defeasance of debt	(135,070,176)	-
Termination of hedging derivative	(2,249,000)	-
Bond issuance costs	(1,716,000)	-
Other Rice Capital Access Program expenses	(377,227)	-
Federal subsidies for interest on Build America and Recovery Bonds	1,131,984	1,146,353
Net cash used in capital and related financing activities	<u>(11,115,119)</u>	<u>(17,263,578)</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017**

	<u>2018</u>	<u>2019</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	\$ 195,818	\$ 245,138
Proceeds from sale of investments	24,526,466	28,252,148
Purchase of investments	<u>(19,537,918)</u>	<u>(28,251,034)</u>
Net cash provided by investing activities	<u>5,184,366</u>	<u>246,252</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	10,564,581	3,193,626
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>15,652,747</u>	<u>12,459,121</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 26,217,328</u>	<u>\$ 15,652,747</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (34,026,031)	\$ (33,077,039)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	10,492,695	10,953,608
Loss on disposal of capital assets	43,068	-
Changes in assets and liabilities:		
Accounts receivable, net	(5,478,478)	(2,198,221)
Grants receivable	(377,784)	(1,464,265)
Prepaid expenses	195,535	32,746
Inventories	(3,231)	3,757
Student loans receivable	360,291	(295,293)
Compensated absences	82,572	(25,912)
Accounts payable and accrued liabilities	577,957	1,310,589
Net pension liability	(1,724,587)	1,369,699
Postemployment benefits other than pensions	2,531,809	
Unearned revenue	<u>(512,667)</u>	<u>364,514</u>
Net cash used in operating activities	<u>\$ (27,838,851)</u>	<u>\$ (23,025,817)</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
2018 AND 2017**

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	\$ 746,417	\$ 752,375
Due from ASU Foundation	-	75
Due from Alabama State University	153,979	-
Total unrestricted assets	<u>900,396</u>	<u>752,450</u>
Restricted Assets:		
Grants and Contracts:		
Cash and cash equivalents	272,549	370,797
Short-term investments	2,141,219	1,787,435
Endowments:		
Cash and cash equivalents	8,693,360	9,460,670
Short-term investments	79,025,425	74,266,858
Accrued interest and dividends	47,635	29,424
Total restricted assets	<u>90,180,188</u>	<u>85,915,184</u>
Total current assets	<u>91,080,584</u>	<u>86,667,634</u>
TOTAL ASSETS	<u>\$ 91,080,584</u>	<u>\$ 86,667,634</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 6,120	\$ 16,375
Due to other funds	-	302,023
TOTAL LIABILITIES	<u>6,120</u>	<u>318,398</u>
NET ASSETS		
Unrestricted	692,921	585,288
Temporarily restricted	32,632,631	29,704,731
Permanently restricted	<u>57,748,912</u>	<u>56,059,217</u>
TOTAL NET ASSETS	<u>91,074,464</u>	<u>86,349,236</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 91,080,584</u>	<u>\$ 86,667,634</u>

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 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES		
Contributions	\$ 1,287,995	\$ 1,017,364
Total operating revenues	<u>1,287,995</u>	<u>1,017,364</u>
OPERATING EXPENSES		
Educational and General:		
Program services	3,238,623	2,376,703
Supporting services	<u>39,754</u>	<u>62,815</u>
Total operating expenses	<u>3,278,377</u>	<u>2,439,518</u>
Operating loss	<u>(1,990,382)</u>	<u>(1,422,154)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income, net	1,538,805	1,444,600
Realized and unrealized gains (losses) on investments	5,262,887	6,080,931
Trustee fees	<u>(86,082)</u>	<u>(86,852)</u>
Net nonoperating revenues (expenses)	<u>6,715,610</u>	<u>7,438,679</u>
CHANGE IN NET ASSETS	4,725,228	6,016,525
NET ASSETS AT BEGINNING OF YEAR	<u>86,349,236</u>	<u>80,332,711</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 91,074,464</u></u>	<u><u>\$ 86,349,236</u></u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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, 2018 and 2017, 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, 2018 and 2017 and the fiscal years of the Foundation are December 31, 2017 and 2016. These component units are presented in the report on their respective fiscal years. Complete financial statements of the individual component units can be obtained directly from the University's administrative office.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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 University's 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.

The University recognizes grant and contract revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on the terms of the individual grant or contract.

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

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Subsequent Events

Management has evaluated subsequent events through May 30, 2019, 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 indenture.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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.

Prior to fiscal year 2018, interest costs for certain qualifying assets acquired with the proceeds of tax-exempt borrowings were capitalized and amortized over the life of the related asset. In 2018, the University early adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*. This statement simplifies accounting for interest cost incurred before the end of a construction period by requiring it to be expensed instead of capitalized.

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the year ended September 30, 2018, no impairments were recorded.

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Bond Issuance Costs and Loss on Bond Refunding

Bond premium and discounts, and 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.

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, 2018 and 2017, accrued vacation pay totaled \$2,353,051 and \$2,270,479, respectively. Because sick pay does not vest and will only be paid to employees on approved sick leave, no accrued liability has been recorded.

Pensions

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 or the Plan). 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 the Plan requirements. Benefits and refunds are recognized 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 the 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.

Postemployment Benefits Other Than Pensions (OPEB)

Employees of the University are covered by a cost sharing multiple-employer defined benefit postemployment healthcare plan administered by the Alabama Retired Education Employees' Health Care Trust (Trust). The Trust financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Deferred Outflows of Resources

Deferred outflows of resources consist of bond deferred refunding amounts, pension obligations, and OPEB obligations. Pension obligations include employer contributions to the Teachers' Retirement System subsequent to the Plan's measurement date, changes in proportion and differences between employer contributions and proportionate share of contributions, net difference between projected and actual earnings on pension plan investments, and changes in actuarial and other assumptions. OPEB obligations include employer contributions to the Alabama Retired Education Employees' Health Care Trust subsequent to the Trust's measurement date, changes in proportion and differences between employer contributions and proportionate share of contributions, net difference between projected and actual earnings on OPEB plan investments, and changes in actuarial and other assumptions.

Deferred Inflows of Resources

Deferred inflows of resources are composed of both pension and OPEB obligations. Pension obligations include differences between expected and actual experience, changes in proportion and differences between employer contributions and proportionate share of contributions, and net difference between projected and actual earnings on pension plan investments. OPEB obligations include changes in actuarial and other assumptions and net difference between projected and actual earnings on OPEB plan investments.

