

**ALABAMA STATE UNIVERSITY**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED**  
**SEPTEMBER 30, 2019 AND 2018**

**ALABAMA STATE UNIVERSITY  
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SEPTEMBER 30, 2019 AND 2018**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of  
Alabama State University

We have audited the accompanying financial statements of Alabama State University (the University), a component unit of the State of Alabama, and its aggregate discretely presented component units, as of and for the years ended September 30, 2019 and 2018, 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 opinions on these financial statements based on our audits. We did not audit the financial statements of the Alabama State University Foundation, Inc. (the Foundation) for the year ended September 30, 2019, and the related notes to the financial statements, which represent 0.83 percent, 4.71 percent, and 3.18 percent, respectively, of the assets, net position, and revenues of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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.

## **Opinions**

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, 2019 and 2018, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 16 and the supplementary information on pages 72 through 74 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 audits 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 February 21, 2020, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

*Warren Averett, LLC*

Montgomery, Alabama  
February 21, 2020

**ALABAMA STATE UNIVERSITY**  
**Management's Discussion and Analysis**  
**September 30, 2019 and 2018**  
**(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, 2019. 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.

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

The Trust for Educational Excellence at Alabama State University and the Alabama State University Foundation, Inc. are discretely presented component units of the University that are discussed on pages 64 through 66. 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>2019</u>                   | <u>2018</u>                   |
|---|-------------------------------|-------------------------------|
| <b>ASSETS AND DEFERRED OUTFLOWS</b>           |                               |                               |
| Current assets                                | \$ 56,771,110                 | \$ 64,347,893                 |
| Noncurrent assets                             |                               |                               |
| Capital assets, net                           | 263,583,480                   | 273,606,553                   |
| Other   | 1,262,004                     | 1,620,620                     |
| Deferred outflows                             | <u>26,123,806</u>             | <u>26,256,208</u>             |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>     | <u><u>\$ 347,740,400</u></u>  | <u><u>\$ 365,831,274</u></u>  |
| <b>LIABILITIES AND DEFERRED INFLOWS</b>       |                               |                               |
| Current liabilities                           | \$ 38,411,274                 | \$ 44,758,837                 |
| Noncurrent liabilities                        | 308,459,287                   | 315,731,657                   |
| Deferred inflows                              | <u>17,848,235</u>             | <u>20,122,020</u>             |
| <b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b> | <u><u>364,718,796</u></u>     | <u><u>380,612,514</u></u>     |
| <b>NET POSITION</b>                           |                               |                               |
| Net investment in capital assets              | 67,898,979                    | 67,487,687                    |
| Restricted                                    | 16,056,723                    | 14,457,126                    |
| Unrestricted                                  | <u>(100,934,098)</u>          | <u>(96,726,053)</u>           |
| <b>TOTAL NET POSITION</b>                     | <u><u>\$ (16,978,396)</u></u> | <u><u>\$ (14,781,240)</u></u> |

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**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in the University's bank accounts and investments in cash equivalents of operating funds held by investment managers. The investments are recorded at fair market value.

**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 \$10.2 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 \$264 million at September 30, 2019. The amount reported is net of accumulated depreciation of \$162 million. The decrease of \$10 million between fiscal years 2018 and 2019 is primarily a result of current year depreciation expense which totaled \$11.2 million and an increase in moveable equipment of \$1 million.

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**LIABILITIES**

**Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities represent amounts due at September 30, 2019, for goods and services received prior to the end of the fiscal year.

**Long-Term Debt**

At the end of the fiscal year 2019, the University had debt outstanding of \$203.7 million. Of this amount, \$202 million was comprised of bonds, \$825,000 in long-term leases, and \$540,000 in a note payable. The \$202 million of bonds include \$141 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, 2019, \$7 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 2019, the University had a net pension liability of \$66.8 million. The slight increase in net pension liability is a result of the state's actuarial valuation and actual versus expected experience of the Teacher's Retirement System of Alabama (TRS), of which the University's proportionate share was 0.67%.

**Postemployment Benefits Other Than Pensions**

At the end of the fiscal year 2019, the University had a postemployment benefit other than pensions (OPEB) liability of \$46.3 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 0.56%.

**Unearned Revenue**

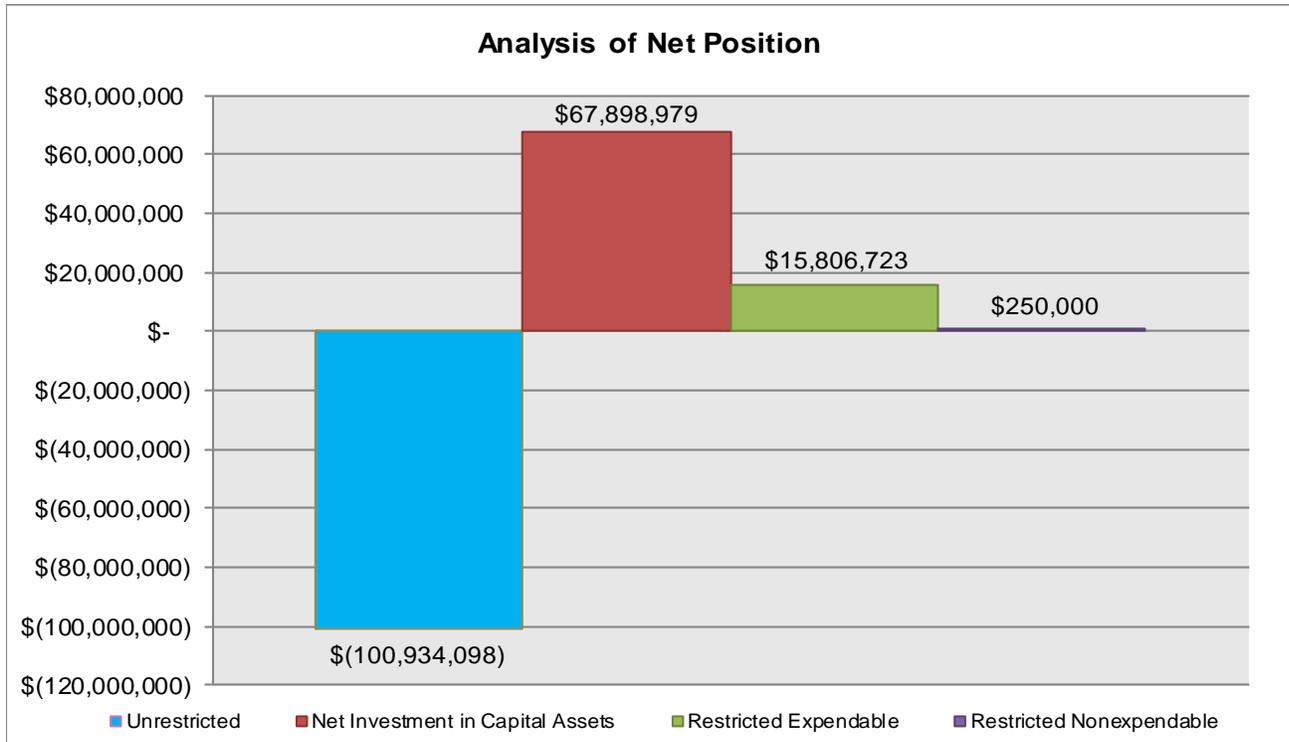
Unearned revenue represents payments received for tuition, fees, and room and board of \$15.6 million net of deferred scholarships, allowances, and discounts of \$3.3 million relating to a future period. Examples of unearned revenue are fall tuition, fees, room and board, and grants where funding has been received but not expended.

**NET POSITION**

Net position represents the difference between University assets and liabilities. Total net position at September 30, 2019, was (\$17) million.

During 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement revised 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.

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

Unrestricted net position represents those balances from operational activities that have not been restricted by parties external to the University, such as donors or grant agencies. Also included in unrestricted net position are working capital and unrestricted endowments. None of the unrestricted net assets were designated as of year-end. The negative \$101 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 increase of approximately \$411,000 in the University's net investment in capital assets net position is primarily attributable to the following: 1) Depreciation expense of \$11.2 million. 2) Transfers in from other funds for debt service and capital assets of \$18 million and \$690,000, respectively.

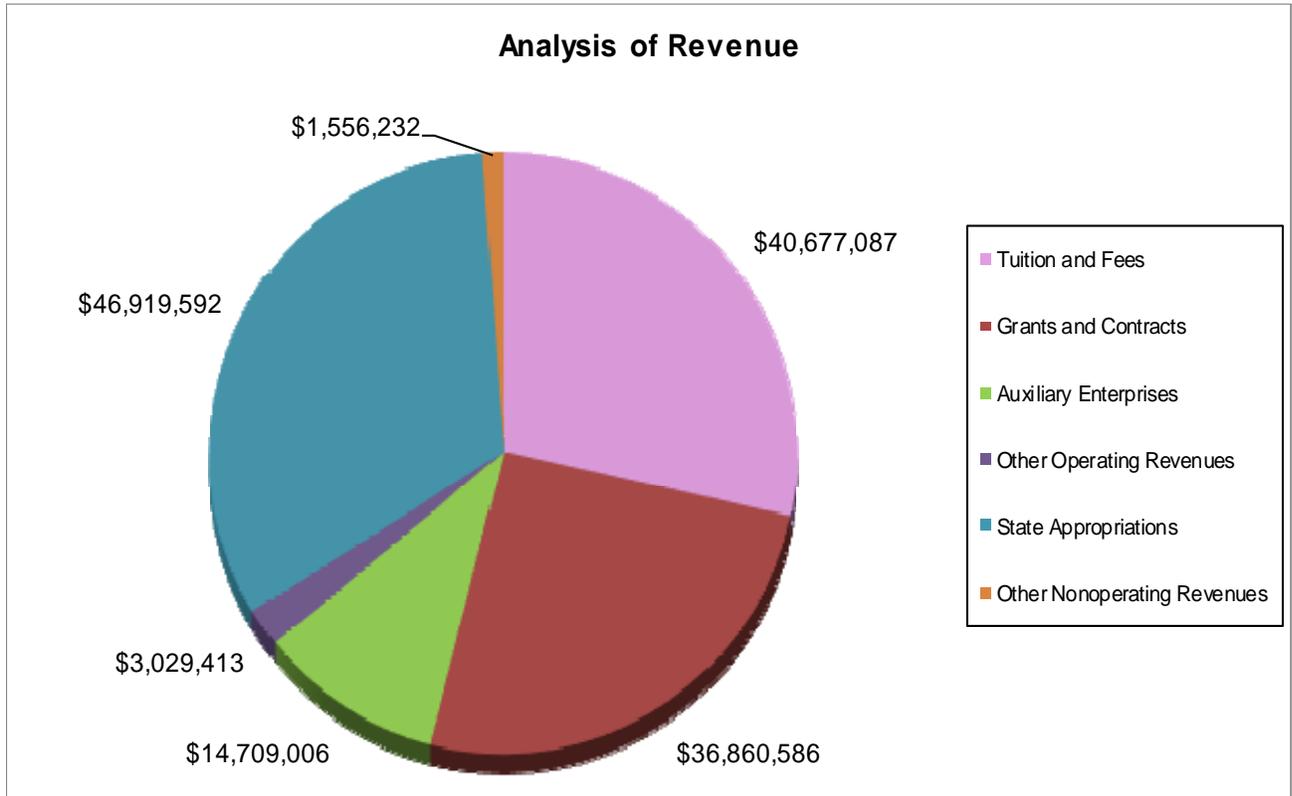
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**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

|   | <u>2019</u>                   | <u>2018</u>                   |
|---|-------------------------------|-------------------------------|
| <b>OPERATING REVENUES</b>                                 |                               |                               |
| Tuition and fees  | \$ 40,677,087                 | \$ 46,514,508                 |
| Grants and contracts                                      | 36,860,586                    | 36,056,742                    |
| Auxiliary enterprises                                     | 14,709,005                    | 14,207,371                    |
| Other operating revenues                                  | 3,029,413                     | 3,131,638                     |
| Total operating revenues                                  | <u>95,276,091</u>             | <u>99,910,259</u>             |
| <b>OPERATING EXPENSES</b>                                 | <u>136,876,625</u>            | <u>133,936,290</u>            |
| Operating loss  | <u>(41,600,534)</u>           | <u>(34,026,031)</u>           |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                   |                               |                               |
| State appropriations                                      | 46,919,592                    | 43,254,819                    |
| Other nonoperating revenues (expenses), net               | <u>(7,516,214)</u>            | <u>(9,260,871)</u>            |
| Net nonoperating revenues (expenses)                      | <u>39,403,378</u>             | <u>33,993,948</u>             |
| Loss before other changes in net position                 | <u>(2,197,156)</u>            | <u>(32,083)</u>               |
| <b>NET POSITION</b>                                       |                               |                               |
| Net position at beginning of year, as previously reported | <u>(14,781,240)</u>           | <u>23,932,446</u>             |
| Adoption of GASB 75 (Note 1)                              | <u>-</u>                      | <u>(38,681,603)</u>           |
| Net position at beginning of year, as adjusted            | <u>(14,781,240)</u>           | <u>(14,749,157)</u>           |
| Net position at end of year                               | <u><u>\$ (16,978,396)</u></u> | <u><u>\$ (14,781,240)</u></u> |

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**REVENUES**



**Tuition and Fees for Services of Educational Activities**

Tuition and fees assessed for educational purposes totaled \$52.4 million. The tuition discounts and allowances were \$11.7 million, resulting in net tuition and fees of \$40.7 million. This represents a \$5.8 million decrease in net tuition and fees between fiscal years 2018 and 2019. This is primarily due to declining enrollment during the year.

**Grants and Contracts**

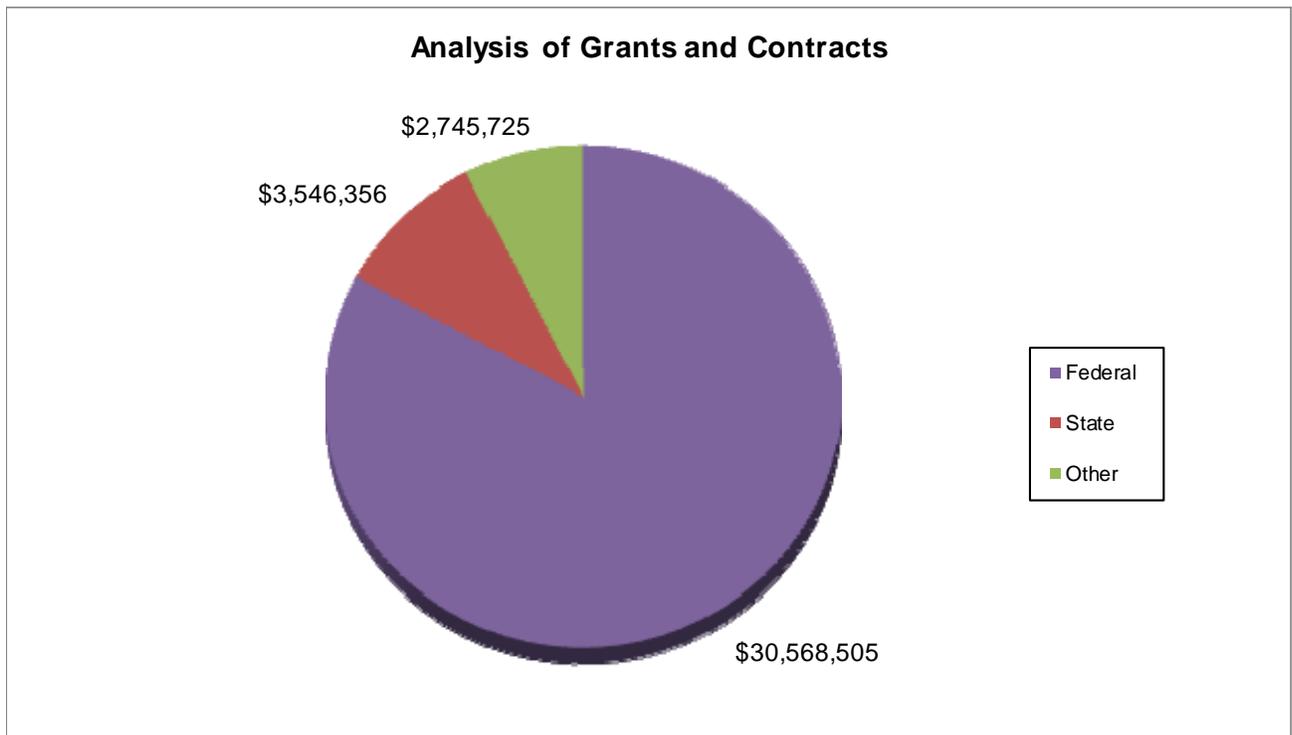
This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Deferred or non-reimbursable revenues are recorded when received, or when eligibility criteria have been met. Grants and contracts revenue increased by \$804,000 between fiscal years 2018 and 2019.

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The following table details the University's grant and contract awards for the fiscal years ended September 30, 2019 and 2018:

|   | <u>2019</u>                 | <u>2018</u>                 |
|---|-----------------------------|-----------------------------|
| <b>FEDERAL SOURCES</b>                  |                             |                             |
| Financial aid                           | \$ 15,879,890               | \$ 12,419,078               |
| Department of Education                 | 12,478,573                  | 12,329,265                  |
| National Science Foundation             | 634,590                     | 965,269                     |
| Department of Health and Human Services | 688,873                     | 799,739                     |
| Other federal agencies                  | 886,579                     | 555,969                     |
| Total federal sources                   | <u>30,568,505</u>           | <u>27,069,320</u>           |
| <b>STATE AND OTHER SOURCES</b>          |                             |                             |
| Grants and contracts                    | 3,546,356                   | 5,541,600                   |
| Other sources                           | 2,745,725                   | 3,445,822                   |
| Total state and other sources           | <u>6,292,081</u>            | <u>8,987,422</u>            |
|   | <u><u>\$ 36,860,586</u></u> | <u><u>\$ 36,056,742</u></u> |

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



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**Auxiliary Enterprises**

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

These include residence halls, apartments, food services, vending machines, and ticket sales, and are intended to be self-supporting. Auxiliary enterprise revenue increased by \$502,000 between fiscal years 2018 and 2019.

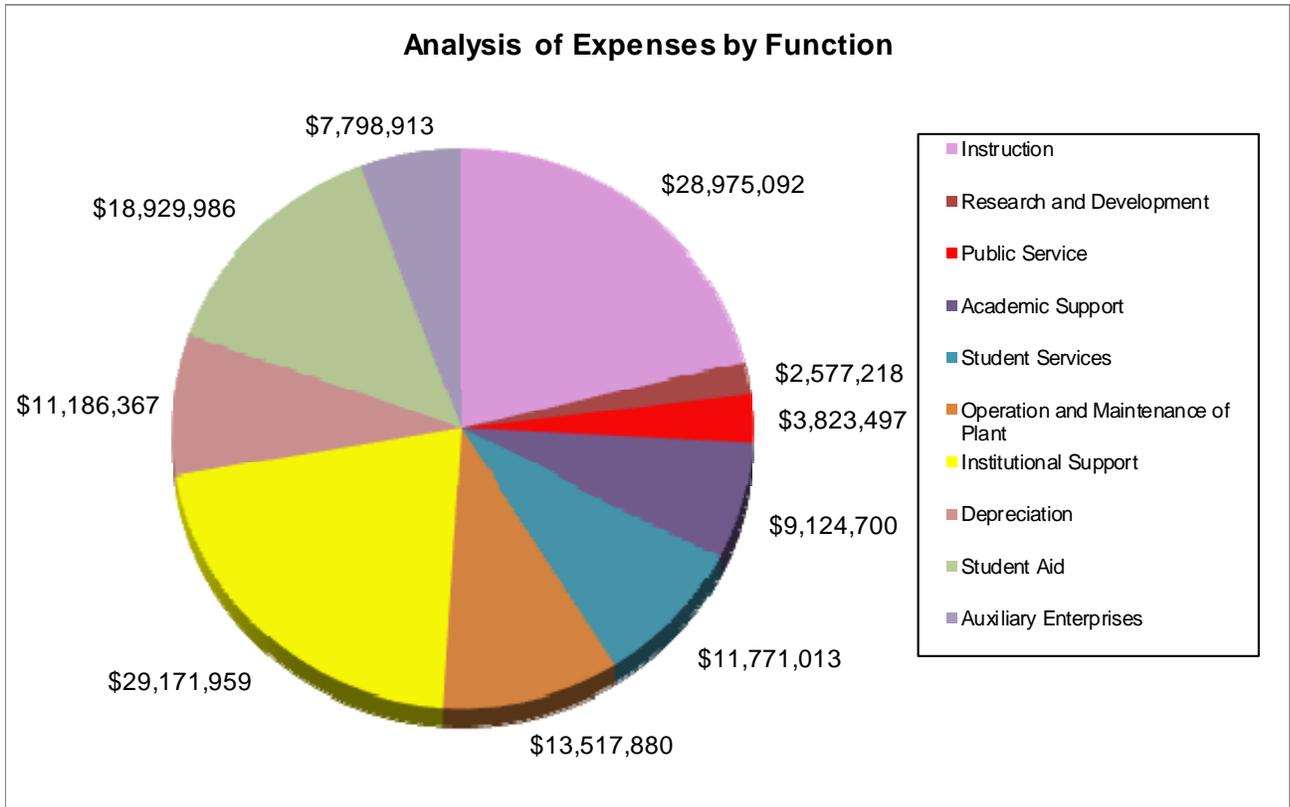
**OPERATING EXPENSES**

Operating expenses totaling \$137 million include salaries and benefits of \$65 million, materials and services of \$60.8 million, and depreciation of \$11.2 million. This represents a \$2.9 million increase between fiscal years 2018 and 2019, due primarily to an increase in student aid for fiscal year 2019.

**Expenses by Function**

|                                    | <b><u>2019</u></b>           | <b><u>2018</u></b>           |
|------------------------------------|------------------------------|------------------------------|
| <b>Educational and General:</b>    |                              |                              |
| Instruction                        | \$ 28,975,092                | \$ 27,667,120                |
| Research and development           | 2,577,218                    | 2,657,077                    |
| Public service                     | 3,823,497                    | 4,893,051                    |
| Academic support                   | 9,124,700                    | 8,949,337                    |
| Student services                   | 11,771,013                   | 12,497,888                   |
| Operation and maintenance of plant | 13,517,880                   | 13,309,839                   |
| Institutional support              | 29,171,959                   | 28,310,272                   |
| Depreciation                       | 11,186,367                   | 10,492,695                   |
| Student aid                        | 18,929,986                   | 15,921,853                   |
| <b>Auxiliary Enterprises:</b>      |                              |                              |
| Residential life                   | 6,892,506                    | 8,217,126                    |
| Other auxiliary expenses           | 906,407                      | 1,020,032                    |
| Total operating expenses           | <b><u>\$ 136,876,625</u></b> | <b><u>\$ 133,936,290</u></b> |

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**NONOPERATING REVENUES (EXPENSES)**

**State Appropriations**

Annually, the State of Alabama appropriates funding for higher education. The University received \$46.9 million for fiscal year 2019 for operations and maintenance. State appropriations increased by \$3.7 million between fiscal years 2018 and 2019.

**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 declined by \$231,000 between fiscal years 2018 and 2019.

**Interest on Capital Assets Related Debt**

This includes the interest incurred for fiscal year 2019 on bond debt. The interest expense decreased \$673,000.