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position – Continued

- 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.

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 2018. The tax returns for years ended 2016 and thereafter are subject to audit by the taxing authorities.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Implementation of New Standard

During 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement revises existing standards for measuring and reporting retiree health benefits provided by the University to its employees. The University is required to recognize a liability equal to the net retiree health benefit liability.

The implementation of GASB Statement No. 75 resulted in an adjustment to unrestricted net position of \$(38,681,603) as of October 1, 2017. The standard was not applied retroactively to the 2017 financial statements because the state pension plan did not provide the necessary information.

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, 2018, the University has \$11,966,866 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 underlying securities of the money market funds are direct obligations of, or fully guaranteed by, the United States of America.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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:

<u>Type of Investment</u>	<u>2018</u>	<u>2017</u>
U.S. Government Guaranteed Securities	\$ 185,830	\$ 183,800
Mutual Funds – Bonds Only	4,051,316	5,523,479
Mutual Funds – Bonds and Equity Mix or Equity Only	5,077,028	7,282,440
Domestic Common and Preferred Stocks	1,811,670	2,360,220
Total	<u>\$ 11,125,844</u>	<u>\$ 15,349,939</u>

Investment Risk Factors

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

Credit Risk

The University's 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's Investment Policies require that not more than 10% of the fixed income may be invested in high yield bonds or global bonds.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

3. INVESTMENTS – CONTINUED

Credit Risk – Continued

The University's exposure to credit risk and concentration of credit risk at September 30, 2018 is as follows:

Credit Rating		September 30, 2018	
		Carrying and Fair Value	% of Total Investments
Aaa	U.S. Treasury Obligations	\$ 185,830	4.39%
Aa2	Ishares Core Total US Aggregate Bond ETF	1,523,814	35.96%
Aa2	PIMCO Low Duration Active ETF	74,651	1.76%
A1	Western Asset Core Plus Bond	936,929	22.11%
A2	Dodge and Cox Income Fund	928,306	21.91%
A3	PIMCO Total Return Active ETF	98,675	2.33%
Baa1	T Rowe Price Global Multi-Sector Bond Fund	313,070	7.39%
BB	INVESCO Senior Loan ETF	105,424	2.49%
BB	Putnam Premier Income Trust	70,447	1.66%
		\$ 4,237,146	100.00%

The University's exposure to credit risk and concentration of credit risk at September 30, 2017 is as follows:

Credit Rating		September 30, 2017	
		Carrying and Fair Value	% of Total Investments
Aaa	U.S. Treasury Obligations	\$ 183,800	3.22%
Aa2	Ishares Core Total US Aggregate Bond ETF	2,454,160	43.01%
A1	Western Asset Core Plus Bond	1,363,508	23.89%
A1	Dodge and Cox Income Fund	1,361,319	23.85%
A1	PIMCO Total Return Active ETF	133,770	2.34%
A1	PIMCO Low Duration Active ETF	103,931	1.82%
B	Powershares Senior Loan	106,791	1.87%
		\$ 5,707,279	100.00%

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

3. INVESTMENTS – CONTINUED

Interest Rate Risk

At September 30, 2018 and 2017, the maturity dates of the University's debt instruments were as follows:

Type of Investment	Investment Maturities at Fair Value (in Years)				Totals 9/30/18	Totals 9/30/17
	Less Than 1	1 – 5	6 – 10	More Than 10		
<i>Debt Securities:</i>						
U.S. Government						
Guaranteed Securities	\$ 185,830	\$ -	\$ -	\$ -	\$ 185,830	\$ 183,800
Mutual Funds –						
Bonds Only	-	74,651	3,976,665	-	4,051,316	5,523,479
<i>Total Debt Securities</i>	<u>\$ 185,830</u>	<u>\$ 74,651</u>	<u>\$ 3,976,665</u>	<u>\$ -</u>	<u>\$ 4,237,146</u>	<u>\$ 5,707,279</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

4. CHANGE IN CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2018 and 2017, was as follows:

	Balance 10/1/17	Additions	Reductions/ Transfers	Balance 9/30/18
Land	\$ 21,152,897	\$ 47,244	\$ -	\$ 21,200,141
Construction in progress	385,049	2,288,867	2,491,001	182,915
Buildings	277,523,895	-	(2,491,001)	280,014,896
Equipment	17,712,835	714,686	3,157,520	15,270,001
Library holdings	10,135,359	47,287	-	10,182,646
Intangible software	11,744,019	-	-	11,744,019
Infrastructure	86,942,823	-	-	86,942,823
Total capital assets	<u>425,596,877</u>	<u>3,098,084</u>	<u>3,157,520</u>	<u>425,537,441</u>
Less accumulated depreciation for:				
Buildings	96,976,759	6,272,544	-	103,249,303
Equipment	13,152,295	475,529	3,114,451	10,513,373
Library holdings	9,597,125	139,677	-	9,736,802
Intangible software	3,523,206	587,201	-	4,110,407
Infrastructure	21,303,259	3,017,744	-	24,321,003
Total accumulated depreciation	<u>144,552,644</u>	<u>10,492,695</u>	<u>3,114,451</u>	<u>151,930,888</u>
Capital assets, net	<u>\$ 281,044,233</u>	<u>\$ (7,394,611)</u>	<u>\$ 43,069</u>	<u>\$ 273,606,553</u>

	Balance 10/1/16	Additions	Reductions/ Transfers	Balance 9/30/17
Land	\$ 21,152,897	\$ -	\$ -	\$ 21,152,897
Construction in progress	1,246,645	2,120,741	2,982,337	385,049
Buildings	274,566,013	2,957,882	-	277,523,895
Equipment	17,684,588	124,582	96,335	17,712,835
Library holdings	10,135,359	-	-	10,135,359
Intangible software	11,744,019	-	-	11,744,019
Infrastructure	86,942,823	-	-	86,942,823
Total capital assets	<u>423,472,344</u>	<u>5,203,205</u>	<u>3,078,672</u>	<u>425,596,877</u>
Less accumulated depreciation for:				
Buildings	90,644,613	6,332,146	-	96,976,759
Equipment	12,379,727	867,487	94,919	13,152,295
Library holdings	9,448,095	149,030	-	9,597,125
Intangible software	2,936,005	587,201	-	3,523,206
Infrastructure	18,285,515	3,017,744	-	21,303,259
Total accumulated depreciation	<u>133,693,955</u>	<u>10,953,608</u>	<u>94,919</u>	<u>144,552,644</u>
Capital assets, net	<u>\$ 289,778,389</u>	<u>\$ (5,750,403)</u>	<u>\$ 2,983,753</u>	<u>\$ 281,044,233</u>