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**STATEMENTS OF CASH FLOWS**

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

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| Cash and cash equivalents provided by (used in): |                      |                      |
| Operating activities                             | \$ (28,625,685)      | \$ (27,838,851)      |
| Noncapital financing activities                  | 42,726,437           | 44,334,185           |
| Capital and related financing activities         | (19,744,106)         | (11,115,119)         |
| Investing activities                             | <u>7,799,762</u>     | <u>5,184,366</u>     |
| Net increase in cash and cash equivalents        | 2,156,408            | 10,564,581           |
| Cash and cash equivalents at beginning of year   | <u>26,217,328</u>    | <u>15,652,747</u>    |
| Cash and cash equivalents at end of year         | <u>\$ 28,373,736</u> | <u>\$ 26,217,328</u> |

The increase in cash and cash equivalents of \$2.2 million is due to a decrease in the purchase of investments.

**ENROLLMENT**

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 2015 through 2019 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<br/>Year</u> | <u>Undergraduate</u> | <u>Graduate</u> | <u>Total</u> | <u>Full-Time<br/>Equivalent</u> | <u>Total Credit<br/>Hours Taken</u> |
|--------------------------|----------------------|-----------------|--------------|---------------------------------|-------------------------------------|
| 2019                     | 3,750                | 440             | 4,190        | 4,026                           | 57,978                              |
| 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                              |

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**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 2015 through 2019:

**Fall Semester Freshmen Student Admissions**

| <b>Academic Year</b> | <b>Number of Applicants</b> | <b>Number Accepted</b> | <b>Percent Accepted</b> | <b>Number Enrolled</b> | <b>Percent Enrolled</b> |
|----------------------|-----------------------------|------------------------|-------------------------|------------------------|-------------------------|
| 2019                 | 6,674                       | 6,470                  | 96.9%                   | 1,028                  | 15.9%                   |
| 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%                   |

**Fall Semester Transfer Student Admissions**

| <b>Academic Year</b> | <b>Number of Applicants</b> | <b>Number Accepted</b> | <b>Percent Accepted</b> | <b>Number Enrolled</b> | <b>Percent Enrolled</b> |
|----------------------|-----------------------------|------------------------|-------------------------|------------------------|-------------------------|
| 2019                 | 395                         | 343                    | 86.8%                   | 146                    | 42.9%                   |
| 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%                   |

**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 rates for an on-campus student, for the academic years indicated, are set forth below:

**Student Cost Per Hour**

| <b>Student Classification</b> | <b>2019–20</b> | <b>2018–19</b> | <b>2017–18</b> | <b>2016–17</b> | <b>2015–16</b> |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Undergraduate, resident       | \$ 347         | \$ 347         | \$ 347         | \$ 289         | \$ 289         |
| Undergraduate, nonresident    | 694            | 694            | 694            | 578            | 578            |
| Graduate, resident            | 412            | 412            | 412            | 343            | 343            |
| Graduate, nonresident         | 824            | 824            | 824            | 686            | 686            |

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**(Unaudited)**

**Annual Full-Time**

| <b><u>Student Classification</u></b> | <b><u>2019–20</u></b> | <b><u>2018–19</u></b> | <b><u>2017–18</u></b> | <b><u>2016–17</u></b> | <b><u>2015–16</u></b> |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Undergraduate, resident              | \$ 8,328              | \$ 8,328              | \$ 8,328              | \$ 6,936              | \$ 6,936              |
| Undergraduate, nonresident           | 16,656                | 16,656                | 16,656                | 13,872                | 13,872                |
| Graduate, resident                   | 7,416                 | 7,416                 | 7,416                 | 6,174                 | 6,174                 |
| Graduate, nonresident                | 14,832                | 14,832                | 14,832                | 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**

| <b><u>Academic Year</u></b> | <b><u>Room and Board</u></b> | <b><u>Estimated Tuition, Fees, Books, and Miscellaneous</u></b> | <b><u>Estimated Total Costs</u></b> |
|-----------------------------|------------------------------|---|-------------------------------------|
| 2019                        | \$ 6,050                     | \$ 12,668   | \$ 18,718                           |
| 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                              |

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**

| <b><u>Fall Semester</u></b> | <b><u>Number of Occupants</u></b> | <b><u>Percent of Occupancy</u></b> |
|-----------------------------|-----------------------------------|------------------------------------|
| 2019                        | 2,151                             | 98.00%                             |
| 2018                        | 2,075                             | 92.00%                             |
| 2017                        | 2,136                             | 91.32%                             |
| 2016                        | 2,223                             | 89.24%                             |
| 2015                        | 2,252                             | 92.80%                             |

**ALABAMA STATE UNIVERSITY**  
**Management's Discussion and Analysis**  
**September 30, 2019 and 2018**  
**(Unaudited)**

The Administration continues to be committed to a strong and vibrant future for the University. Management continues to evaluate and review existing policies and procedures and organizational structure to enhance operational efficiency, budgetary control and fiscal stability while providing excellent services to the student body and the campus community. Resources have been and continue to be strategically allocated to priorities that support the University's mission.

During the past two years the Administration has undertaken a strategic initiative to address years of neglected deferred maintenance. The Administration expects Fiscal Year 2019-2020 to end with a small surplus.

President Ross continues his focus on building partnerships with local businesses, community leaders and Community Colleges through the State of Alabama. A Memorandum of Understanding between Alabama State University and Shelton State Community College was signed February 10, 2020 and gives interested students at Shelton State an opportunity to participate in a seamless enrollment process, which means that qualified students may obtain a four-year degree from ASU. The University signed a Memorandum of Agreement with the National Park Service and entered into a partnership with the Montgomery County Community Action to expand quality preschool opportunities in Montgomery County and the State of Alabama.

The Administration continues to enhance student enhancement efforts to increase new and transfer students. The 2020 President's Tour will again be an effort by students, faculty, staff and administrators to share the good news of Alabama State University across the States of Alabama and Georgia. The President is also working with the State Legislature to provide opportunities for out of state students to qualify for instate tuition in a manner similar to other Public Colleges and Universities in Alabama.

Bill Hopper  
Interim Vice President for Business & Finance  
February 17, 2020

**ALABAMA STATE UNIVERSITY  
STATEMENTS OF NET POSITION  
SEPTEMBER 30, 2019 AND 2018**

|  | <b>2019</b>           | <b>2018</b>           |
|--|-----------------------|-----------------------|
| <b>ASSETS AND DEFERRED OUTFLOWS</b>  |                       |                       |
| <b>CURRENT ASSETS</b>  |                       |                       |
| <b>Unrestricted Assets:</b>  |                       |                       |
| Cash and cash equivalents  | \$ 6,314,589          | \$ 7,351,764          |
| <b>Stadium Fund:</b>   |                       |                       |
| Cash and cash equivalents  | 940                   | 920                   |
| <b>Endowments:</b>   |                       |                       |
| Cash and cash equivalents  | 27,288                | 332,952               |
| Short-term investments   | 1,813,021             | 8,853,635             |
| Accounts receivable (net of allowance of \$10,219,944<br>and \$10,898,011, respectively) | 14,182,157            | 21,099,925            |
| Prepaid expenses   | 178,163               | 21,417                |
| Inventories  | 3,902                 | 5,852                 |
| Total unrestricted assets  | 22,520,060            | 37,666,465            |
| <b>Restricted Assets:</b>  |                       |                       |
| <b>Grants and Contracts:</b>   |                       |                       |
| Cash and cash equivalents  | 9,139,085             | 5,830,176             |
| Grants receivable  | 9,916,039             | 5,801,122             |
| Accounts receivable  | 13,727                | 28,856                |
| <b>Student Loans:</b>  |                       |                       |
| Cash and cash equivalents  | 213,170               | 347,319               |
| <b>Endowments:</b>   |                       |                       |
| Cash and cash equivalents  | 92,830                | 69,777                |
| Short-term investments   | 2,056,253             | 2,086,379             |
| <b>Capital Projects and Debt Service:</b>  |                       |                       |
| Cash and cash equivalents  | 12,585,834            | 12,284,420            |
| Short-term investments   | 186,563               | 185,830               |
| <b>Agency Funds:</b>   |                       |                       |
| Other receivables  | 47,549                | 47,549                |
| Total restricted assets  | 34,251,050            | 26,681,428            |
| Total current assets   | 56,771,110            | 64,347,893            |
| <b>NONCURRENT ASSETS</b>   |                       |                       |
| Student loans receivable   | 1,262,004             | 1,620,620             |
| Capital assets, net  | 263,583,480           | 273,606,553           |
| Total noncurrent assets  | 264,845,484           | 275,227,173           |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>  |                       |                       |
| Deferred amount on debt refunding  | 7,739,581             | 8,289,479             |
| Deferred outflows related to pensions  | 10,834,435            | 10,049,718            |
| Deferred outflows related to OPEB  | 7,549,790             | 7,917,011             |
| Total deferred outflows of resources   | 26,123,806            | 26,256,208            |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>  | <b>\$ 347,740,400</b> | <b>\$ 365,831,274</b> |

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY  
STATEMENTS OF NET POSITION  
SEPTEMBER 30, 2019 AND 2018**

|  | <b>2019</b>     | <b>2018</b>     |
|--|-----------------|-----------------|
| <b>LIABILITIES</b>                             |                 |                 |
| <b>CURRENT LIABILITIES</b>                     |                 |                 |
| <b>Payable from Unrestricted Assets:</b>       |                 |                 |
| Accounts payable and accrued liabilities       | \$ 5,965,420    | \$ 5,719,868    |
| Student accounts payable                       | 6,044           | 1,349           |
| Unearned revenue                               | 15,594,012      | 16,917,575      |
| Line of credit                                 | 1,149,473       | 5,630,369       |
| Current portion of other long-term liabilities | 577,316         | 599,977         |
| Total payable from unrestricted assets         | 23,292,265      | 28,869,138      |
| <b>Payable from Restricted Assets:</b>         |                 |                 |
| Grants and contracts accounts payable          | 4,546,167       | 4,593,706       |
| Unearned revenue                               | 173,047         | 506,522         |
| Current portion of long-term liabilities       | 10,399,795      | 10,789,471      |
| Total payable from restricted assets           | 15,119,009      | 15,889,699      |
| Total current liabilities                      | 38,411,274      | 44,758,837      |
| <b>NONCURRENT LIABILITIES</b>                  |                 |                 |
| Long-term liabilities                          | 195,082,768     | 205,355,163     |
| Net pension liability                          | 66,769,800      | 66,081,091      |
| Postemployment benefits other than pensions    | 46,260,910      | 44,295,403      |
| Other accrued liabilities                      | 345,809         | -               |
| Total noncurrent liabilities                   | 308,459,287     | 315,731,657     |
| Total liabilities                              | 346,870,561     | 360,490,494     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                 |                 |
| Deferred inflows related to pensions           | 13,034,000      | 15,287,000      |
| Deferred inflows related to OPEB               | 4,814,235       | 4,835,020       |
| Total deferred inflows of resources            | 17,848,235      | 20,122,020      |
| Total liabilities and deferred inflows         | 364,718,796     | 380,612,514     |
| <b>NET POSITION</b>                            |                 |                 |
| Net investment in capital assets               | 67,898,979      | 67,487,687      |
| <b>Restricted:</b>                             |                 |                 |
| <b>Nonexpendable:</b>                          |                 |                 |
| Scholarships                                   | 250,000         | 250,000         |
| <b>Expendable:</b>                             |                 |                 |
| Scholarships                                   | 855,160         | 862,234         |
| Other  | 14,951,563      | 13,344,892      |
| Total restricted expendable                    | 15,806,723      | 14,207,126      |
| Total restricted                               | 16,056,723      | 14,457,126      |
| <b>Unrestricted</b>                            | (100,934,098)   | (96,726,053)    |
| Total net position                             | \$ (16,978,396) | \$ (14,781,240) |

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

|  | <b>2019</b>   | <b>2018</b>   |
|--|---------------|---------------|
| <b>OPERATING REVENUES</b>  |               |               |
| Student tuition and fees (net of scholarships of<br>\$11,733,034 and \$11,137,353, respectively) | \$ 40,677,087 | \$ 46,514,508 |
| Federal grants and contracts   | 30,568,505    | 27,069,320    |
| State grants and contracts   | 3,546,356     | 5,541,600     |
| Nongovernmental grants and contracts   | 2,745,725     | 3,445,822     |
| Sales and services of auxiliary enterprises  | 12,316,929    | 11,787,854    |
| Intercollegiate athletics  | 2,392,076     | 2,419,517     |
| Other operating revenue  | 3,029,413     | 3,131,638     |
| Total operating revenues   | 95,276,091    | 99,910,259    |
| <b>OPERATING EXPENSES</b>  |               |               |
| <b>Educational and General:</b>  |               |               |
| Instruction  | 28,975,092    | 27,667,120    |
| Research and development   | 2,577,218     | 2,657,077     |
| Public service   | 3,823,497     | 4,893,051     |
| Academic support   | 9,124,700     | 8,949,337     |
| Student services   | 11,771,013    | 12,497,888    |
| Operation and maintenance of plant   | 13,517,880    | 13,309,839    |
| Institutional support  | 29,171,959    | 28,310,272    |
| Depreciation   | 11,186,367    | 10,492,695    |
| Student aid  | 18,929,986    | 15,921,853    |
| <b>Auxiliary Enterprises:</b>  |               |               |
| Residential life   | 6,892,506     | 8,217,126     |
| Other auxiliary expenses   | 906,407       | 1,020,032     |
| Total operating expenses   | 136,876,625   | 133,936,290   |
| Operating loss   | (41,600,534)  | (34,026,031)  |

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

|   | <u>2019</u>            | <u>2018</u>            |
|---|------------------------|------------------------|
| <b>NONOPERATING REVENUES (EXPENSES)</b>                               |                        |                        |
| State appropriations  | \$ 46,919,592          | \$ 43,254,819          |
| Investment income, net  | 729,754                | 960,270                |
| Interest expense  | (8,404,003)            | (9,077,384)            |
| Amortization expense  | (549,898)              | (472,585)              |
| Gifts and donations   | 439,846                | 290,071                |
| Federal subsidies for interest on Build America and<br>Recovery Bonds | 1,116,387              | 1,131,984              |
| Other nonoperating expenses   | (848,300)              | (2,093,227)            |
| Net nonoperating revenues (expenses)                                  | <u>39,403,378</u>      | <u>33,993,948</u>      |
| Loss before other changes in net position                             | <u>(2,197,156)</u>     | <u>(32,083)</u>        |
| <b>CHANGE IN NET POSITION</b>   |                        |                        |
| Change in net position  | <u>(2,197,156)</u>     | <u>(32,083)</u>        |
| Net position at beginning of year, as previously reported             | (14,781,240)           | 23,932,446             |
| Adoption of GASB 75 (Note 1)  | -                      | (38,681,603)           |
| Net position at beginning of year, as adjusted                        | <u>(14,781,240)</u>    | <u>(14,749,157)</u>    |
| Net position at end of year   | <u>\$ (16,978,396)</u> | <u>\$ (14,781,240)</u> |

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

|  | <u>2019</u>         | <u>2018</u>         |
|--|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                        |                     |                     |
| Cash received from tuition and fees                                | \$ 45,647,117       | \$ 41,049,125       |
| Cash received from grants and contracts                            | 32,778,649          | 36,255,720          |
| Cash received from auxiliary enterprises                           | 14,709,005          | 14,207,371          |
| Cash received from other sources                                   | 3,756,286           | 2,389,405           |
| Cash paid to suppliers for goods and services                      | (55,132,504)        | (54,490,733)        |
| Cash paid to employees for services                                | (51,454,252)        | (51,327,886)        |
| Cash paid for scholarships   | (18,929,986)        | (15,921,853)        |
| Net cash used in operating activities                              | <u>(28,625,685)</u> | <u>(27,838,851)</u> |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>             |                     |                     |
| State appropriations   | 46,919,592          | 43,254,819          |
| Gifts and donations  | 439,846             | 290,071             |
| Gifts and grants for other than capital purposes:                  |                     |                     |
| FFEL lending receipts  | 43,743,915          | 37,149,723          |
| FFEL lending disbursements   | (43,743,915)        | (37,149,723)        |
| SEOG lending receipts  | 303,888             | 294,173             |
| SEOG lending disbursements   | (303,888)           | (294,173)           |
| Proceeds from short-term debt                                      | 93,471,146          | 88,492,775          |
| Principal paid on short-term debt                                  | (97,952,042)        | (87,538,698)        |
| Interest paid on short-term debt                                   | (152,105)           | (164,782)           |
| Net cash provided by noncapital financing activities               | <u>42,726,437</u>   | <u>44,334,185</u>   |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>    |                     |                     |
| Purchase of capital assets   | (1,361,665)         | (3,098,084)         |
| Principal paid on capital debt and leases                          | (10,410,728)        | (6,427,494)         |
| Interest paid on capital debt and leases                           | (8,239,800)         | (9,661,929)         |
| 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                         | (848,300)           | (377,227)           |
| Federal subsidies for interest on Build America and Recovery Bonds | 1,116,387           | 1,131,984           |
| Net cash used in capital and related financing activities          | <u>(19,744,106)</u> | <u>(11,115,119)</u> |

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

|   | <u>2019</u>            | <u>2018</u>            |
|---|------------------------|------------------------|
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                        |                        |
| Interest and dividends on investments   | \$ 150,692             | \$ 195,818             |
| Proceeds from sale of investments   | 20,029,190             | 24,526,466             |
| Purchase of investments   | <u>(12,380,120)</u>    | <u>(19,537,918)</u>    |
| Net cash provided by investing activities   | <u>7,799,762</u>       | <u>5,184,366</u>       |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                  | 2,156,408              | 10,564,581             |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                             | <u>26,217,328</u>      | <u>15,652,747</u>      |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                                   | <u>\$ 28,373,736</u>   | <u>\$ 26,217,328</u>   |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>  |                        |                        |
| Operating loss  | \$ (41,600,534)        | \$ (34,026,031)        |
| Adjustments to reconcile operating loss to net cash used in operating activities: |                        |                        |
| Depreciation  | 11,186,367             | 10,492,695             |
| Loss on disposal of capital assets  | 198,371                | 43,068                 |
| Changes in assets and liabilities:  |                        |                        |
| Accounts receivable, net  | 6,932,897              | (5,478,478)            |
| Grants receivable   | (4,114,917)            | (377,784)              |
| Prepaid expenses  | (156,746)              | 195,535                |
| Inventories   | 1,950                  | (3,231)                |
| Student loans receivable  | 358,616                | 360,291                |
| Other long-term liabilities   | 56,822                 | 82,572                 |
| Accounts payable and accrued liabilities  | 238,526                | 577,957                |
| Other accrued liabilities   | (32,934)               | -                      |
| Net pension liability   | (2,349,008)            | (1,724,587)            |
| Postemployment benefits other than pensions                                       | 2,311,943              | 2,531,809              |
| Unearned revenue  | <u>(1,657,038)</u>     | <u>(512,667)</u>       |
| Net cash used in operating activities   | <u>\$ (28,625,685)</u> | <u>\$ (27,838,851)</u> |

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENTS OF FINANCIAL POSITION  
2019 AND 2018**

|  | <b>2019</b>   | <b>2018</b>   |
|--|---------------|---------------|
| <b>ASSETS</b>                            |               |               |
| <b>CURRENT ASSETS</b>                    |               |               |
| <b>Unrestricted Assets:</b>              |               |               |
| Cash and cash equivalents                | \$ 1,189,169  | \$ 746,417    |
| Due from Alabama State University        | 145,042       | 153,979       |
| Total unrestricted assets                | 1,334,211     | 900,396       |
| <b>Restricted Assets:</b>                |               |               |
| <b>Grants and Contracts:</b>             |               |               |
| Cash and cash equivalents                | 532,665       | 272,549       |
| Short-term investments                   | 1,940,968     | 2,141,219     |
| <b>Endowments:</b>                       |               |               |
| Cash and cash equivalents                | 8,287,583     | 8,693,360     |
| Short-term investments                   | 82,131,579    | 79,025,425    |
| Accrued interest and dividends           | 48,862        | 47,635        |
| Total restricted assets                  | 92,941,657    | 90,180,188    |
| Total current assets                     | 94,275,868    | 91,080,584    |
| <b>TOTAL ASSETS</b>                      | \$ 94,275,868 | \$ 91,080,584 |
| <b>LIABILITIES</b>                       |               |               |
| <b>CURRENT LIABILITIES</b>               |               |               |
| Accounts payable and accrued liabilities | \$ 26,243     | \$ 6,120      |
| <b>TOTAL LIABILITIES</b>                 | 26,243        | 6,120         |
| <b>NET ASSETS</b>                        |               |               |
| Without restrictions                     | 591,894       | 692,921       |
| With restrictions                        | 93,657,731    | 90,381,543    |
| <b>TOTAL NET ASSETS</b>                  | 94,249,625    | 91,074,464    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | \$ 94,275,868 | \$ 91,080,584 |

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY  
DISCRETELY PRESENTED COMPONENT UNITS  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED 2019 AND 2018**

|  | <u>2019</u>          | <u>2018</u>          |
|--|----------------------|----------------------|
| <b>OPERATING REVENUES</b>                    |                      |                      |
| Contributions                                | \$ 3,189,452         | \$ 1,287,995         |
| Total operating revenues                     | <u>3,189,452</u>     | <u>1,287,995</u>     |
| <b>OPERATING EXPENSES</b>                    |                      |                      |
| <b>Educational and General:</b>              |                      |                      |
| Program services                             | 4,683,474            | 3,238,168            |
| Supporting services                          | <u>73,087</u>        | <u>39,754</u>        |
| Total operating expenses                     | <u>4,756,561</u>     | <u>3,277,922</u>     |
| Operating loss                               | <u>(1,567,109)</u>   | <u>(1,989,927)</u>   |
| <b>NONOPERATING REVENUES (EXPENSES)</b>      |                      |                      |
| Investment income, net                       | 1,773,357            | 1,452,268            |
| Realized and unrealized gains on investments | <u>2,968,913</u>     | <u>5,262,887</u>     |
| Net nonoperating revenues (expenses)         | <u>4,742,270</u>     | <u>6,715,155</u>     |
| <b>CHANGE IN NET ASSETS</b>                  | 3,175,161            | 4,725,228            |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>       | <u>91,074,464</u>    | <u>86,349,236</u>    |
| <b>NET ASSETS AT END OF YEAR</b>             | <u>\$ 94,249,625</u> | <u>\$ 91,074,464</u> |

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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**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. Based on the criteria as of September 30, 2019 and 2018, the University reports the Alabama State University Foundation, Inc. (the Foundation) and the Trust for Educational Excellence at Alabama State University (the Trust) as discretely presented component units. These component units are described in greater detail in Note 13.

The fiscal years of the Trust and the Foundation are different from that of the University. The fiscal years of the Trust are July 31, 2019 and 2018 and the fiscal years of the Foundation are December 31, 2018 and 2017. 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, 2019 AND 2018**

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**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:

- Net assets without donor restrictions are not subject to donor-imposed restrictions and are available for use in general operations. Items in this net asset category include unrestricted gifts and earnings on idle funds and on unrestricted endowments.
- Net assets with donor restrictions may be temporary in nature or may be perpetual in nature, as specified by the donor. Those net assets whose restrictions are temporary in nature are subject to donor-imposed restrictions that may or will be met either by actions of the Trust, Foundation, or the passage of time. Items in this net asset category include pledges to unrestricted and temporarily restricted accounts, temporarily restricted gifts and earnings on endowment funds expendable for the purpose stipulated by the donor. These amounts are reclassified to unrestricted net assets when such restrictions, primarily purpose restrictions, are met or 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.

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Revenue and Expense Recognition – Continued**

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.

**Subsequent Events**

Management has evaluated subsequent events through February 21, 2020, 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 the trust indenture.