Depreciation expense for the years ended September 30, 2018 and 2017, totaled \$10,492,695 and \$10,953,608, respectively.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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

	<u>2018</u>	<u>2017</u>
Tuition, fees, room and board	\$ 29,390,213	\$ 20,088,389
State grants and contracts	1,114,906	1,926,583
Federal Student Loans	489,941	1,666,963
Other	<u>1,002,876</u>	<u>1,211,188</u>
	31,997,936	24,893,123
Allowance for doubtful accounts	<u>(10,898,011)</u>	<u>(9,254,549)</u>
Total	<u>\$ 21,099,925</u>	<u>\$ 15,638,574</u>

Student Loans Receivable

	<u>2018</u>	<u>2017</u>
Perkins Loans:		
Loans advanced	<u>\$ 11,077,608</u>	<u>\$ 11,077,608</u>
Less:		
Loans assigned to U.S. Government	(658,160)	(652,420)
Principal collected	(8,103,555)	(7,750,397)
Principal cancellations	<u>(695,273)</u>	<u>(693,880)</u>
	<u>(9,456,988)</u>	<u>(9,096,697)</u>
Total	<u>\$ 1,620,620</u>	<u>\$ 1,980,911</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2018, was as follows:

	Balance 10/1/17	Additions	Advance Refunding	Reductions	Balance 9/30/18	Due Within One Year
Series 1982 Dormitory Revenue Bonds, 3% interest, due semi-annually through 2022	\$ 265,000	\$ -	\$ -	\$ 50,000	\$ 215,000	\$ 50,000
Series 2004-B General Fee Revenue Bonds, auction rate, due through March 1, 2033	19,525,000	-	18,575,000	950,000	-	-
Series 2006 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	-	-	-
Series 2008 General Tuition and Fee Revenue Bonds, 4.00% – 5.00% interest, due semi-annually through 2038 on May 1 and November 1	31,355,000	-	29,455,000	930,000	970,000	970,000
Series 2009 General Tuition and Fee Revenue Bonds, 2.00% – 5.43% interest, due semi-annually through 2039 on March 1 and September 1	29,785,000	-	25,450,000	800,000	3,535,000	830,000
Series 2010 General Tuition and Fee Revenue Bonds, 2.4% – 7.25% interest, due semi-annually through 2040 on March 1 and September 1	48,840,000	-	-	1,325,000	47,515,000	1,365,000
Series 2012-A General Tuition and Fee Revenue Bonds, 2.00% – 5.00% interest, due semi-annually through 2042 on March 1 and September 1	22,385,000	-	11,560,000	1,960,000	8,865,000	2,015,000
Series 2012-B General Tuition and Fee Revenue Bonds, 2.00% – 5.40% interest, due semi-annually through 2039 on March 1 and September 1	10,485,000	-	4,265,000	230,000	5,990,000	235,000
Series 2018-1 Future Advance Project Funding Bond, 2.919% interest due semi-annually through 2038 on March 1 and September 1	-	99,782,279	-	-	99,782,279	3,744,758
Series 2018-2 Future Advance Project Funding Bond, 2.963% interest due semi-annually through 2042 on March 1 and September 1	-	46,570,528	-	-	46,570,528	1,399,713
	<u>204,450,000</u>	<u>146,352,807</u>	<u>131,115,000</u>	<u>6,245,000</u>	<u>213,442,807</u>	<u>10,609,471</u>
Unamortized bond discount	(1,197,303)	-	-	(569,927)	(627,376)	-
Unamortized bond premium	607,304	-	-	576,175	31,129	-
Bonds payable, net	203,860,001	146,352,807	131,115,000	6,251,248	212,846,560	10,609,471
Capital lease obligations	827,494	-	-	2,494	825,000	-
Notes payable	900,000	-	-	180,000	720,000	180,000
Total long-term debt	<u>\$ 205,587,495</u>	<u>\$ 146,352,807</u>	<u>\$ 131,115,000</u>	<u>\$ 6,433,742</u>	<u>\$ 214,391,560</u>	<u>\$ 10,789,471</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. LONG-TERM DEBT – CONTINUED

Long-term debt activity for the year ended September 30, 2017, was as follows:

	<u>Balance 10/1/16</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 9/30/17</u>	<u>Due Within One Year</u>
Series 1982 Dormitory Revenue Bonds, 3% interest, due semi-annually through 2022	\$ 315,000	\$ -	\$ 50,000	\$ 265,000	\$ 50,000
Series 2004-B General Fee Revenue Bonds, auction rate, due through March 1, 2033	20,450,000	-	925,000	19,525,000	950,000
Series 2006 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	-
Series 2008 General Tuition and Fee Revenue Bonds, 4.00% – 5.00% interest, due semi-annually through 2038 on May 1 and November 1	32,250,000	-	895,000	31,355,000	930,000
Series 2009 General Tuition and Fee Revenue Bonds, 2.00% – 5.43% interest, due semi-annually through 2039 on March 1 and September 1	30,555,000	-	770,000	29,785,000	800,000
Series 2010 General Tuition and Fee Revenue Bonds, 2.4% interest, due semi-annually through 2040 on March 1 and September 1	50,125,000	-	1,285,000	48,840,000	1,325,000
Series 2012-A General Tuition and Fee Revenue Bonds, 2.00% – 5.00% interest, due semi-annually through 2042 on March 1 and September 1	24,295,000	-	1,910,000	22,385,000	1,960,000
Series 2012-B General Tuition and Fee Revenue Bonds, 2.00% – 5.40% interest, due semi-annually through 2039 on March 1 and September 1	10,705,000	-	220,000	10,485,000	230,000
	210,505,000	-	6,055,000	204,450,000	6,245,000
Unamortized bond discount	(1,250,348)	-	(53,045)	(1,197,303)	-
Unamortized bond premium	659,843	-	52,539	607,304	-
Bonds payable, net	209,914,495	-	6,054,494	203,860,001	6,245,000
Capital lease obligations	837,034	-	9,540	827,494	2,494
Notes payable	1,080,000	-	180,000	900,000	180,000
Total long-term debt	<u>\$ 211,831,529</u>	<u>\$ -</u>	<u>\$ 6,244,034</u>	<u>\$ 205,587,495</u>	<u>\$ 6,427,494</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable

Series 2018-1 and the Series 2018-2 Future Advance Project Funding Bonds

On March 6, 2018, the University issued the Series 2018-1 Future Advance Project Funding Bonds (Series 2018-1 Bonds) in the amount of \$99,782,279 and the Series 2018-2 Future Advance Project Funding Bonds (Series 2018-2 Bonds) in the amount of \$46,570,528.