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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**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, 2019, 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, 2019 AND 2018**

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**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, 2019 and 2018, accrued vacation pay totaled \$2,409,873 and \$2,353,051, 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 (Health Care Trust). The Health Care 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 Health Care Trust and additions to/deductions from the Health Care 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, 2019 AND 2018**

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**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 Health Care Trust subsequent to the Health Care 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, 2019 AND 2018**

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**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 2019. The tax returns for years ended 2017 and thereafter are subject to audit by the taxing authorities.

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**Implementation of New Standard**

During 2019, the University adopted GASB 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. The standard was applied to all periods presented.

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.

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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**2. CASH AND CASH EQUIVALENTS – CONTINUED**

**Custodial Credit Risk of Bank Deposits – Continued**

As of September 30, 2019, the University has \$16,595,415 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.

**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>2019</u>         | <u>2018</u>          |
|---|---------------------|----------------------|
| U.S. Government Guaranteed Securities                 | \$ 186,563          | \$ 185,830           |
| Mutual Funds – Bonds Only                             | 1,441,173           | 4,051,316            |
| Mutual Funds – Bonds and Equity Mix or<br>Equity Only | 781,977             | 5,077,028            |
| Domestic Common and Preferred Stocks                  | 1,646,124           | 1,811,670            |
| Total   | <u>\$ 4,055,837</u> | <u>\$ 11,125,844</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, 2019 AND 2018**

**3. INVESTMENTS – CONTINUED**

**Credit Risk – Continued**

The University's exposure to credit risk and concentration of credit risk at September 30, 2019 is as follows:

| <b>Credit Rating</b> |  | <b>September 30, 2019</b>      |                               |
|----------------------|--|--------------------------------|-------------------------------|
|                      |  | <b>Carrying and Fair Value</b> | <b>% of Total Investments</b> |
| Aaa                  | U.S. Treasury Obligations                | \$ 186,563                     | 11.46%                        |
| Aa2                  | Ishares Core Total US Aggregate Bond ETF | 1,042,862                      | 64.07%                        |
| Aa2                  | PIMCO Low Duration Active ETF            | 65,726                         | 4.04%                         |
| A3                   | PIMCO Active Bond ETF                    | 91,694                         | 5.63%                         |
| A1                   | JP Morgan Ultra-Short Income ETF         | 60,409                         | 3.71%                         |
| BB                   | INVESCO Senior Loan ETF                  | 129,486                        | 7.96%                         |
| BB                   | Putnam Premier Income Trust              | 50,996                         | 3.13%                         |
|                      |  | <b>\$ 1,627,736</b>            | <b>100.00%</b>                |

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

| <b>Credit Rating</b> |  | <b>September 30, 2018</b>      |                               |
|----------------------|--|--------------------------------|-------------------------------|
|                      |  | <b>Carrying and Fair Value</b> | <b>% of Total Investments</b> |
| 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%                        |
| A1                   | 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%                         |
|                      |  | <b>\$ 4,237,146</b>            | <b>100.00%</b>                |

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**3. INVESTMENTS – CONTINUED**

**Interest Rate Risk**

At September 30, 2019, the maturity dates of the University’s debt instruments were as follows:

| <b>Type of Investment</b>    | <b>Investment Maturities at Fair Value (in Years)</b> |                   |                     |                         | <b>Totals<br/>9/30/19</b> |
|------------------------------|---|-------------------|---------------------|-------------------------|---------------------------|
|                              | <b>Less Than<br/>1</b>                                | <b>1 – 5</b>      | <b>6 – 10</b>       | <b>More Than<br/>10</b> |                           |
| <i>Debt Securities:</i>      |   |                   |                     |                         |                           |
| U.S. Government              |   |                   |                     |                         |                           |
| Guaranteed Securities        | \$ 186,563  | \$ -              | \$ -                | \$ -                    | \$ 186,563                |
| Mutual Funds –               |   |                   |                     |                         |                           |
| Bonds Only                   | -   | 177,131           | 1,264,042           | -                       | 1,441,173                 |
| <i>Total Debt Securities</i> | <u>\$ 186,563</u>                                     | <u>\$ 177,131</u> | <u>\$ 1,264,042</u> | <u>\$ -</u>             | <u>\$ 1,627,736</u>       |

**4. CHANGE IN CAPITAL ASSETS**

Capital asset activity for the years ended September 30, 2019 and 2018, was as follows:

|                                    | <b>Balance<br/>10/1/18</b> | <b>Additions</b>      | <b>Reductions/<br/>Transfers</b> | <b>Balance<br/>9/30/19</b> |
|------------------------------------|----------------------------|-----------------------|----------------------------------|----------------------------|
| Land                               | \$ 21,200,141              | \$ -                  | \$ -                             | \$ 21,200,141              |
| Construction in progress           | 182,915                    | 476,741               | 659,656                          | -                          |
| Buildings                          | 280,014,896                | -                     | (659,656)                        | 280,674,552                |
| Equipment                          | 15,270,001                 | 884,923               | 1,025,923                        | 15,129,001                 |
| Library holdings                   | 10,182,646                 | -                     | -                                | 10,182,646                 |
| Intangible software                | 11,744,019                 | -                     | -                                | 11,744,019                 |
| Infrastructure                     | 86,942,823                 | -                     | -                                | 86,942,823                 |
| Total capital assets               | <u>425,537,441</u>         | <u>1,361,664</u>      | <u>1,025,923</u>                 | <u>425,873,182</u>         |
| Less accumulated depreciation for: |                            |                       |                                  |                            |
| Buildings                          | 103,249,303                | 6,289,035             | -                                | 109,538,338                |
| Equipment                          | 10,513,373                 | 1,226,915             | 827,553                          | 10,912,735                 |
| Library holdings                   | 9,736,802                  | 120,059               | -                                | 9,856,861                  |
| Intangible software                | 4,110,407                  | 587,201               | -                                | 4,697,608                  |
| Infrastructure                     | 24,321,003                 | 2,963,157             | -                                | 27,284,160                 |
| Total accumulated depreciation     | <u>151,930,888</u>         | <u>11,186,367</u>     | <u>827,553</u>                   | <u>162,289,702</u>         |
| Capital assets, net                | <u>\$ 273,606,553</u>      | <u>\$ (9,824,703)</u> | <u>\$ 198,370</u>                | <u>\$ 263,583,480</u>      |

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**4. CHANGE IN CAPITAL ASSETS – CONTINUED**

|                                    | <b>Balance<br/>10/1/17</b> | <b>Additions</b>      | <b>Reductions/<br/>Transfers</b> | <b>Balance<br/>9/30/18</b> |
|------------------------------------|----------------------------|-----------------------|----------------------------------|----------------------------|
| 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>      |

Depreciation expense for the years ended September 30, 2019 and 2018, totaled \$11,186,367 and \$10,492,695, respectively.

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

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**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>2019</u>          | <u>2018</u>          |
|---------------------------------|----------------------|----------------------|
| Tuition, fees, room and board   | \$ 21,623,352        | \$ 29,390,213        |
| State grants and contracts      | 748,451              | 1,114,906            |
| Federal Student Loans           | 981,981              | 489,941              |
| Other                           | <u>1,048,317</u>     | <u>1,004,514</u>     |
|                                 | 24,402,101           | 31,999,574           |
| Allowance for doubtful accounts | <u>(10,219,944)</u>  | <u>(10,898,011)</u>  |
| Total                           | <u>\$ 14,182,157</u> | <u>\$ 21,101,563</u> |

**Student Loans Receivable**

|                                   | <u>2019</u>          | <u>2018</u>          |
|-----------------------------------|----------------------|----------------------|
| Perkins Loans:                    |                      |                      |
| Loans advanced                    | <u>\$ 11,077,608</u> | <u>\$ 11,077,608</u> |
| Less:                             |                      |                      |
| Loans assigned to U.S. Government | (658,160)            | (658,160)            |
| Principal collected               | (8,460,278)          | (8,103,555)          |
| Principal cancellations           | <u>(697,166)</u>     | <u>(695,273)</u>     |
|                                   | <u>(9,815,604)</u>   | <u>(9,456,988)</u>   |
| Total                             | <u>\$ 1,262,004</u>  | <u>\$ 1,620,620</u>  |

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**6. LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended September 30, 2019, was as follows:

|  | <u>Balance<br/>10/1/18</u> | <u>Additions</u>  | <u>Reductions</u>    | <u>Balance<br/>9/30/19</u> | <u>Current<br/>Portion</u> |
|--|----------------------------|-------------------|----------------------|----------------------------|----------------------------|
| <b>General tuition, fee, and revenue bonds</b>   |                            |                   |                      |                            |                            |
| Series 1982 Dormitory Revenue Bonds, 3% interest, due semi-annually through 2022   | \$ 215,000                 | \$ -              | \$ 50,000            | \$ 165,000                 | \$ 55,000                  |
| Series 2008 General Tuition and Fee Revenue Bonds, 4.00% – 5.00% interest, due semi-annually through 2038 on May 1 and November 1      | 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   | 3,535,000                  | -                 | 830,000              | 2,705,000                  | 865,000                    |
| Series 2010 General Tuition and Fee Revenue Bonds, 2.40% – 7.25% interest, due semi-annually through 2040 on March 1 and September 1   | 47,515,000                 | -                 | 1,365,000            | 46,150,000                 | 1,405,000                  |
| 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 | 8,865,000                  | -                 | 2,015,000            | 6,850,000                  | -                          |
| 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 | 5,990,000                  | -                 | 235,000              | 5,755,000                  | 2,600,000                  |
| Total general tuition, fee, and revenue bonds  | 67,090,000                 | -                 | 5,465,000            | 61,625,000                 | 4,925,000                  |
| Unamortized bond discount  | (627,376)                  | -                 | (53,105)             | (574,271)                  | -                          |
| Unamortized bond premium   | 31,129                     | -                 | 5,188                | 25,941                     | -                          |
| Total general tuition, fee, and revenue bonds, net   | 66,493,753                 | -                 | 5,417,083            | 61,076,670                 | 4,925,000                  |
| <b>Direct borrowing and direct placements</b>  |                            |                   |                      |                            |                            |
| 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                 | -                 | 3,744,758            | 96,037,521                 | 3,853,758                  |
| 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                 | -                 | 1,399,713            | 45,170,815                 | 1,441,037                  |
| Capital lease obligations  | 825,000                    | -                 | -                    | 825,000                    | -                          |
| Notes payable  | 720,000                    | -                 | 180,000              | 540,000                    | 180,000                    |
| Total direct borrowing and direct placements   | 147,897,807                | -                 | 5,324,471            | 142,573,336                | 5,474,795                  |
| <b>Other liabilities</b>   |                            |                   |                      |                            |                            |
| Compensated absences   | 2,353,051                  | 644,651           | 587,829              | 2,409,873                  | 577,316                    |
| Total long-term liabilities  | <u>\$ 216,744,611</u>      | <u>\$ 644,651</u> | <u>\$ 11,329,383</u> | <u>\$ 206,059,879</u>      | <u>\$ 10,977,111</u>       |

**ALABAMA STATE UNIVERSITY  
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**6. LONG-TERM LIABILITIES – CONTINUED**

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

|   | Balance<br>10/1/17    | Additions             | Advance<br>Refunding  | Reductions          | Balance<br>9/30/18    | Current<br>Portion   |
|---|-----------------------|-----------------------|-----------------------|---------------------|-----------------------|----------------------|
| General tuition, fee, and revenue bonds   |                       |                       |                       |                     |                       |                      |
| 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, 2.40% – 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              |
| Total general tuition, fee, and revenue bonds   | 204,450,000           | -                     | 131,115,000           | 6,245,000           | 67,090,000            | 5,465,000            |
| Unamortized bond discount   | (1,197,303)           | -                     | -                     | (569,927)           | (627,376)             | -                    |
| Unamortized bond premium  | 607,304               | -                     | -                     | 576,175             | 31,129                | -                    |
| Total general tuition, fee, and revenue bonds, net  | 203,860,001           | -                     | 131,115,000           | 6,251,248           | 66,493,753            | 5,465,000            |
| Direct borrowing and direct placements  |                       |                       |                       |                     |                       |                      |
| 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            |
| Capital lease obligations   | 827,494               | -                     | -                     | 2,494               | 825,000               | -                    |
| Notes payable   | 900,000               | -                     | -                     | 180,000             | 720,000               | 180,000              |
| Total direct borrowing and direct placements  | 1,727,494             | 146,352,807           | -                     | 182,494             | 147,897,807           | 5,324,471            |
| Other liabilities   |                       |                       |                       |                     |                       |                      |
| Compensated absences  | 2,270,479             | 740,483               | -                     | 657,911             | 2,353,051             | 599,977              |
| Total long-term liabilities   | <u>\$ 207,857,974</u> | <u>\$ 147,093,290</u> | <u>\$ 131,115,000</u> | <u>\$ 7,091,653</u> | <u>\$ 216,744,611</u> | <u>\$ 11,389,448</u> |

**ALABAMA STATE UNIVERSITY  
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**6. LONG-TERM LIABILITIES – 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 expenses during the year ended September 30, 2018.

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  
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**6. LONG-TERM LIABILITIES – 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, 2019, \$7,043,077 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 2019 statement of net position. As of September 30, 2019, 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 2019. Expenses related to defaulted program participants for the years ended September 30, 2019 and 2018 totaled \$515,995 and \$311,619, respectively.

Revenues and receipts from general tuition, other fees, and housing facilities payable by enrolled students are pledged to secure the bonds. In the event of default, bonds may be terminated, principle and interest may become immediately due and payable, and/or a receiver, trustee, liquidator, or conservator may be appointed for pledged revenues. Events of default are considered failure to pay amounts outstanding; failure to perform or observe covenants, terms or conditions; materially false or incorrect representations or warranties; foreclosure or other proceedings against the University by junior or subordinated lienholders of the pledged revenues; bankruptcy; money judgement, writ, or warrant against the University for its property and remains unvacated, unbonded, or unstayed for 60 days from filing; or any material, unrepaired or unreplaced, damage or destruction to any part of its project property.

**ALABAMA STATE UNIVERSITY  
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**6. LONG-TERM LIABILITIES – CONTINUED**

**Bonds Payable – Continued**

***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%.

Revenues and receipts from general tuition, other fees, and housing facilities payable by enrolled students are pledged to secure the bonds. In the event of default, bond principle of and accrued interest may become immediately due and payable. Events of default are considered failure to pay the principal of the interest on or the premium as they become due; failure to perform and observe agreements and covenants; and bankruptcy.

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.

***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%.

Revenues and receipts from general tuition, other fees, and housing facilities payable by enrolled students and interest subsidy payments are pledged to secure the bonds. In the event of default, bond principle of and accrued interest may become immediately due and payable. Events of default are considered failure to pay the principal of the interest on or the premium as they become due; failure to perform and observe agreements and covenants; and bankruptcy.

**ALABAMA STATE UNIVERSITY  
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**6. LONG-TERM LIABILITIES – CONTINUED**

**Bonds Payable – Continued**

***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%.

Revenues and receipts from general tuition, other fees, and housing facilities payable by enrolled students are pledged to secure the bonds. In the event of default, bond principle of and accrued interest may become immediately due and payable. Events of default are considered failure to pay the principal of the interest on or the premium as they become due; failure to perform and observe agreements and covenants; and bankruptcy.

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, 2019.

***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.

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, 2019.

**ALABAMA STATE UNIVERSITY  
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**6. LONG-TERM LIABILITIES – CONTINUED**

**Bonds Payable – Continued**

***Series 2008 General Tuition and Fee Revenue Bonds – Continued***

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. The remaining balance of the Series 2008 Bonds was paid in full during 2019.

***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.

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**6. LONG-TERM LIABILITIES – 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 the dormitory revenue sufficient to pay the annual debt service are pledged to secure the bonds. In the event of default, the University is required to fix and collect fees, rents, or other charges in connection with the bonds so that pledged revenues are sufficient to meet the provisions of the Series 1982 Bonds. Events of default are considered a failure to perform any part of the Series 1982 Dormitory Revenue Bond agreement.

**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 long-term liabilities are as follows:

|           | <b>General Tuition, Fee, and Revenue Bonds</b> |                      |                       | <b>Direct Borrowing and Direct Placements</b> |                      |                       |
|-----------|--|----------------------|-----------------------|---|----------------------|-----------------------|
|           | <b>Principal</b>                               | <b>Interest</b>      | <b>Net Cash Flows</b> | <b>Principal</b>                              | <b>Interest</b>      | <b>Net Cash Flows</b> |
| 2020      | \$ 4,925,000                                   | \$ 3,708,342         | \$ 8,633,342          | \$ 5,474,795                                  | \$ 4,151,282         | \$ 9,626,077          |
| 2021      | 4,065,000                                      | 3,508,944            | 7,573,944             | 5,619,986                                     | 4,000,120            | 9,620,106             |
| 2022      | 2,165,000                                      | 3,361,026            | 5,526,026             | 5,780,598                                     | 3,833,909            | 9,614,507             |
| 2023      | 6,440,000                                      | 3,174,851            | 9,614,851             | 5,890,953                                     | 3,660,486            | 9,551,439             |
| 2024      | 3,470,000                                      | 2,997,601            | 6,467,601             | 6,127,806                                     | 3,509,578            | 9,637,384             |
| 2025-2029 | 9,265,000                                      | 12,862,321           | 22,127,321            | 32,882,108                                    | 14,555,396           | 47,437,504            |
| 2030-2034 | 11,555,000                                     | 9,338,131            | 20,893,131            | 37,499,935                                    | 9,432,107            | 46,932,042            |
| 2035-2039 | 14,475,000                                     | 4,827,221            | 19,302,221            | 36,682,111                                    | 3,628,625            | 40,310,736            |
| 2040-2043 | 5,265,000                                      | 442,349              | 5,707,349             | 6,615,044                                     | 297,710              | 6,912,754             |
|           | <u>\$ 61,625,000</u>                           | <u>\$ 44,220,786</u> | <u>\$ 105,845,786</u> | <u>\$ 142,573,336</u>                         | <u>\$ 47,069,213</u> | <u>\$ 189,642,549</u> |

Interest expense for the years ended September 30, 2019 and 2018, totaled \$8,404,003 and \$9,077,384, respectively.

**ALABAMA STATE UNIVERSITY  
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**6. LONG-TERM LIABILITIES – CONTINUED**

**Note Payable – Continued**

Revenues and receipts from general tuition and other fees by enrolled students are collateralized to secure the note. In the event of default, the obligation to provide credit will be terminated; outstanding balance, at the option of the Bank, will be immediately due and payable; and/or take possession of collateral. Events of default are considered failure to pay when due or payable; comply with terms, conditions, warranties, covenants, or other requirements; failure to furnish financial information; bankruptcy; event of default of other debt; fraud or misrepresentation; change in condition or affairs; unpaid, unstayed, or undismitted final judgment; and a discontinuation of business of more than five days.

**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 after year-end.

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).

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.

As of February 21, 2020, the University was not in compliance with the Net Income Available For Debt Service Covenant for fiscal year 2019. The University communicated the non-compliance to the lender subsequent to year-end. A Liquidity Reserve Account cannot be established and funded with a balance of \$200,000 until after the audit deadline of March 1, 2020.

**Line of Credit**

The University has line of credit with Regions Bank for \$7,000,000. The line of credit matures on September 15, 2020 and has an interest rate of LIBOR plus 2.25%. Short-term debt activity for the years ended September 30, 2019 and 2018, is as follows:

|                              | <u>2019</u>         | <u>2018</u>         |
|------------------------------|---------------------|---------------------|
| Balance at beginning of year | \$ 5,630,369        | \$ 4,676,292        |
| Draws                        | 93,471,146          | 88,492,775          |
| Payments                     | <u>(97,952,042)</u> | <u>(87,538,698)</u> |
| Balance at end of year       | <u>\$ 1,149,473</u> | <u>\$ 5,630,369</u> |

The line of credit is secured by a pledge of student revenues. The amount of the unused line of credit totaled \$5,850,527 at September 30, 2019.

**ALABAMA STATE UNIVERSITY  
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**6. LONG-TERM LIABILITIES – CONTINUED**

**Capital Lease Obligations**

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

Assets acquired through capital leases were fully depreciated as of September 30, 2019 and maintained a net book value of \$7,128 as of September 30, 2018.

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

|   |                          |
|---|--------------------------|
| 2020                                    | \$ 43,313                |
| 2021                                    | 43,313                   |
| 2022                                    | 43,313                   |
| 2023                                    | 165,031                  |
| 2024                                    | 250,975                  |
| 2025-2026                               | <u>505,461</u>           |
| Total minimum lease payments            | 1,051,406                |
| Less amount representing interest       | <u>226,406</u>           |
| Present value of minimum lease payments | <u><u>\$ 825,000</u></u> |

**7. HEDGING DERIVATIVE INSTRUMENT**

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 a Pay-fixed Interest Rate Swap Agreement related to the General Revenue 2004 Series Bonds.

**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).

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**8. FAIR VALUE MEASUREMENT – CONTINUED**

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, 2019 and 2018 were classified as Level 1.

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 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, 2019 and 2018.

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**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](http://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.

**Benefits Provided**

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.

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**9. PENSION PLAN – CONTINUED**

**Contributions**

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered Tier 1 members of the TRS are required by statute to contribute 7.50% of earnable compensation.

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, 2019 and 2018 was 12.24% of annual pay for Tier 1 members and 11.01% 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 \$5,524,435 and \$5,427,718 for the years ended September 30, 2019 and 2018, respectively.

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

At September 30, 2019 and 2018, the University reported a liability of \$66,769,800 and \$66,081,091, 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, 2017 and 2016. 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, 2018 and 2017, the University's proportion was 0.671554% and 0.672343%, respectively, which was a decrease of 0.000789% and 0.039876%, respectively, from its proportion measured as of September 30, 2017 and 2016.

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**9. PENSION PLAN – CONTINUED**

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

For the years ended September 30, 2019 and 2018, the University recognized pension expense of approximately \$3,179,600 and \$3,652,000, respectively. At September 30, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | <u>September 30, 2019</u>                     |  |
|---|---|--|
|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
| Difference between expected and actual experience   | \$ 1,441,000                                  | \$ 2,034,000                                 |
| Net difference between projected and actual earnings on pension plan investments                              | -   | 5,040,000                                    |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 158,000                                       | 5,960,000                                    |
| Change of assumptions   | 3,711,000                                     | -  |
| Employer contributions subsequent to measurement date   | 5,524,435                                     | -  |
|   | <u>\$ 10,834,435</u>                          | <u>\$ 13,034,000</u>                         |
| <br><u>September 30, 2018</u>   |   |  |
|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>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  
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**9. PENSION PLAN – CONTINUED**

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

Deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date in the amount of \$5,524,435 will be recognized as a reduction of the net pension liability in the year ending September 30, 2020. 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, |              |
| 2020                      | \$ 1,883,000 |
| 2021                      | 3,392,000    |
| 2022                      | 2,369,000    |
| 2023                      | 191,000      |
| 2024                      | (111,000)    |

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of September 30, 2017 and 2016, respectively, using the following actuarial assumptions, applied to all periods included in the measurement:

|                            |            |
|----------------------------|------------|
| Inflation                  | 2.75%      |
| Investment rate of return* | 7.70%      |
| 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, 2017 and 2016, 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 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females age 78 and older.

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**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:

|                                       | <b>Target<br/>Allocation</b> | <b>Long-term<br/>Expected Rate<br/>of Return*</b> |
|---------------------------------------|------------------------------|---|
| 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 7.70%. 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.