The proceeds of these bonds were used to defease the following in an advanced refunding:

- Fully defease the Series 2004-B General Fee Revenue Bonds in the amount of \$18,575,000.
- Fully defease the Series 2006 General Tuition and Fee Revenue Bonds in the amount of \$41,810,000.
- Partially defease the Series 2008 General Tuition and Fee Revenue Bonds in the amount of \$29,455,000.
- Partially defease the Series 2009 General Tuition and Fee Revenue Bonds in the amount of \$25,450,000.
- Partially defease the Series 2012-A General Tuition and Fee Revenue Bonds in the amount of \$11,560,000.
- Partially defease the Series 2012-B General Tuition and Fee Revenue Bonds in the amount of \$4,265,000.

Total proceeds of \$135,070,176 were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the refunded portion of the bonds totaling \$131,115,000 are considered defeased and the liability for the partially refunded portion has been removed from the 2018 statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$7,982,038. This amount is being deferred and amortized over the remaining life of the old debt. Over the life of the bonds, the University decreased its total debt service requirements by \$16,408,373. The result of this refunding was an economic gain of \$10,239,677.

In addition, the University paid \$2,249,000 of the proceeds to terminate the Swap Agreement with JPMorgan.

Bond issuance costs totaling \$1,716,000 were incurred in connection with the Series 2018-1 and the Series 2018-2 Bonds. These costs were included in other nonoperating expense during the current period.

The Series 2018-1 Bonds are due in semiannual installments of \$3,310,653 beginning on March 1, 2019 through September 1, 2038, with an interest rate of 2.919%.

The Series 2018-2 Bonds are due in semiannual installments of \$1,382,551 beginning on March 1, 2019 through March 3, 2042, with an interest rate of 2.963%.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable – Continued

Series 2018-1 and the Series 2018-2 Future Advance Project Funding Bonds – Continued

The bonds were issued through the Rice Capital Access Program (RCAP). The RCAP is a program established pursuant to the Higher Education Act of 1965, as amended, that provides historically black colleges and universities with access to funds on favorable terms for capital projects and to refinance existing debt related to such projects.

Participants in the RCAP are required to deposit 5% of any loan draws under this program into an escrow account to be held and used by the program trustee to satisfy any payment defaults the borrower may incur related to its outstanding obligations under the program. Any escrowed funds used by the trustee for debt service payments are required to be replenished by the borrower. If a program participant defaults on its obligations, the program trustee is required to use the defaulted borrower's escrow accounts to satisfy the debt service requirements of the defaulted borrower until those accounts are depleted. If the escrow accounts of this defaulted borrower are insufficient to satisfy the defaulted borrower's total debt service obligation, the program trustee may use the escrowed funds of all program participants, on a prorated basis, based on each program participant's level of participation in the program, to satisfy any additional debt service not covered by the defaulted borrower's escrowed accounts. As of September 30, 2018, \$7,063,485 was held in an escrow account to be used by the program trustee to satisfy any defaults under the program. This amount is included as cash restricted for capital projects and debt service on the 2018 statement of net position. As of September 30, 2018, there was one program participant that was in default under the program. The University's portion of the annual debt service related to the defaulted program participant was approximately \$60,000 in 2018.

Series 2012-A and 2012-B General Tuition and Fee Revenue Bonds

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%.

As noted above, \$11,560,000 of the Series 2012-A Bonds and \$4,265,000 of the Series 2012-B Bonds were partially defeased through the issuance of the Series 2018-1 and the Series 2018-2 Bonds.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable – Continued

Series 2010 General Tuition and Fee Revenue Bonds

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 7.25%.

Series 2009 General Tuition and Fee Revenue Bonds

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%.

As noted above, \$25,450,000 of the Series 2012 Bonds were partially defeased through the issuance of the Series 2018-1 and the Series 2018-2 Bonds.

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, 2018.

Series 2008 General Tuition and Fee Revenue Bonds

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 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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable – Continued

Series 2008 General Tuition and Fee Revenue Bonds – Continued

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, 2018.

As noted above, \$29,455,000 of the Series 2008 Bonds were partially defeased through the issuance of the Series 2018-1 and the Series 2018-2 Bonds.

Series 2006 General Tuition and Fee Revenue Bonds

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%.

As noted above, the Series 2008 Bonds were fully defeased, in the amount of \$41,810,000, through the issuance of the Series 2018-1 and the Series 2018-2 Bonds.

Series 2004-B General Tuition and Fee Revenue Bonds

On August 27, 2004, the University issued \$24,425,000 in Alabama State University General Tuition and Fee Revenue Bonds, Series 2004-B (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.

As noted above, the Series 2004 Bonds were fully defeased, in the amount of \$18,575,000, through the issuance of the Series 2018-1 and the Series 2018-2 Bonds.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. LONG-TERM DEBT – CONTINUED

Bonds Payable – Continued

Series 1982 Dormitory Revenue Bonds

On February 1, 1982, the University issued \$1,293,000 in Dormitory Revenue Bonds (Series 1982 Bonds). The Series 1982 Bonds were issued for the purposes of providing funds to construct student housing.

The Series 1982 Bonds will fully mature by February 1, 2022. Interest payments are due semi-annually on February 1 and August 1, of each year, beginning on August 1, 1982, at 3%.