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**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 7.70%, 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 (6.70%) or 1-percentage point higher (8.70%) than the current rate (in thousands):

|  | <u>1% Decrease<br/>(6.70%)</u> | <u>Current Rate<br/>(7.70%)</u> | <u>1% Increase<br/>(8.70%)</u> |
|--|--------------------------------|---------------------------------|--------------------------------|
| University’s proportionate share of collective net pension liability | \$ 92,944                      | \$ 66,770                       | \$ 44,630                      |

**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, 2018 and 2017. 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, 2018 and 2017. The auditors’ report dated August 16, 2019 and August 20, 2018, 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, 2018 and 2017, along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://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.

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**10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**Plan Description**

The Alabama Retired Education Employees' Health Care Trust (Health Care 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 Health Care 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 PEEHIP. In accordance with GASB, the Health Care 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 Health Care 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.

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**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, 2017, 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.

**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.

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**10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**Contributions – Continued**

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, 2019 and 2018, the University reported a liability of \$46,260,910 and \$44,295,403, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2018 and 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017 and 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 and 2017, the University's proportion was 0.56287% and 0.59637%, respectively, which was a decrease of 0.03351% from its proportion measured as of September 30, 2018 and an increase of 0.09688% from its proportion measured as of September 30, 2017.

For the years ended September 30, 2019 and 2018, the University recognized OPEB expense of \$2,901,547 and \$2,675,728, respectively, with no special funding situations.

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**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, 2019 and 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|   | <u>September 30, 2019</u>                     |  |
|---|---|--|
|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
| Difference between expected and actual experience   | \$ 870,951                                    | \$ -   |
| Changes of assumptions  | -   | 2,253,333                                    |
| Net difference between projected and actual earnings on OPEB plan investments                                 | -   | 247,866                                      |
| Changes in proportion and differences between Employer contributions and proportionate share of contributions | 5,283,476                                     | 2,313,036                                    |
| Employer contributions subsequent to the measurement date   | 1,395,363                                     | -  |
|   | <u>\$ 7,549,790</u>                           | <u>\$ 4,814,235</u>                          |
|   | <u>September 30, 2018</u>                     |  |
|   | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>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   | 1,384,486                                     | -  |
|   | <u>\$ 7,917,011</u>                           | <u>\$ 4,835,020</u>                          |

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**10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

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

Deferred outflow of resources related to OPEB resulting from the University's contributions subsequent to the measurement date in the amount of \$1,395,363 will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2020. 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, |            |
| 2020                      | \$ 307,621 |
| 2021                      | 307,621    |
| 2022                      | 307,621    |
| 2023                      | 363,267    |
| 2024                      | 60,817     |
| Thereafter                | (6,755)    |

**Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

|  |               |
|--|---------------|
| Inflation  | 2.75%         |
| Projected Salary Increases <sup>1</sup>                        | 3.25% - 5.00% |
| Long-Term Investment Rate of Return <sup>2</sup>               | 7.25%         |
| Municipal Bond Index Rate at the Measurement Date              | 4.18%         |
| Municipal Bond Index Rate at the Prior Measurement Date        | 3.57%         |
| Projected Year for Fiduciary Net Position (FNP) to be Depleted | 2029          |
| Single Equivalent Interest Rate at the Measurement Date        | 4.44%         |
| Single Equivalent Interest Rate at the Prior Measurement Date  | 4.63%         |
| Healthcare Cost Trend Rate                                     |               |
| Pre-Medicare Eligible  | 7.00%         |
| Medicare Eligible  | 5.00%         |
| Ultimate Trend Rate  |               |
| Pre-Medicare Eligible  | 4.75% in 2026 |
| Medicare Eligible  | 4.75% in 2024 |

<sup>1</sup>Includes 3.00% wage inflation.

<sup>2</sup>Compounded annually, net of investment expense, and includes inflation.

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**10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**Actuarial Assumptions – Continued**

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.

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, 2017 valuation were based on a review of recent plan experience done concurrently with the September 30, 2017 valuation.

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.

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**10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**Actuarial Assumptions – Continued**

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

|                                       | <b>Target<br/>Allocation</b> | <b>Long-Term<br/>Expected Real<br/>Rate of<br/>Return*</b> |
|---------------------------------------|------------------------------|--|
| 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

**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 4.44%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.63%. 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, 20.307% of the employer contributions were used to assist in funding retiree benefit payments in 2018 and it is assumed that the amount will increase by 2.75% 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 2029. The long-term rate of return is used until the assets are expected to be depleted in 2029, after which the municipal bond rate is used.

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**10. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**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%<br/>Decrease</u> | <u>Current<br/>Healthcare<br/>Trend Rate</u> | <u>1%<br/>Increase</u> |
|---|------------------------|--|------------------------|
| University’s proportionate share of collective net OPEB liability | \$ 38,027,521          | \$ 46,260,910                                | \$ 56,743,162          |

The following table presents the University’s proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 4.44%, 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<br/>(3.44%)</u> | <u>Current<br/>Discount<br/>Rate (4.44%)</u> | <u>1% Increase<br/>(5.44%)</u> |
|---|--------------------------------|--|--------------------------------|
| University’s proportionate share of collective net OPEB liability | \$ 55,262,155                  | \$ 46,260,910                                | \$ 39,000,111                  |

**OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan’s fiduciary net position is located in the Health Care Trust’s financial statements for the fiscal years ended September 30, 2018 and 2017. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2018 and 2017. Additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

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**11. OPERATING LEASES**

In December 2018, 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. In January 2019, the University entered into an agreement for the lease of LED fixtures and bulbs. The term of the lease requires 60 monthly installments of \$7,219.

Future minimum lease payments are as follows:

|      |                     |
|------|---------------------|
| 2020 | \$ 492,385          |
| 2021 | 492,385             |
| 2022 | 492,385             |
| 2023 | 492,385             |
| 2024 | <u>159,324</u>      |
|      | <u>\$ 2,128,864</u> |

Rent expense for all operating leases totaled \$786,433 and \$672,599 for the years ended September 30, 2019 and 2018, respectively.

**12. CONSTRUCTION COMMITMENTS**

As of September 30, 2019, the University had commitments on construction of capital projects as follows:

|                   |                    |
|-------------------|--------------------|
| Gross commitments | \$ 5,125,275       |
| Spent-to-date     | <u>(4,975,017)</u> |
| Net commitments   | <u>\$ 150,258</u>  |

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**13. COMPONENT UNITS**

In August 2016, the FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit-Entities*, which made several improvements to current financial reporting for not-for-profits. The guidance was effective and adopted for the Trust's annual financial statements for the year ended July 31, 2019 and the Foundation's annual financial statements for the year ended December 31, 2018. The most significant provisions of this standard required two classes of net assets, rather than the previously required three classes. The changes in the ASU were applied to the financial statements on a retrospective basis, which means that all financial statements presented for the Trust and the Foundation reflected the changes for each period presented.

Details of the Foundation's net assets at December 31, 2018 and 2017, and the Trust's net assets at July 31, 2019 and 2018, are as follows:

|  | FY 2019–2018        |                      |                      | FY 2018–2017        |                      |                      |
|--|---------------------|----------------------|----------------------|---------------------|----------------------|----------------------|
|  | Foundation          | Trust                | Totals               | Foundation          | Trust                | Totals               |
| <b>ASSETS</b>                            |                     |                      |                      |                     |                      |                      |
| <b>CURRENT ASSETS</b>                    |                     |                      |                      |                     |                      |                      |
| Unrestricted assets:                     |                     |                      |                      |                     |                      |                      |
| Cash and cash equivalents                | \$ 1,189,169        | \$ -                 | \$ 1,189,169         | \$ 746,417          | \$ -                 | \$ 746,417           |
| Due from Alabama State University        | -                   | 145,042              | 145,042              | -                   | 153,979              | 153,979              |
| Total unrestricted assets                | 1,189,169           | 145,042              | 1,334,211            | 746,417             | 153,979              | 900,396              |
| Restricted assets:                       |                     |                      |                      |                     |                      |                      |
| Grants and contracts:                    |                     |                      |                      |                     |                      |                      |
| Cash and cash equivalents                | 532,665             | -                    | 532,665              | 272,549             | -                    | 272,549              |
| Short-term investments                   | 1,940,968           | -                    | 1,940,968            | 2,141,219           | -                    | 2,141,219            |
| Endowments:                              |                     |                      |                      |                     |                      |                      |
| Cash and cash equivalents                | -                   | 8,287,583            | 8,287,583            | -                   | 8,693,360            | 8,693,360            |
| Short-term investments                   | -                   | 82,131,579           | 82,131,579           | -                   | 79,025,425           | 79,025,425           |
| Accrued interest and dividends           | -                   | 48,862               | 48,862               | -                   | 47,635               | 47,635               |
| Total restricted assets                  | 2,473,633           | 90,468,024           | 92,941,657           | 2,413,768           | 87,766,420           | 90,180,188           |
| Total current assets                     | 3,662,802           | 90,613,066           | 94,275,868           | 3,160,185           | 87,920,399           | 91,080,584           |
| <b>TOTAL ASSETS</b>                      | <b>\$ 3,662,802</b> | <b>\$ 90,613,066</b> | <b>\$ 94,275,868</b> | <b>\$ 3,160,185</b> | <b>\$ 87,920,399</b> | <b>\$ 91,080,584</b> |
| <b>LIABILITIES</b>                       |                     |                      |                      |                     |                      |                      |
| <b>CURRENT LIABILITIES</b>               |                     |                      |                      |                     |                      |                      |
| Accounts payable and accrued liabilities | \$ 26,243           | \$ -                 | \$ 26,243            | \$ 6,120            | \$ -                 | \$ 6,120             |
| Total current liabilities                | 26,243              | -                    | 26,243               | 6,120               | -                    | 6,120                |
| <b>TOTAL LIABILITIES</b>                 | <b>26,243</b>       | <b>-</b>             | <b>26,243</b>        | <b>6,120</b>        | <b>-</b>             | <b>6,120</b>         |
| <b>NET ASSETS</b>                        |                     |                      |                      |                     |                      |                      |
| Without donor restrictions               | 591,894             | -                    | 591,894              | 692,921             | -                    | 692,921              |
| With donor restrictions                  | 3,044,665           | 90,613,066           | 93,657,731           | 2,461,144           | 87,920,399           | 90,381,543           |
| <b>TOTAL NET ASSETS</b>                  | <b>3,636,559</b>    | <b>90,613,066</b>    | <b>94,249,625</b>    | <b>3,154,065</b>    | <b>87,920,399</b>    | <b>91,074,464</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>  | <b>\$ 3,662,802</b> | <b>\$ 90,613,066</b> | <b>\$ 94,275,868</b> | <b>\$ 3,160,185</b> | <b>\$ 87,920,399</b> | <b>\$ 91,080,584</b> |

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**13. COMPONENT UNITS – CONTINUED**

Details of the Foundation's revenues, expenses, and changes in net assets for the years ended December 31, 2018 and 2017, and the Trust's revenues, expenses, and changes in net assets for the years ended July 31, 2019 and 2018, are as follows:

|  | FY 2019–2018 |               |               | FY 2018–2017 |               |               |
|--|--------------|---------------|---------------|--------------|---------------|---------------|
|  | Foundation   | Trust         | Totals        | Foundation   | Trust         | Totals        |
| <b>OPERATING REVENUES</b>                                |              |               |               |              |               |               |
| Contributions  | \$ 3,133,676 | \$ 55,776     | \$ 3,189,452  | \$ 1,187,600 | \$ 100,395    | \$ 1,287,995  |
| Total operating revenues                                 | 3,133,676    | 55,776        | 3,189,452     | 1,187,600    | 100,395       | 1,287,995     |
| <b>OPERATING EXPENSES</b>                                |              |               |               |              |               |               |
| Educational and general:                                 |              |               |               |              |               |               |
| Program services   | 2,368,172    | 2,315,302     | 4,683,474     | 1,246,423    | 1,991,745     | 3,238,168     |
| Supporting services                                      | 73,087       | -             | 73,087        | 39,754       | -             | 39,754        |
| Total operating expenses                                 | 2,441,259    | 2,315,302     | 4,756,561     | 1,286,177    | 1,991,745     | 3,277,922     |
| Operating income (loss)                                  | 692,417      | (2,259,526)   | (1,567,109)   | (98,577)     | (1,891,350)   | (1,989,927)   |
| <b>NONOPERATING REVENUES<br/>(EXPENSES)</b>              |              |               |               |              |               |               |
| Investment income, net                                   | 13,430       | 1,759,927     | 1,773,357     | 25,328       | 1,426,940     | 1,452,268     |
| Realized and unrealized gains (losses)<br>on investments | (223,353)    | 3,192,266     | 2,968,913     | 333,082      | 4,929,805     | 5,262,887     |
| Net nonoperating<br>revenues (expenses)                  | (209,923)    | 4,952,193     | 4,742,270     | 358,410      | 6,356,745     | 6,715,155     |
| <b>CHANGE IN NET ASSETS</b>                              | 482,494      | 2,692,667     | 3,175,161     | 259,833      | 4,465,395     | 4,725,228     |
| <b>NET ASSETS AT BEGINNING OF YEAR</b>                   | 3,154,065    | 87,920,399    | 91,074,464    | 2,894,232    | 83,455,004    | 86,349,236    |
| <b>NET ASSETS AT END OF YEAR</b>                         | \$ 3,636,559 | \$ 90,613,066 | \$ 94,249,625 | \$ 3,154,065 | \$ 87,920,399 | \$ 91,074,464 |

**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.

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.