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

	<u>Principal</u>	<u>Interest</u>	<u>Net Cash Flows</u>
2019	\$ 10,609,471	\$ 8,142,491	\$ 18,751,962
2020	10,219,795	7,799,956	18,019,751
2021	9,504,986	7,455,366	16,960,352
2022	7,765,598	7,146,836	14,912,434
2023	12,205,953	6,795,306	19,001,259
2024-2028	42,180,041	29,009,827	71,189,868
2029-2033	47,454,774	20,641,688	68,096,462
2034-2038	55,948,865	10,642,265	66,591,130
2039-2042	17,553,324	1,540,824	19,094,148
	<u>\$ 213,442,807</u>	<u>\$ 99,174,559</u>	<u>\$ 312,617,366</u>

Interest expense for the years ended September 30, 2018 and 2017, totaled \$9,077,384 and \$10,997,648, respectively.

Bond Covenants

The University's bonds have specific reporting requirements. These requirements include the completion of the annual audited financial statements within a specific number of days prior to year-end. The University was not in compliance with this reporting requirement for fiscal year 2018.

The Series 2018-1 and the 2018-2 Bonds state that the University shall set rates and charges such that each year, Net Income Available for Debt Service is equal to at least 120% of Maximum Annual Debt Service (the Net Income Available for Debt Service Covenant).

As of May 30, 2019, the University was working with RCAP to determine if the University was in compliance with the Net Income Available For Debt Service Covenant for fiscal year 2018.

In the event that the University does not comply with the Net Income Available for Debt Service Covenant, it will be required to create the Alabama State University Liquidity Reserve Account (Series A 2018). The University would be required to fund this account annually in the amount of \$200,000 until the amount on deposit in such funds totaled \$1,000,000.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. LONG-TERM DEBT – CONTINUED

Note Payable

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 180,000	\$ 22,246	\$ 202,246
2020	180,000	16,356	196,356
2021	180,000	10,384	190,384
2022	180,000	4,786	184,786
	<u>\$ 720,000</u>	<u>\$ 53,772</u>	<u>\$ 773,772</u>

Line of Credit

The University has line of credit with Regions Bank for \$7,000,000. The line of credit matures on September 15, 2019, and has an interest rate of LIBOR plus 2.25%. Short-term debt activity for the years ended September 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
Balance at beginning of year	\$ 4,676,292	\$ 4,267,414
Draws	88,492,775	78,794,186
Payments	<u>(87,538,698)</u>	<u>(78,385,308)</u>
Balance at end of year	<u>\$ 5,630,369</u>	<u>\$ 4,676,292</u>

The line of credit is secured by a pledge of student revenues.

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 2018.

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

6. LONG-TERM DEBT – CONTINUED

Capital Lease Obligations – Continued

The net book value of the assets acquired through capital leases totaled \$7,128 and \$14,255 as of September 30, 2018 and 2017, respectively.

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

2019	\$ 43,313
2020	43,313
2021	43,313
2022	43,313
2023	165,031
2024-2026	<u>756,436</u>
Total minimum lease payments	1,094,719
Less amount representing interest	<u>269,719</u>
Present value of minimum lease payments	<u><u>\$ 825,000</u></u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

7. HEDGING DERIVATIVE INSTRUMENT

The University held the following derivative instrument at September 30, 2017:

Type	Notional Amount	Change in Fair Value		Fair Value	
		Classification	Increase (Decrease)	Classification	Liability
Hedging Derivative Instruments					
Cash Flow Hedges					
Pay-fixed Interest Rate Swap		Deferred Outflow		Hedging Derivative	
2004 Bonds	\$ 19,525	of Resources	\$ (1,590,126)	Liability	\$ (3,063,160)

The terms of the derivative instrument held at September 30, 2017, 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	3/1/2033	Pay 3.222% Receive 68% 30-day LIBOR* Rate

*LIBOR is the London Interbank Offering Rate

As discussed in Note 6, the University issued the Series 2018-1 and the Series 2018-2 Bonds on March 6, 2018. Of the total proceeds, \$2,249,000 was paid to JPMorgan to terminate the Swap Agreement.

Interest Rate Risk

As of September 30, 2018, the University is not exposed to interest rate risk, credit risk, basis risk, termination risk, or rollover risk, because the swap agreement was terminated on March 6, 2018.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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.

All of the University's investments as of September 30, 2018 and 2017 were classified as Level 1. At September 30, 2017, the University's hedging derivative instrument was classified as Level 2.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

8. FAIR VALUE MEASUREMENT – CONTINUED

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, 2018 and 2017.

9. PENSION 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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

9. PENSION PLAN – CONTINUED

Benefits Provided – Continued

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 equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

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.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the years ended September 30, 2018 and 2017 was 12.24% and 12.01% of annual pay for Tier 1 members and 11.01% and 10.82% 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 \$5,427,718 and \$5,819,937 for the years ended September 30, 2018 and 2017, respectively.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

9. PENSION PLAN – CONTINUED

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

At September 30, 2018 and 2017, the University reported a liability of \$66,081,091 and \$77,104,865, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016 and 2015. 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, 2017 and 2016, the University's proportion was 0.672343% and 0.712219%, respectively, which was a decrease of 0.039876% from its proportion measured as of September 30, 2017, and an increase of 0.058853% from its proportion measured as of September 30, 2016.

For the years ended September 30, 2018 and 2017, the University recognized pension expense of approximately \$3,652,000 and \$6,540,900, respectively. At September 30, 2018 and 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>September 30, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 2,833,000
Net difference between projected and actual earnings on pension plan investments	-	3,951,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	678,000	8,503,000
Change of assumptions	3,944,000	-
Employer contributions subsequent to measurement date	5,427,718	-
	<u>\$ 10,049,718</u>	<u>\$ 15,287,000</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

9. PENSION PLAN – CONTINUED

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

	<u>September 30, 2017</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 1,986,000
Net difference between projected and actual earnings on pension plan investments	1,114,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,198,000	7,049,000
Change of assumptions	5,444,000	-
Employer contributions subsequent to measurement date	5,340,905	-
	<u>\$ 13,096,905</u>	<u>\$ 9,035,000</u>

Deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date in the amount of \$5,427,718 will be recognized as a reduction of the net pension liability in the year ending September 30, 2019. 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,	
2019	\$ 2,698,000
2020	1,915,000
2021	3,426,000
2022	2,403,000
2023	223,000

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

9. PENSION PLAN – CONTINUED

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2016 and 2015, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment rate of return*	7.75%
Projected salary increases	3.25-5.00%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2016 and 2015, 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, 2015 and 2014. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

As of September 30, 2016, 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 BB projected to 2020 and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

As of September 30, 2015, 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 2016 and set back one year for females.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