**ALABAMA STATE UNIVERSITY  
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**13. COMPONENT UNITS – CONTINUED**

**Fair Value Measurement – Continued**

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.

All of the University's discretely presented component units' investments as of September 30, 2019 and 2018 were classified as Level 1.

**ALABAMA STATE UNIVERSITY  
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**14. 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, 2019:

|                                  | <u>Unrestricted</u> | <u>Restricted<br/>Expendable</u> | <u>Restricted<br/>Nonexpendable</u> | <u>Total</u>        |
|----------------------------------|---------------------|----------------------------------|-------------------------------------|---------------------|
| Donor-restricted endowment funds | \$ -                | \$ 1,899,082                     | \$ 250,000                          | \$ 2,149,082        |
| Board-designated endowment funds | 1,841,249           | -                                | -                                   | 1,841,249           |
|                                  | <u>\$ 1,841,249</u> | <u>\$ 1,899,082</u>              | <u>\$ 250,000</u>                   | <u>\$ 3,990,331</u> |

University endowment net assets consisted of the following as of September 30, 2018:

|                                  | <u>Unrestricted</u> | <u>Restricted<br/>Expendable</u> | <u>Restricted<br/>Nonexpendable</u> | <u>Total</u>         |
|----------------------------------|---------------------|----------------------------------|-------------------------------------|----------------------|
| Donor-restricted endowment funds | \$ -                | \$ 1,906,155                     | \$ 250,000                          | \$ 2,156,155         |
| Board-designated endowment funds | 9,187,508           | -                                | -                                   | 9,187,508            |
|                                  | <u>\$ 9,187,508</u> | <u>\$ 1,906,155</u>              | <u>\$ 250,000</u>                   | <u>\$ 11,343,663</u> |

**ALABAMA STATE UNIVERSITY  
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**14. ENDOWMENTS – CONTINUED**

**University Endowments – Continued**

Changes in the University’s endowment net assets consist of the following for the year ended September 30, 2019:

|   | <u>Unrestricted</u> | <u>Restricted<br/>Expendable</u> | <u>Restricted<br/>Nonexpendable</u> | <u>Total</u>        |
|---|---------------------|----------------------------------|-------------------------------------|---------------------|
| Endowment net assets at beginning of year             | \$ 9,187,508        | \$ 1,906,155                     | \$ 250,000                          | \$ 11,343,663       |
| Interest and dividends, net of investment expenses    | 139,479             | 9,427                            | -                                   | 148,906             |
| Realized and unrealized gains (losses) on investments | 98,591              | (16,500)                         | -                                   | 82,091              |
| Appropriation of endowment assets for expenditure     | (3,782)             | -                                | -                                   | (3,782)             |
| Loan of endowment assets for operational expenditures | (7,580,547)         | -                                | -                                   | (7,580,547)         |
| Change in endowment net assets                        | (7,346,259)         | (7,073)                          | -                                   | (7,353,332)         |
|   | <u>\$ 1,841,249</u> | <u>\$ 1,899,082</u>              | <u>\$ 250,000</u>                   | <u>\$ 3,990,331</u> |

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

|   | <u>Unrestricted</u> | <u>Restricted<br/>Expendable</u> | <u>Restricted<br/>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)                          | -                                   | -                    |
| Loan of endowment assets for operational expenditures | (4,174,591)         | -                                | -                                   | (4,174,591)          |
| Change in endowment net assets                        | (3,424,415)         | 23,537                           | -                                   | (3,400,878)          |
|   | <u>\$ 9,187,508</u> | <u>\$ 1,906,155</u>              | <u>\$ 250,000</u>                   | <u>\$ 11,343,663</u> |

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**14. 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 (restricted in perpetuity) and restricted as to time or purpose 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, 2019 and December 31, 2018, respectively.

|  | <b>Without Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Total</b>  |
|--|---------------------------------------|------------------------------------|---------------|
| Endowment net assets at beginning of year          | \$ 692,921                            | \$ 90,381,543                      | \$ 91,074,464 |
| Investment return:                                 |                                       |                                    |               |
| Interest and dividends, net of investment expenses | -                                     | 1,800,332                          | 1,800,332     |
| Realized and unrealized gains on investments       | -                                     | 2,968,913                          | 2,968,913     |
| Total investment return                            | -                                     | 4,769,245                          | 4,769,245     |
| Contributions and additions                        | 480                                   | 3,188,972                          | 3,189,452     |
| Appropriation of endowment assets for expenditure  | (101,507)                             | (4,682,029)                        | (4,783,536)   |
| Endowment net assets at end of year                | \$ 591,894                            | \$ 93,657,731                      | \$ 94,249,625 |

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
SEPTEMBER 30, 2019 AND 2018**

**14. 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, 2018 and December 31, 2017, respectively.

|  | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>         |
|--|---------------------------------------|------------------------------------|----------------------|
| Endowment net assets at beginning of year          | \$ 585,288                            | \$ 85,763,948                      | \$ 86,349,236        |
| Investment return:                                 |                                       |                                    |                      |
| Interest and dividends, net of investment expenses | 5,980                                 | 1,446,287                          | 1,452,267            |
| Realized and unrealized losses on investments      | 96,522                                | 5,166,366                          | 5,262,888            |
| Total investment return                            | 102,502                               | 6,612,653                          | 6,715,155            |
| Contributions and additions                        | 44,887                                | 1,243,110                          | 1,287,997            |
| Appropriation of endowment assets for expenditure  | (39,756)                              | (3,238,168)                        | (3,277,924)          |
| Endowment net assets at end of year                | <u>\$ 692,921</u>                     | <u>\$ 90,381,543</u>               | <u>\$ 91,074,464</u> |

***Return Objectives and Risk Parameters***

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

***Strategies Employed for Achieving Objectives***

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

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

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

**ALABAMA STATE UNIVERSITY  
NOTES TO THE FINANCIAL STATEMENTS  
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**14. ENDOWMENTS – CONTINUED**

**Endowments of the University’s Component Units – Continued**

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

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

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

**15. 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.

**16. 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ALABAMA STATE UNIVERSITY**  
**SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION**  
**LIABILITY AND EMPLOYER CONTRIBUTIONS (UNAUDITED)**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

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

|  | <u>2019</u>   | <u>2018</u>   | <u>2017</u>   | <u>2016</u>   | <u>2015</u>   |
|--|---------------|---------------|---------------|---------------|---------------|
| Employer's proportion of the net pension liability   | 0.67155%      | 0.67234%      | 0.71222%      | 0.77107%      | 0.71222%      |
| Employer's proportionate share of the collective net pension liability                             | \$ 66,769,800 | \$ 66,081,091 | \$ 77,104,865 | \$ 80,697,982 | \$ 73,602,774 |
| Employer's covered payroll during the measurement period   | \$ 45,658,735 | \$ 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 | 146.24%       | 145.03%       | 167.54%       | 170.57%       | 149.43%       |
| Plan fiduciary net position as a percentage of the total collective pension liability              | 72.29%        | 71.50%        | 67.93%        | 67.51%        | 71.01%        |

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

|  | <u>2019</u>   | <u>2018</u>   | <u>2017</u>   | <u>2016</u>   | <u>2015</u>   |
|--|---------------|---------------|---------------|---------------|---------------|
| Contractually required contribution                                  | \$ 5,524,435  | \$ 5,427,718  | \$ 5,354,299  | \$ 5,689,859  | \$ 5,819,937  |
| Contributions in relation to the contractually required contribution | \$ 5,524,435  | \$ 5,427,718  | \$ 5,354,299  | \$ 5,689,859  | \$ 5,819,937  |
| Contribution deficiency (excess)                                     | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          |
| Covered payroll  | \$ 45,658,735 | \$ 45,563,104 | \$ 46,022,196 | \$ 47,310,904 | \$ 49,256,359 |
| Contributions as a percentage of covered payroll                     | 12.10%        | 11.91%        | 11.63%        | 12.03%        | 11.82%        |

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

**Notes to Schedules**

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

Measurement period:

- For fiscal year 2019, the measurement period is October 1, 2017 – September 30, 2018
- 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  
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB  
LIABILITY AND EMPLOYER CONTRIBUTIONS (UNAUDITED)  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

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

|  | <u>2019</u>   | <u>2018</u>   |
|--|---------------|---------------|
| Employer's proportion of collective net OPEB liability   | 0.56287%      | 0.59637%      |
| Employer's proportionate share of the collective net OPEB liability  | \$ 46,260,910 | \$ 44,295,403 |
| Employer's covered payroll during the measurement period   | \$ 45,658,735 | \$ 45,563,104 |
| Employer's proportionate share of the collective net OPEB liability as a percentage of its covered payroll | 101.32%       | 97.22%        |
| Plan fiduciary net position as a percentage of the total collective net OPEB liability                     | 14.81%        | 15.37%        |

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

|  | <u>2019</u>   | <u>2018</u>   |
|--|---------------|---------------|
| Contractually required contribution                                  | \$ 1,395,363  | \$ 1,384,486  |
| Contributions in relation to the contractually required contribution | \$ 1,395,363  | \$ 1,384,486  |
| Contribution deficiency (excess)                                     | \$ -          | \$ -          |
| Employer's covered payroll   | \$ 45,658,735 | \$ 45,563,104 |
| Contributions as a percentage of covered payroll                     | 3.06%         | 3.04%         |

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

**Notes to Required Supplementary Information for the Year Ended September 30, 2019**

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

Measurement period: For the fiscal year 2019, the measurement period is October 1, 2017 through September 30, 2018.

**Changes in Actuarial Assumptions**

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. 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.

**ALABAMA STATE UNIVERSITY  
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB  
LIABILITY AND EMPLOYER CONTRIBUTIONS (UNAUDITED) – CONTINUED  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

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**Recent Plan Changes**

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the UnitedHealthcare Medicare Advantage Plan with Prescription Drug Coverage (MAPD).

The Plan is changed periodically to reflect the Affordable Care Act (ACA) maximum annual out-of-pocket amounts.

**Methods 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, 2016, 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         | Entry Age Normal   |
| Amortization Method           | Level percent of pay, closed                                 |
| Remaining Amortization Period | 25 years, closed   |
| Asset Valuation Method        | Market value of assets                                       |
| Inflation                     | 2.88%  |
| 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 for Pre-Medicare Eligible<br>2018 for Medicare Eligible |
| Investment Rate of Return     | 5.00%, including inflation                                   |