9. PENSION PLAN – CONTINUED

Actuarial Assumptions – Continued

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	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
	100.00%	

* Includes assumed rate of inflation of 2.5%

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. 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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

9. PENSION PLAN – CONTINUED

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 7.75%, 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 (6.75%) or 1-percentage point higher (8.75%) than the current rate (in thousands):

	<u>1% Decrease (6.75%)</u>	<u>Current Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
University’s proportionate share of collective net pension liability	\$ 91,147	\$ 66,081	\$ 44,877

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, 2017 and 2016. 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, 2017 and 2016. The auditors’ report dated August 20, 2018 and September 22, 2017, 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, 2017 and 2016, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

10. POST-EMPLOYMENT BENEFITS (OPEB)

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Plan Description

The Alabama Retired Education Employees' Health Care Trust (Trust) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Plan (PEEHIP). In accordance with GASB, the Trust is considered a component unit of the State of Alabama (State) and is included in the State's Comprehensive Annual Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the Code of Alabama 1975, Title 16, Chapter 25A (Act 83-455) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees, and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Board. The Board is a corporate body for purposes of management of the health insurance plan. The Code of Alabama 1975, Section 16-25A-4 provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

Benefits Provided

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Benefits Provided – Continued

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Effective January 1, 2018, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The MAPDP plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the United Healthcare plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Contributions

The Code of Alabama 1975, Section 16-25A-8 and the Code of Alabama 1975, Section, 16-25A-8.1 provide the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25 subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the Board. This reduction in the employer contribution ceases upon notification to the Board of the attainment of Medicare coverage.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2018, the University reported a liability of \$44,295,403 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2018, the University's proportion was 0.59638% percent, which was an increase of 0.09688% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the University recognized OPEB expense of \$2,675,728, with no special funding situations.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

At September 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	4,599,188
Net difference between projected and actual earnings on OPEB plan investments	-	235,832
Changes in proportion and differences between Employer contributions and proportionate share of contributions	6,532,525	-
Employer contributions subsequent to the measurement date	<u>1,384,486</u>	<u>-</u>
	<u>\$ 7,917,011</u>	<u>\$ 4,835,020</u>

Deferred outflow of resources related to OPEB resulting from the University's contributions subsequent to the measurement date in the amount of \$1,384,486 will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending September 30,	
2019	\$ 310,705
2020	310,705
2021	310,705
2022	310,705
2023	369,663
Thereafter	85,022

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases ¹	3.25% - 5.00%
Long-Term Investment Rate of Return ²	7.25%
Municipal Bond Index Rate at the Measurement Date	3.57%
Municipal Bond Index Rate at the Prior Measurement Date	2.93%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2042
Single Equivalent Interest Rate at the Measurement Date	4.63%
Single Equivalent Interest Rate at the Prior Measurement Date	4.01%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.00%
Ultimate Trend Rate	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022

¹Includes 3.00% wage inflation.

²Compounded annually, net of investment expense, and includes inflation.

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

There were no ad hoc postemployment benefit changes, including ad hoc cost of living adjustments, during fiscal year 2017.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2016 valuation were based on a review of recent plan experience done concurrently with the September 30, 2016 valuation.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Actuarial Assumptions – Continued

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

	Target Allocation	Long-Term Expected Real Rate of Return*
Fixed Income	30.00%	4.40%
U.S. Large Stocks	38.00%	8.00%
U.S. Mid Stocks	8.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
	<u>100.00%</u>	

* Geometric mean, includes 2.5% inflation

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2018 was 4.63%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.01%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 27.08% of the employer contributions were used to assist in funding retiree benefit payments in 2017 and it is assumed that the amount will increase by 3.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the Trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2115. The long term rate of return is used until the assets are expected to be depleted in 2042, after which the municipal bond rate is used.

Sensitivity of the University's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Costs Trend Rates

The following table presents the University's proportionate share of the net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Healthcare Trend Rate</u>	<u>1% Increase</u>
University's proportionate share of collective net OPEB liability	\$ 35,763,283	\$ 44,295,403	\$ 55,304,176

The following table presents the University's proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 4.63%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease (3.63%)</u>	<u>Current Discount Rate (4.63%)</u>	<u>1% Increase (5.63%)</u>
University's proportionate share of collective net OPEB liability	\$ 53,543,927	\$ 44,295,403	\$ 36,923,174

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2017. Additional financial and actuarial information is available at www.rsa-al.gov.

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:

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

The maximum accumulation of annual leave is 36 days. Payment is made to employees for unused annual leave at termination or retirement. The liability for unused annual leave for the years ended September 30, 2018 and 2017, is included on the financial statements as a compensated absence liability.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

12. OPERATING LEASES

In December 2017, the University entered into an agreement for the lease of a copier fleet. The term of the lease requires 60 monthly installments of \$33,306.

Future minimum lease payments are as follows:

2019	\$ 399,672
2020	399,672
2021	399,672
2022	399,672
2023	<u>66,612</u>
	<u>\$ 1,665,300</u>

Rent expense for all operating leases totaled \$672,598 and \$899,115 for the years ended September 30, 2018 and 2017, respectively.

13. CONSTRUCTION COMMITMENTS

As of September 30, 2018, the University had commitments on construction of capital projects as follows:

Gross commitments	\$ 4,528,299
Spent-to-date	<u>(3,912,732)</u>
Net commitments	<u>\$ 615,567</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

14. COMPONENT UNITS

Details of the Foundation's net assets at December 31, 2017 and 2016, and the Trust's net assets at July 31, 2018 and 2017, are as follows:

	FY 2018-2017			FY 2017-2016		
	Foundation	Trust	Totals	Foundation	Trust	Totals
ASSETS						
CURRENT ASSETS						
Unrestricted assets:						
Cash and cash equivalents	\$ 746,417	\$ -	\$ 746,417	\$ 752,375	\$ -	\$ 752,375
Due from ASU Foundation	-	-	-	-	75	75
Due from Alabama State University	-	153,979	153,979	-	-	-
Total unrestricted assets	<u>746,417</u>	<u>153,979</u>	<u>900,396</u>	<u>752,375</u>	<u>75</u>	<u>752,450</u>
Restricted assets:						
Grants and contracts:						
Cash and cash equivalents	272,549	-	272,549	370,797	-	370,797
Short-term investments	2,141,219	-	2,141,219	1,787,435	-	1,787,435
Endowments:						
Cash and cash equivalents	-	8,693,360	8,693,360	-	9,460,670	9,460,670
Short-term investments	-	79,025,425	79,025,425	-	74,266,858	74,266,858
Accrued interest and dividends	-	47,635	47,635	-	29,424	29,424
Total restricted assets	<u>2,413,768</u>	<u>87,766,420</u>	<u>90,180,188</u>	<u>2,158,232</u>	<u>83,756,952</u>	<u>85,915,184</u>
Total current assets	<u>3,160,185</u>	<u>87,920,399</u>	<u>91,080,584</u>	<u>2,910,607</u>	<u>83,757,027</u>	<u>86,667,634</u>
TOTAL ASSETS	<u>\$ 3,160,185</u>	<u>\$ 87,920,399</u>	<u>\$ 91,080,584</u>	<u>\$ 2,910,607</u>	<u>\$ 83,757,027</u>	<u>\$ 86,667,634</u>
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	\$ 6,120	\$ -	\$ 6,120	\$ 16,375	\$ -	\$ 16,375
Due to other funds	-	-	-	-	302,023	302,023
Total current liabilities	<u>6,120</u>	<u>-</u>	<u>6,120</u>	<u>16,375</u>	<u>302,023</u>	<u>318,398</u>
TOTAL LIABILITIES	<u>6,120</u>	<u>-</u>	<u>6,120</u>	<u>16,375</u>	<u>302,023</u>	<u>318,398</u>
NET ASSETS						
Unrestricted	692,921	-	692,921	585,288	-	585,288
Temporarily restricted	1,261,144	31,371,487	32,632,631	1,108,944	28,595,787	29,704,731
Permanently restricted	1,200,000	56,548,912	57,748,912	1,200,000	54,859,217	56,059,217
TOTAL NET ASSETS	<u>3,154,065</u>	<u>87,920,399</u>	<u>91,074,464</u>	<u>2,894,232</u>	<u>83,455,004</u>	<u>86,349,236</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,160,185</u>	<u>\$ 87,920,399</u>	<u>\$ 91,080,584</u>	<u>\$ 2,910,607</u>	<u>\$ 83,757,027</u>	<u>\$ 86,667,634</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

14. COMPONENT UNITS – CONTINUED

Details of the Foundation’s revenues, expenses, and changes in net assets for the years ended December 31, 2017 and 2016, and the Trust’s revenues, expenses, and changes in net assets for the years ended July 31, 2018 and 2017, are as follows:

	FY 2018–2017			FY 2017–2016		
	Foundation	Trust	Totals	Foundation	Trust	Totals
OPERATING REVENUES						
Contributions	\$ 1,187,600	\$ 100,395	\$ 1,287,995	\$ 952,388	\$ 64,976	\$ 1,017,364
Total operating revenues	1,187,600	100,395	1,287,995	952,388	64,976	1,017,364
OPERATING EXPENSES						
Educational and general:						
Program services	1,246,423	1,992,200	3,238,623	711,641	1,665,062	2,376,703
Supporting services	39,754	-	39,754	62,815	-	62,815
Total operating expenses	1,286,177	1,992,200	3,278,377	774,456	1,665,062	2,439,518
Operating income (loss)	(98,577)	(1,891,805)	(1,990,382)	177,932	(1,600,086)	(1,422,154)
NONOPERATING REVENUES (EXPENSES)						
Investment income, net	25,328	1,513,477	1,538,805	17,575	1,427,025	1,444,600
Realized and unrealized gains (losses) on investments	333,082	4,929,805	5,262,887	71,131	6,009,800	6,080,931
Trustee fees	-	(86,082)	(86,082)	-	(86,852)	(86,852)
Net nonoperating revenues (expenses)	358,410	6,357,200	6,715,610	88,706	7,349,973	7,438,679
CHANGE IN NET ASSETS	259,833	4,465,395	4,725,228	266,638	5,749,887	6,016,525
NET ASSETS AT BEGINNING OF YEAR	2,894,232	83,455,004	86,349,236	2,627,594	77,705,117	80,332,711
NET ASSETS AT END OF YEAR	\$ 3,154,065	\$ 87,920,399	\$ 91,074,464	\$ 2,894,232	\$ 83,455,004	\$ 86,349,236

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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 2018–2017					
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	\$ 1,547,305	\$ 1,547,305	\$ -	\$ -	
Equity Mutual Funds	48,974,115	48,974,115	-	-	
Fixed Income Mutual Funds	30,051,310	30,051,310	-	-	
Bond and Equity Mutual Funds	593,914	593,914	-	-	
	<u>\$ 81,166,644</u>	<u>\$ 81,166,644</u>	<u>\$ -</u>	<u>\$ -</u>	

FY 2017–2016					
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	\$ 1,222,612	\$ 1,222,612	\$ -	\$ -	
Equity Mutual Funds	46,118,744	46,118,744	-	-	
Fixed Income Mutual Funds	28,148,114	28,148,114	-	-	
Bond and Equity Mutual Funds	564,823	564,823	-	-	
	<u>\$ 76,054,293</u>	<u>\$ 76,054,293</u>	<u>\$ -</u>	<u>\$ -</u>	

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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, 2018:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,906,155	\$ 250,000	\$ 2,156,155
Board-designated endowment funds	13,362,099	-	-	13,362,099
	<u>\$ 13,362,099</u>	<u>\$ 1,906,155</u>	<u>\$ 250,000</u>	<u>\$ 15,518,254</u>

University endowment net assets consisted of the following as of September 30, 2017:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,882,618	\$ 250,000	\$ 2,132,618
Board-designated endowment funds	12,611,923	-	-	12,611,923
	<u>\$ 12,611,923</u>	<u>\$ 1,882,618</u>	<u>\$ 250,000</u>	<u>\$ 14,744,541</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

15. ENDOWMENTS – CONTINUED

University Endowments – Continued

Changes in the University’s endowment net assets consist of the following for the year ended September 30, 2018:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 12,611,923	\$ 1,882,618	\$ 250,000	\$ 14,744,541
Interest and dividends, net of investment expenses	184,861	9,536	-	194,397
Realized and unrealized gains on investments	562,315	17,001	-	579,316
Appropriation of endowment assets for expenditure	3,000	(3,000)	-	-
Change in endowment net assets	750,176	23,537	-	773,713
	<u>\$ 13,362,099</u>	<u>\$ 1,906,155</u>	<u>\$ 250,000</u>	<u>\$ 15,518,254</u>

Changes in the University’s endowment net assets consist of the following for the year ended September 30, 2017:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 11,519,186	\$ 1,817,466	\$ 250,000	\$ 13,586,652
Interest and dividends, net of investment expenses	195,214	9,087	-	204,301
Realized and unrealized gains on investments	890,773	62,815	-	953,588
Appropriation of endowment assets for expenditure	6,750	(6,750)	-	-
Change in endowment net assets	1,092,737	65,152	-	1,157,889
	<u>\$ 12,611,923</u>	<u>\$ 1,882,618</u>	<u>\$ 250,000</u>	<u>\$ 14,744,541</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

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.

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, 2018 and December 31, 2017, respectively.

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 29,704,731	\$ 56,059,217	\$ 85,763,948
Investment return:			
Interest and dividends, net of investment expenses	1,175,975	356,849	1,532,824
Realized and unrealized gains on investments	3,933,915	1,232,451	5,166,366
Total investment return	<u>5,109,890</u>	<u>1,589,300</u>	<u>6,699,190</u>
Contributions and additions	1,142,715	100,395	1,243,110
Appropriation of endowment assets for expenditure	<u>(3,324,705)</u>	<u>-</u>	<u>(3,324,705)</u>
Endowment net assets at end of year	<u>\$ 32,632,631</u>	<u>\$ 57,748,912</u>	<u>\$ 90,381,543</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

15. ENDOWMENTS – CONTINUED

Endowments of the University’s Component Units – 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, 2017 and December 31, 2016, respectively.

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 25,616,627	\$ 54,156,748	\$ 79,773,375
Investment return:			
Interest and dividends, net of investment expenses	1,104,009	335,043	1,439,052
Realized and unrealized losses on investments	4,557,347	1,502,450	6,059,797
Total investment return	5,661,356	1,837,493	7,498,849
Contributions and additions	890,303	64,976	955,279
Appropriation of endowment assets for expenditure	(2,463,555)	-	(2,463,555)
Endowment net assets at end of year	<u>\$ 29,704,731</u>	<u>\$ 56,059,217</u>	<u>\$ 85,763,948</u>

Return Objectives and Risk Parameters

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

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

15. ENDOWMENTS – CONTINUED

Endowments of the University’s Component Units – Continued

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017**

17. RECENTLY ISSUED ACCOUNTING STANDARDS

The GASB issued Statement No. 87, *Leases*, in June 2017. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. Requirements for this Statement are effective for financial statements whose reporting periods begin after December 15, 2019 with early adoption being permitted. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. Requirements for this Statement are effective for financial statements whose reporting periods begin after June 15, 2018 with early adoption being permitted. 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 AND EMPLOYER CONTRIBUTIONS (UNAUDITED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

Schedule of the University's Proportionate Share of the Net Pension Liability – Teachers' Retirement Plan of Alabama

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability	0.67234%	0.71222%	0.77107%	0.71222%
Employer's proportionate share of the collective net pension liability	\$ 66,081,091	\$ 77,104,865	\$ 80,697,982	\$ 73,602,774
Employer's covered payroll during the measurement period	\$ 45,563,104	\$ 46,022,196	\$ 47,310,904	\$ 49,256,359
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	145.03%	167.54%	170.57%	149.43%
Plan fiduciary net position as a percentage of the total collective pension liability	71.50%	67.93%	67.51%	71.01%

Schedule of University's Contributions – Teachers' Retirement Plan of Alabama

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 5,427,718	\$ 5,354,299	\$ 5,689,859	\$ 5,819,937
Contributions in relation to the contractually required contribution	\$ 5,427,718	\$ 5,354,299	\$ 5,689,859	\$ 5,819,937
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 45,563,104	\$ 46,022,196	\$ 47,310,904	\$ 49,256,359
Contributions as a percentage of covered payroll	11.91%	11.63%	12.03%	11.82%

Notes to Schedules

Employer's Covered payroll: The payroll on which contributions to a pension plan are based.

Measurement period:

For fiscal year 2018, the measurement period is October 1, 2016 – September 30, 2017

For fiscal year 2017, the measurement period is October 1, 2015 – September 30, 2016

For fiscal year 2016, the measurement period is October 1, 2014 – September 30, 2015

For fiscal year 2015, the measurement period is October 1, 2013 – September 30, 2014

**ALABAMA STATE UNIVERSITY
SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
AND EMPLOYER CONTRIBUTIONS (UNAUDITED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

Schedule of the University's Proportionate Share of the Net OPEB Liability – Alabama Retired Education Employee's Health Care Trust

	2018
Employer's proportion of collective net OPEB liability	0.59637%
Employer's proportionate share of the collective net OPEB liability	\$ 44,295,403
Employer's covered payroll during the measurement period	\$ 45,563,104
Employer's proportionate share of the collective net OPEB liability as a percentage of its covered payroll	97.22%
Plan fiduciary net position as a percentage of the total collective net OPEB liability	15.37%

Schedule of University's Contributions – Alabama Retired Education Employees' Health Care Trust

	2018
Contractually required contribution	\$ 1,384,486
Contributions in relation to the contractually required contribution	\$ 1,384,486
Contribution deficiency (excess)	\$ -
Employer's covered payroll	\$ 45,563,104
Contributions as a percentage of covered payroll	3.04%

Notes to Required Supplementary Information for the Year Ended September 30, 2018

Covered payroll: The payroll on which contributions to an OPEB plan are based.

Measurement period: For the fiscal year 2018, the measurement period is October 1, 2016 through September 30, 2017.

Changes in Actuarial Assumptions

In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

**ALABAMA STATE UNIVERSITY
 SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 AND EMPLOYER CONTRIBUTIONS (UNAUDITED) - CONTINUED
 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018**

Recent Plan Changes

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

The Health Plan was changed in 2017 to reflect the ACA maximum annual out-of-pocket amounts.

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of the University's proportionate share of the net OPEB liability and employer contributions (unaudited) are calculated as of September 30, 2014 three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay
Remaining Amortization Period	27 year, closed
Asset Valuation Method	Market Value of Assets
Inflation	3.00%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.50%
Medicare Eligible	5.75%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2019 for Pre-Medicare Eligible 2017 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation