

**Athens State University  
Financial Statements  
September 30, 2017**

**FINANCIAL REPORT  
2016-2017**



# Athens State University

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September 30, 2017

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**PART I**

**FINANCIAL STATEMENTS**

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## Independent Auditor's Report

To the Board of Trustees  
Athens State University

### Report on the Financial Statements

We have audited the accompanying financial statements of Athens State University ("ASU" or "the University"), a component unit of the State of Alabama, and its discretely presented component unit as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise ASU'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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit, Athens State University Foundation ("ASUF" or "the Foundation"), were not audited in accordance with *Governmental 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ASU and its discretely presented component unit as of September 30, 2017, and the changes in its financial position and, where applicable, its cash flows for the year 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 4 through 13, the schedule of Athens State University's proportionate share of the net pension liability on page 49 and the schedule of Athens State University's contributions on page 50 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Listing of University Officials on page 51 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2018 on our consideration of Athens State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 Athens State University's internal control over financial reporting and compliance.

***CDPA, P.C.***

Athens, Alabama  
March 19, 2018

## **Introduction**

The objective of Management's Discussion and Analysis is to help the readers of Athens State University's financial statements to better understand the financial condition and activities that have occurred during the fiscal year ended September 30, 2017. This document has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements.

Athens State University's financial report consists of the following statements:

- The Statement of Net Position
- The Statement of Revenues, Expenses, and Changes in Net Position
- The Statement of Cash Flows

These statements are intended to present the financial position, operating activities and cash flows of the University. The Notes to the Financial Statements provide additional information that is needed to fully understand the financial statements.

### **Athens State University**

Athens State University is a baccalaureate and master's degree granting non-residential, co-educational open-admissions institution located in the northernmost part of the state in the City of Athens, Alabama. It can be classified as both the oldest and youngest institution of higher education in Alabama and is the only institution of its kind in the State of Alabama. The institution was founded in 1822, by local citizens who purchased five acres of land, erected a building, and began Athens Female Academy. Ownership of the school was transferred in 1842 to the Tennessee Conference of the Methodist Church. With the birth of the North Alabama Conference of the Methodist Church in 1870, the institution came under the jurisdiction of that body. The University remained a female institution until it became co-educational in 1931, with a name change to Athens College.

On May 1, 1974, the Board of Trustees met to discuss requesting permission from the North Alabama Conference of the United Methodist Church that the institution seek affiliation with the State of Alabama. The Conference, at its annual meeting in June 1974, gave the Board of Trustees this permission and authorized the potential transfer of the institution to the State of Alabama. Following a lengthy period of negotiations, the institution was accepted by the Alabama State Board of Education on November 24, 1975 and charged to serve the graduates of state junior, community, and technical colleges/institutes. It is the only upper division school in the state. The Alabama Legislature and the State Board of Education worked together to appropriate funds for continued operation with the goal of serving the graduates of the states' many two-year colleges. The University underwent another name change to Athens State University in 1998.

Athens State University is considered the youngest institution because it became an autonomous university in 2012. This occurred when, by act of the Alabama Legislature, Athens State University withdrew from governance under the Alabama State Board of Education and the Department of Postsecondary Education and from membership in the statewide community college system. On October 1, 2012, the University officially became an autonomous public institution governed by a Board of Trustees.



**Athens State University**  
**Management's Discussion and Analysis**  
**September 30, 2017**

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Enrollment is approximately 3,000 students and ninety-five (95) percent of our students are Alabama residents, located in 55 counties or 82 percent of the 67 counties in the state. Sixty-six (66) percent of students are female, average age of 31 years, gainfully employed, and most with children at home. Sixty (60) percent of students attend school on a part-time basis, and eighty-six (86) percent are employed either full-time (57%) or part-time (29%). The racial composition of the student body is 76% White and 21% minority (3% not reported). Sixty-five (65) percent of students receive some form of financial assistance that may include federal, state, and/or institutional funding sources (Source: Fall 2017 Fact Book).

The Athens State University mission statement stresses the institution's emphasis on teaching, service, research and other creative activities to empower its students to make valuable contributions in their professional, civic, educational, and economic endeavors. The institution strives to provide appropriate learning resources and a variety of course formats and options that support quality teaching, learning, and the advancement of knowledge and actively promotes diversity and lifelong learning. Through affiliations with a variety of organizations, Athens State University provides resources that support continuing education for students and the community at large. The institution also sponsors and supports programs that stimulate cultural and intellectual enrichment in the community. As of Fall 2017, the University employed 226 full-time employees including 81 faculty members and 159 part-time employees which includes 115 part-time faculty.

The University offers 33 undergraduate degree programs and 3 graduate degree programs for its students to choose from and continues to explore the latest technology in the delivery of these majors. In addition, the University offers 54 minors and 12 certificates. To better meet the needs of our students, the University provides 12 undergraduate and 3 graduate programs completely online through a distance learning format. A brief paragraph about each of the University's three Colleges and the University Centers follows.

College of Education – The College of Education is the state leader in producing high quality teacher candidates. The College of Education faculty has established programs based on the conceptual framework's theme "Reflective Practitioners." The conceptual framework has four goals which describe the teacher candidates who complete the program at Athens State University. These four program goals are: Student Centered Learning, Disciplinary Knowledge, Professional and Pedagogical Knowledge, and Socially Responsible Citizens. Specifically Athens State teacher candidates graduate with a strong foundation in disciplinary, professional and pedagogical knowledge and the ability to create student centered learning opportunities and practice socially responsible citizenship. Graduates are prepared for the classroom and are attractive to school systems in North Alabama and across the state. Courses are offered in traditional, blended, and online formats to meet the needs of students. The College of Education is accredited by NCATE, the National Council for Accreditation of Teacher Education. The U.S. Department of Education and the Council for Higher Education Accreditation recognize NCATE as an accrediting body for schools, colleges and departments of education. NCATE is currently collaborating with the Teacher Education Accreditation Council (TEAC) to form a new national accrediting body called the Council for Accreditation of Educator Programs (CAEP).

College of Arts and Sciences – The College of Arts and Sciences (COAS) curricula are designed to prepare students for entry into the job market, or for continuing education in graduate or professional school. Through its course offerings, the college seeks to engage the intelligence,

**Athens State University**  
**Management's Discussion and Analysis**  
**September 30, 2017**

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excite the imagination, and improve the scholarship of its students. Through engaged learning experiences the COAS seeks to assist its students to develop competencies in written and oral communications; appreciation of our cultural heritage and understanding of our world; a knowledge base conducive to self-growth and enriched life experiences; and, fundamental knowledge, research skills and computer literacy essential to lifelong learning. The COAS launched its first graduate degree program, a Master of Arts in Religious Studies, in the Fall 2016.

*College of Business* – The mission of the College of Business at Athens State University is to offer programs of study to prepare students for positions in business, finance, and government; to enhance the professional development of those already employed, and to provide an academic framework for graduate study leading to professional positions. The purpose of the College of Business is to provide quality education for all students, teaching them to think critically, to use technology efficiently, to be effective leaders, decision makers, and communicators, to maintain ethical standards, and to understand the global economy. The College of Business offers seven undergraduate degree programs and one graduate degree program entirely online in addition to the traditional offerings. The online format enables the University to reach students across the state, the nation, and internationally. Additionally, the College of Business is accredited by the Association of Collegiate Business Schools and Programs (ACBSP), one of the leading specialized accreditation associations for business education.

*University Centers* – Athens State University has 6 off-campus instructional sites located in various areas of North Alabama with the goal of expanding the opportunities for traditional and non-traditional students to pursue degrees or certifications at locations where education might otherwise be limited. Each Center is staffed with a Center Manager to provide student support services in admissions, registration, academic advising, financial aid, and more. The University has Centers located on the campus of Wallace State Community College-Hanceville, Northeast Alabama Community College, and Redstone Arsenal. These Centers serve as recruiting and advising facilities as well as offer onsite and distance learning classes. The University also has Centers on the campuses of Snead State Community College and Northwest Shoals Community College. These Centers also serve as recruiting and advising facilities and offer only distance learning classes.

Through a collaborative partnership between Athens State University, Calhoun Community College, the City of Decatur, and Morgan County, the Alabama Center for the Arts opened in January 2013 in Decatur, Alabama. This location serves as a venue for college art instruction, community education, and cultural events.

**Financial Highlights**

Athens State University had another successful year financially. For the eleventh-consecutive year, the University increased its overall financial position. The University's total assets and deferred outflows of resources at the conclusion of the fiscal year ended September 30, 2017 were \$72.5 million and liabilities and deferred inflows of resources were \$52.0 million. This resulted in the University's net position ending at \$20.5 million, representing a 8.41% increase in the University's financial position.

**Athens State University**  
**Management's Discussion and Analysis**  
**September 30, 2017**

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**Financial Statements**

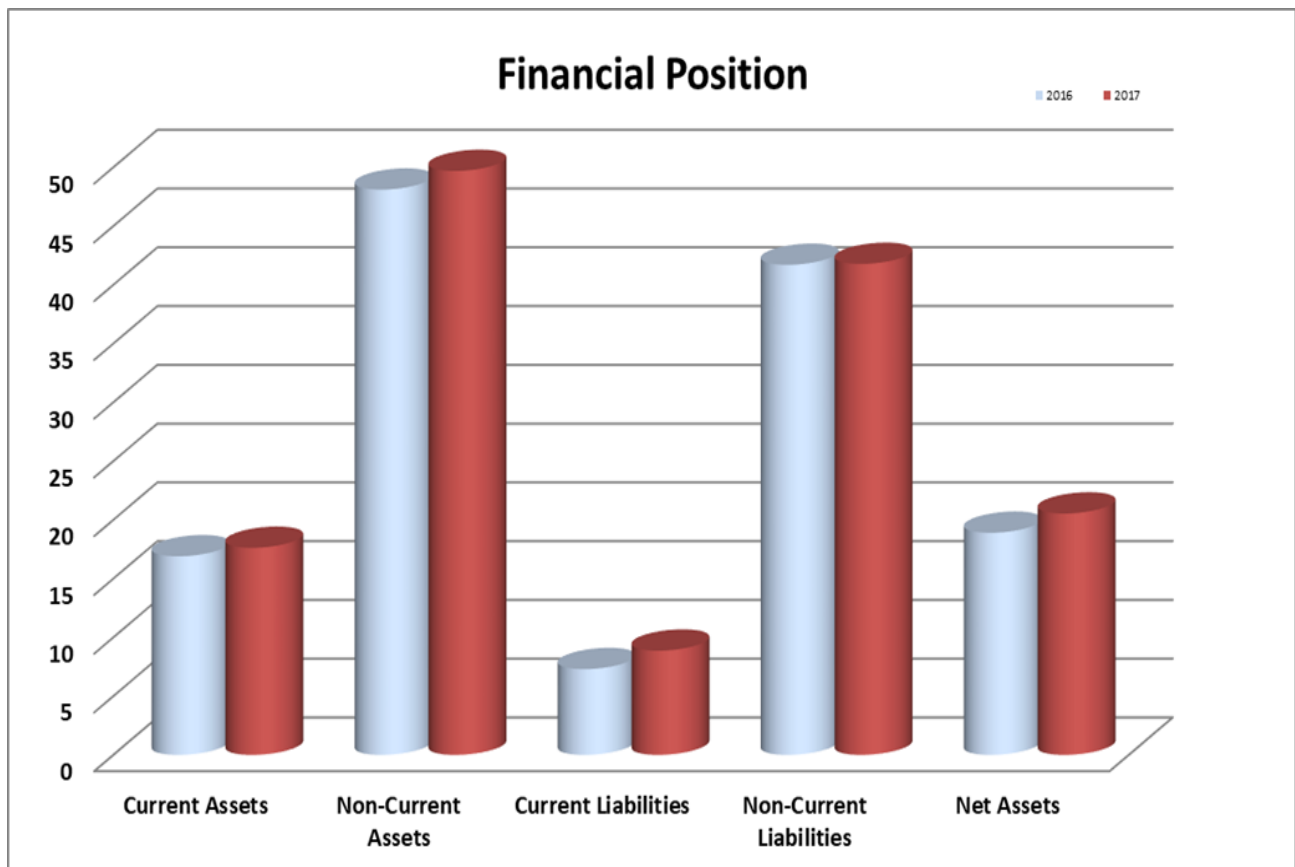
As stated in the previous paragraphs, the University's annual financial reports include the following three statements:

- The Statement of Net Position,
- The Statement of Revenues, Expenses, and Changes in Net Position,
- The Statement of Cash Flows

The financial statements are prepared in accordance with the Governmental Accounting Standards Board (GASB) requirements and guidelines. These financial statements are followed by Notes to the Financial Statements, which are intended to supplement the financial statements and to provide more detailed information thereto.

**The University's Financial Position**

The Statement of Net Position presents the financial position of the University at the end of the fiscal year. It displays all of the University's assets and liabilities. The difference between the assets and liabilities represents the net position of the University. Net position is the measure of net worth, the current financial position of the University at September 30, 2017. The below chart reflects assets and liabilities as compared to last fiscal year. The chart reflects an increase in net position of \$1.59 million.



**Athens State University**  
**Management's Discussion and Analysis**  
**September 30, 2017**

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Net position is divided into three major categories. (a) The first category, invested in capital assets, net of debt, provides the University's equity in property, plant and equipment owned by Athens State University. (b) The next category is restricted net position, which is divided into two categories, nonexpendable and expendable. The nonexpendable restricted resources are only available for investment purposes. Expendable restricted net position is available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The University did not have any nonexpendable net position at September 30, 2017. (c) The final category is unrestricted net position. Unrestricted net position is available to the University for any appropriate purpose.

**Summary: Statement of Net Position:**

	<u>2017</u>	<u>2016</u>
<b><u>Assets:</u></b>		
Current Assets	\$ 17,671,270	\$ 16,870,657
Capital Assets, Net	41,444,143	42,842,994
Other Assets	<u>8,196,576</u>	<u>5,214,030</u>
<b>Total Assets</b>	67,311,989	64,927,681
<b>Deferred Outflows of Resources</b>	<u>5,258,445</u>	<u>4,084,382</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 72,570,434</u>	<u>\$ 69,012,063</u>
<b><u>Liabilities:</u></b>		
Current Liabilities	\$ 8,873,743	\$ 7,305,364
Non-Current Liabilities	<u>41,776,898</u>	<u>41,667,541</u>
<b>Total Liabilities</b>	50,650,641	48,972,905
<b>Deferred Inflows of Resources</b>	1,380,000	1,093,000
<b><u>Net Position:</u></b>		
Invested in Capital, Net of Debt	\$ 26,819,824	\$ 26,390,464
Restricted – Capital Projects	60,880	60,896
Restricted – Expendable	618,137	520,932
Unrestricted	<u>(6,959,048)</u>	<u>(8,026,134)</u>
<b>Total Net Position</b>	<u>\$ 20,539,793</u>	<u>\$ 18,946,158</u>
<b>Total Liabilities, Deferred Inflows of Resources, Net Position</b>	<u>\$ 72,570,434</u>	<u>\$ 69,012,063</u>

## **The University's Results of Operations**

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues received by the University, both operating and non-operating, and the expenses paid by the University, both operating and non-operating, and any other revenues, expenses, gains or losses received or spent by the University. The changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position.

The Operating revenues are those revenues received from students (tuition and fees) and various outside tuition assistance programs. Operating expenses are those expenses incurred while carrying out the service programs offered by the University. Non-operating revenues are revenues received for which services are not provided (example, Athens State University's State Appropriation).

### **Summary: Statement of Revenues, Expenses and Changes in Net Position**

	<u>2017</u>	<u>2016</u>
Operating Revenues	\$ 19,055,750	\$ 18,947,562
Operating Expenses	<u>34,398,970</u>	<u>32,187,161</u>
Operating Loss	(15,343,220)	(13,239,599)
Non-Operating Revenues and Expenses	<u>16,936,855</u>	<u>16,703,985</u>
Increase in Net Position	1,593,635	3,464,386
Net Position - Beginning of Year	<u>18,946,158</u>	<u>15,481,772</u>
Net Position - End of Year	<u>\$ 20,539,793</u>	<u>\$ 18,946,158</u>

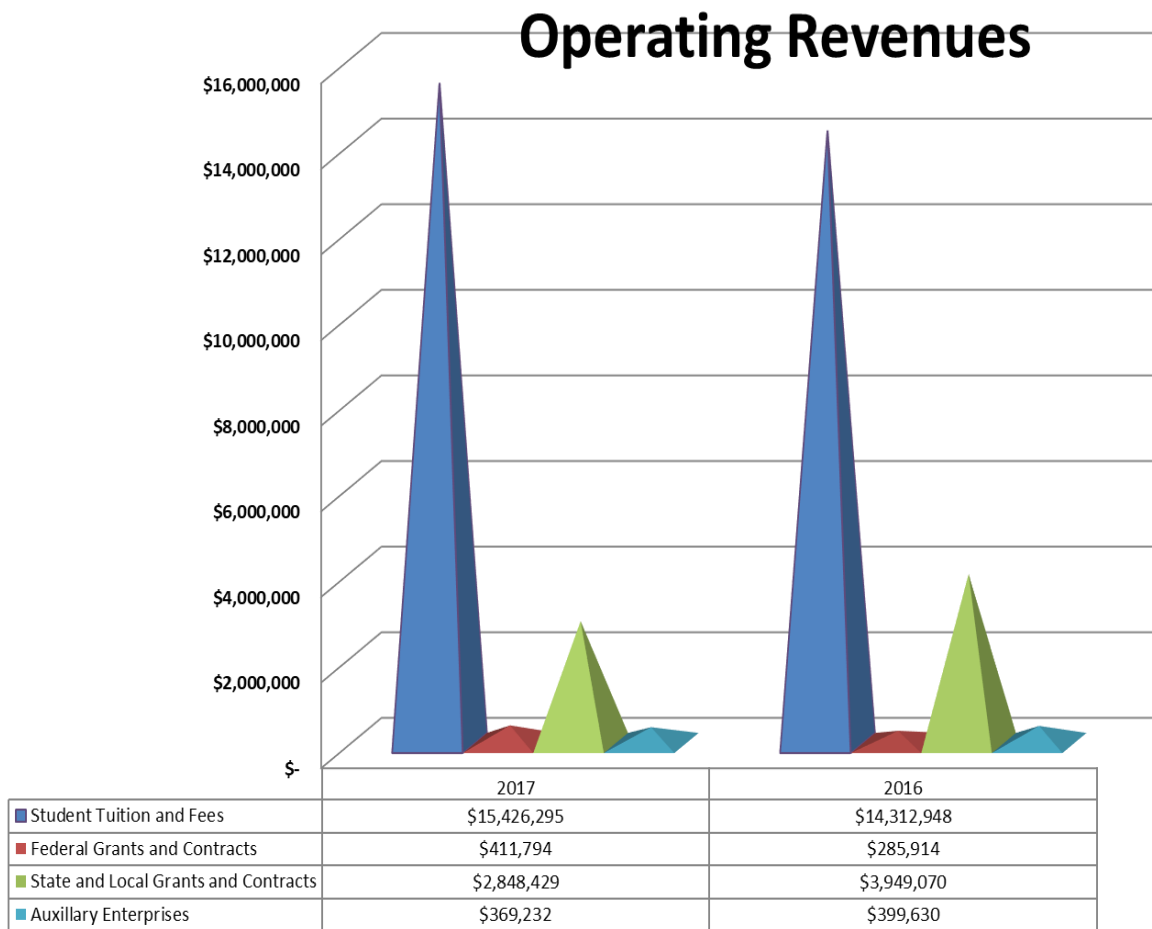
The Statement of Revenues, Expenses, and Changes in Net Position reflect operating revenues of \$19,055,750, which is an increase of \$108,188 from the prior year. The increase is a result of an increase in Student Tuition and Fees. The operating expenses increased 6.87% due to an increase in operational and salary and employee benefit budgets.

**Athens State University**  
**Management’s Discussion and Analysis**  
**September 30, 2017**

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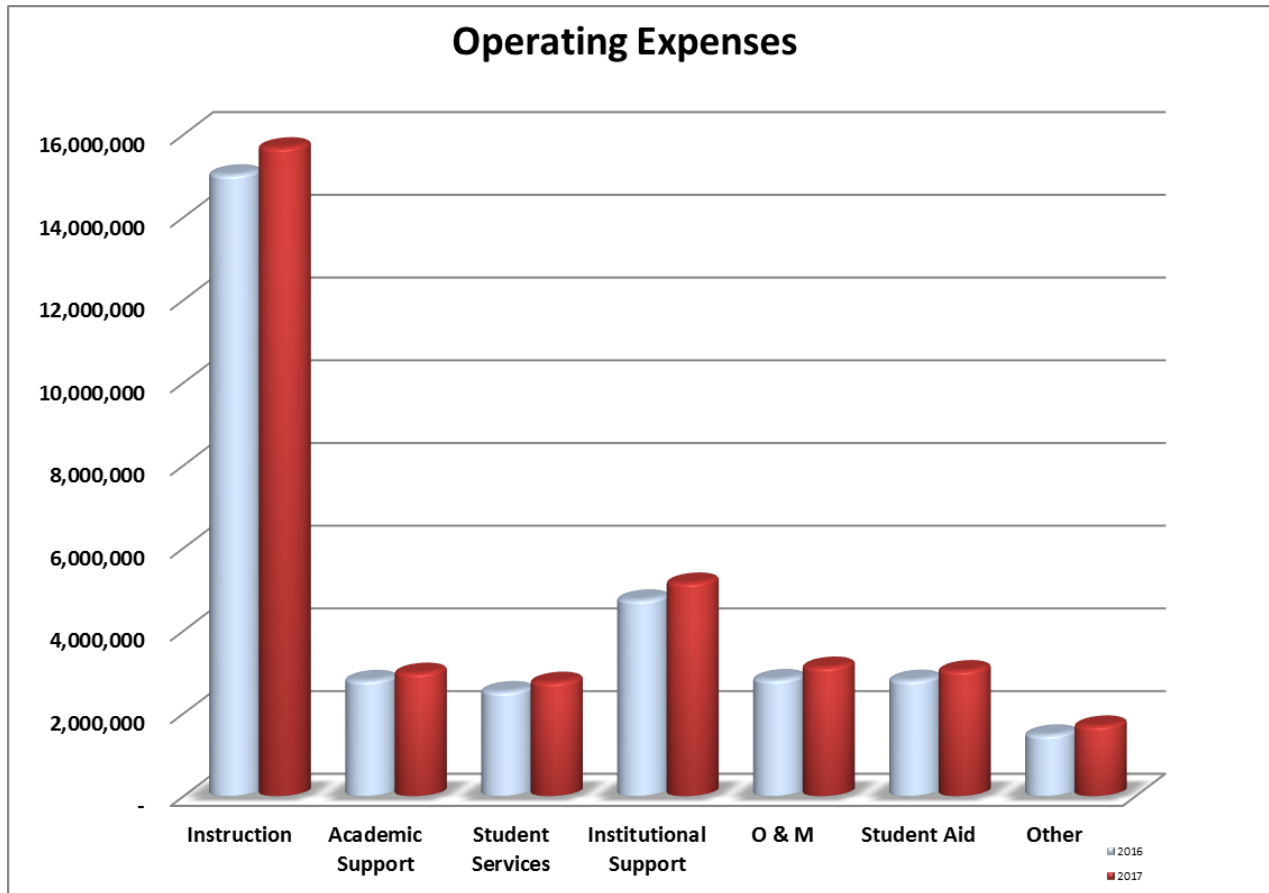
The chart below displays the operating revenues by type and their relationship to one another as discussed in the previous paragraph. The largest source of funds for FY 2017 is Student Tuition and Fees. State and Local Grants and Contracts make up the next largest source of funds. Federal Grants and Contracts consist of Federal Financial Assistance to students in the form of Pell Grants, FSEOG, SMART Grants, TEACH Grants, and Federal Work Study Funds.

The largest source of non-operating revenues is State Appropriations. Athens State University annually receives a State Appropriation as a separate line item in the state of Alabama Education Trust Fund budget. The 2017 FY State Appropriation totaled \$12,621,764 as compared to \$11,882,035 for the previous fiscal year.



**Operating Expenses**

The operating expenses by function are displayed in the following exhibit:



***The chart above allows the reader to visualize each functional expenditure category and how each functional category of expenditures compares to the other.***

The University continues to look for ways to improve and upgrade our existing technology to better deliver our courses and serve the students. It is the University's goal to use all technology fees each year to assist us in obtaining the latest technology available. Athens State University presently has a four-year plan to replace one fourth of all faculty, staff, and lab computers each year. This ensures that our students and employees will have the necessary resources available to meet their needs.

## The University's Cash Flows

The Statement of Cash Flows is the final statement presented by Athens State University. It presents detailed information about the cash activity of the institution during the year.

The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used for the operating activities of the University. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

### Summary: Statement of Cash Flows:

	<u>2017</u>	<u>2016</u>
<b>Cash provided (used) by:</b>		
Operating activities	\$ (13,755,053)	\$ (12,727,997)
Non-capital financing activities	18,161,440	17,136,849
Investing activities	(2,849,857)	208,230
Capital and related financing activities	<u>(1,943,104)</u>	<u>(5,118,198)</u>
<b>Net Change in Cash</b>	(386,574)	(501,116)
Cash – Beginning of Year	<u>13,397,550</u>	<u>13,898,666</u>
Cash – End of Year	<u>\$ 13,010,976</u>	<u>\$ 13,397,550</u>

The above cash flow comparison reflects a decrease in cash of \$386,574 as compared to ending cash the previous year. The decrease in cash is due to the increase in operating expenditures and investments made on behalf of the University.

## Looking Forward

Act. No. 2012-497 removed Athens State University from under the jurisdiction, supervision, and control of the State Board of Education and Department of Postsecondary Education effective October 1, 2012. This legislation enabled the creation of the Board of Trustees of Athens State University which is to provide governance of the University. Athens State University, as the only upper division institution in the State of Alabama, strives to serve the graduates of the state's community college system. The University has been successful in reaching out to the graduates of the Alabama Community College System. By offering several on-line degree programs, the University has been able to offer courses to students in the underserved areas of the state. In doing so, Athens State University is taking a lead role in enhancing the education opportunities of our citizens and improving the overall education level in the State of Alabama.



**Athens State University**  
**Management's Discussion and Analysis**  
**September 30, 2017**

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Athens State, under the new supervision of its Board of Trustees, continues to be the most affordable higher education option in the State of Alabama and in the Southeast. The University will continue to monitor enrollment and reach out to students in underserved areas of the state, while continuing to provide the quality of education our students have become accustomed. The University is currently expanding our Liberal Arts program in Decatur with a joint agreement with Calhoun Community College. The University continues to develop new majors and programs in response to demand in the job market.

**Athens State University**  
**Statement of Net Position**  
**September 30, 2017**

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ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and Cash Equivalents	\$ 12,950,096
Short-Term Investments	136,677
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$638,913	2,505,457
Inventories	22,059
Deposit with Bond Trustee	367
Prepaid Expenses and Unearned Scholarships	<u>2,056,614</u>
Total Current Assets	17,671,270
Non-Current Assets	
Restricted Cash	60,880
Long-Term Investments	8,135,696
Capital Assets:	
Land	2,593,856
Improvements Other Than Buildings	1,543,148
Buildings	49,633,827
Equipment and Furniture	2,705,866
Library Holdings	1,257,456
Construction in Progress	100,633
Less: Accumulated Depreciation	<u>(16,390,643)</u>
Total Capital Assets, Net of Depreciation	<u>41,444,143</u>
Total Non-Current Assets	<u>49,640,719</u>
Total Assets	67,311,989
Deferred Outflows of Resources Related to Debt	470,535
Deferred Outflows of Resources Related to Pensions	<u>4,787,910</u>
Total Deferred Outflows	5,258,445

The accompanying notes are an integral part of these financial statements.

**Athens State University**  
**Statement of Net Position**  
**September 30, 2017**

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LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities

Deposits	\$ 189,869
Accounts Payable and Accrued Liabilities	781,518
Unearned Revenue	6,440,440
Compensated Absences	58,131
Bonds Payable	<u>1,403,785</u>

Total Current Liabilities 8,873,743

Non-Current Liabilities

Bonds Payable	13,691,069
Net Pension Liability	27,086,000
Compensated Absences	<u>999,829</u>
Total Non-Current Liabilities	<u>41,776,898</u>

Total Liabilities 50,650,641

Deferred Inflows of Resources

Deferred Inflows of Resources Related to Pensions 1,380,000

Net Position

Invested in Capital Assets, Net of Related Debt	26,819,824
Restricted:	
Expendable	618,137
Capital Projects	60,880
Unrestricted	<u>(6,959,048)</u>

Total Net Position 20,539,793

The accompanying notes are an integral part of these financial statements.

**Athens State University Foundation, Inc.**  
**Discretely Presented Component Unit**  
**Statement of Financial Position**  
**September 30, 2017**

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Assets	
Current Assets	
Cash and Cash Equivalents	\$ 487,096
Pledges Receivable - Current	9,800
Certificate of Deposit	790,996
Prepaid Expenses	<u>12,375</u>
Total Current Assets	1,300,267
Long-Term Cash and Investments	
Restricted Cash	118,465
Investments	<u>3,673,861</u>
Total Long-Term Cash and Investments	3,792,326
Other Assets	
Donated Assets	1,527
Pledges Receivable – Non-Current	<u>69,535</u>
Total Other Assets	<u>71,062</u>
Total Assets	<u>\$ 5,163,655</u>
Liabilities	
Current Liabilities	
Accounts Payable	\$ 11,174
Deferred Revenue	<u>22,350</u>
Total Current Liabilities	33,524
Total Liabilities	33,524
Net Assets	
Unrestricted	371,542
Temporarily Restricted	3,023,016
Permanently Restricted	<u>1,735,573</u>
Total Net Assets	<u>5,130,131</u>
Total Liabilities and Net Assets	<u>\$ 5,163,655</u>

The accompanying notes are an integral part of these financial statements.

**Athens State University**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**For the Year Ended September 30, 2017**

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OPERATING REVENUES	
Student Tuition and Fees (Net of Scholarship Allowances of \$3,411,287)	\$ 15,426,295
Federal Grants and Contracts	411,794
State and Local Grants and Contracts	2,848,429
Auxiliary Enterprises:	
Bookstore	168,181
Food Services	20,423
Student Activities	150
Vending	5,926
Other	<u>174,552</u>
Total Operating Revenues	19,055,750
OPERATING EXPENSES	
Instruction	15,676,762
Academic Support	2,971,780
Student Services	2,752,817
Institutional Support	5,151,880
Operation and Maintenance	3,118,323
Scholarships and Financial Aid	3,032,502
Depreciation	1,179,136
Auxiliary Enterprises	<u>515,770</u>
Total Operating Expenses	<u>34,398,970</u>
Operating Income (Loss)	(15,343,220)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	12,621,764
Federal Grants	5,341,989
Investment Income	281,693
Realized Gain/Loss	(2,375)
Unrealized Gain/Loss	(147,514)
Other Nonoperating Revenue	359,475
Interest on Debt	(513,112)
Loss on Disposal of Plant Assets	(345,018)
Other Nonoperating Expenses	<u>(660,047)</u>
Net Nonoperating Revenues	<u>16,936,855</u>
Change In Net Position	1,593,635
Total Net Position - Beginning of Year	<u>18,946,158</u>
Total Net Position - End of Year	<u>\$ 20,539,793</u>

The accompanying notes are an integral part of these financial statements.

**Athens State University Foundation, Inc.**  
**Discretely Presented Component Unit**  
**Statement of Activities**  
**For the Year Ended September 30, 2017**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support:				
Contributions	\$ 64,428	\$ 503,689	\$ 166,851	\$ 734,968
In-Kind Donations	90,396	-	-	90,396
Special Events Income	-	261,759	-	261,759
Interest and Dividends Net of Fees	2,878	95,934	-	98,812
Investment Gain (Loss)	(1,915)	205,429	-	203,514
Net Assets Released from Restrictions:			-	
Satisfaction of Purpose Restrictions	<u>547,464</u>	<u>(547,464)</u>	<u>-</u>	<u>-</u>
Total Revenues, Gains and Other Support	703,251	519,347	166,851	1,389,449
Expenses				
Program Expenses:				
Student Scholarships	201,238	-	-	201,238
Program Support	121,593	-	-	121,593
Other Program Expenses	131,038	-	-	131,038
Other Expenses:				
Special Events	93,463	-	-	93,463
Management and General	<u>127,563</u>	<u>-</u>	<u>-</u>	<u>127,563</u>
Total Expenses	<u>674,895</u>	<u>-</u>	<u>-</u>	<u>674,895</u>
Change in Net Assets	\$ 28,356	\$ 519,347	\$ 166,851	\$ 714,554
Net Assets - Beginning of Year, as restated (See Note 12)	<u>\$ 343,186</u>	<u>\$ 2,503,669</u>	<u>\$ 1,568,722</u>	<u>\$ 4,415,577</u>
Net Assets - End of Year	<u>\$ 371,542</u>	<u>\$ 3,023,016</u>	<u>\$ 1,735,573</u>	<u>\$ 5,130,131</u>

The accompanying notes are an integral part of these financial statements.

**Athens State University**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2017**

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<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Tuition and Fees	\$ 15,387,904
Grants and Contracts	3,015,848
Payments to Suppliers	(4,785,398)
Payments for Utilities	(693,884)
Payments for Employees	(18,198,379)
Payments for Benefits	(5,886,308)
Payments for Scholarships	(3,032,502)
Auxiliary Enterprises	<u>437,666</u>
Net Cash Used in Operating Activities	(13,755,053)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
State and Local Appropriations	12,446,764
Federal Grants	5,704,319
Federal Direct Loan Receipts	15,438,415
Federal Direct Loan Disbursements	(15,137,645)
Deposit Held for Others	10,160
Other Nonoperating Revenues (Expenses)	<u>(300,573)</u>
Net Cash Provided by Noncapital Financing Activities	18,161,440
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of Capital Assets and Construction	(128,238)
Principal Paid on Capital Debt	(1,357,675)
Interest Paid on Capital Debt	<u>(457,191)</u>
Net Cash Used in Capital and Related Financing Activities	(1,943,104)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Realized Gain (Loss)	(2,375)
Purchase of Investments	(3,129,175)
Interest on Investments	<u>281,693</u>
Net Cash Use in Investing Activities	<u>(2,849,857)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(386,574)
Cash and Cash Equivalents - Beginning of Year	<u>13,397,550</u>
Cash and Cash Equivalents - End of Year	<u>\$ 13,010,976</u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>	
Current	\$ 12,950,096
Restricted	<u>60,880</u>
	<u>\$ 13,010,976</u>

The accompanying notes are an integral part of these financial statements.

**Athens State University**  
**Statement of Cash Flows**  
**For the Year Ended September 30, 2017**

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Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating Income (Loss)	(15,343,220)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities	
Depreciation Expense	1,179,136
Changes in Assets and Liabilities:	
Increase in Receivables	(231,237)
Decrease in Inventory	7,227
Increase in Prepaid Expenses and Unearned Scholarships	(1,627,161)
Increase in Compensated Absences	15,040
Decrease in Payables	(3,636)
Increase in Pension Related Deferrals and Liabilities	558,121
Increase in Unearned Revenue	<u>1,690,677</u>
Net Cash Used in Operating Activities	<u>\$ (13,755,053)</u>

**Noncash Investing, Capital, and Financing Activities:**

The University held investments with a fair value of \$8,272,373 at September 30, 2017. During the year ended September 30, 2017, the net change in the fair value of these securities was (\$147,514).

The accompanying notes are an integral part of these financial statements.



**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of Athens State University (the “University” or “ASU”) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Athens State University are described below.

**A. Reporting Entity**

Act. No. 2012-497 removed Athens State University from under the jurisdiction, supervision, and control of the State Board of Education and Department of Postsecondary Education effective October 1, 2012. This legislation enabled the creation of the Board of Trustees of Athens State University which governs the University. The Board of Trustees has the authority and responsibility for the operation, management, supervision and regulation of Athens State University. Athens State University continues to be a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading. According to GASB Statement 14, “The Financial Reporting Entity,” a primary government is financially accountable for an organization if it appoints a voting majority of the organization’s governing board and (a) is able to impose its will on the organization; or (b) there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. Based upon these criteria, the University is considered to be a component unit of the State of Alabama.

**B. Component Units**

Athens State University Foundation, Inc. (the “Foundation” or “ASUF”) is a legally separate, tax-exempt organization that is organized exclusively for charitable, scientific and educational purposes for the benefit of the University. Because of the significance of the relationship between the University and the Foundation, the Foundation is considered a component unit of the University. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as component units. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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Although the University does not control the timing or amount of receipts from ASUF, the majority of resources, or income thereon that ASUF holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by ASUF can only be used by, or for the benefit of, the University, ASUF is discretely presented as a component unit of the University. ASUF is reported in its original format on separate financial statements because of the difference in its reporting model as further described below. Complete financial statements for ASUF are available from the Foundation's director upon request.

The Foundation is a not-for-profit organization that reports its financial results under the Financial Accounting Standard Board (FASB) Statements. Most significant to the Foundation's operations and reporting model is Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences; however, significant note disclosures (see Note 12) to the Foundation's financial statements have been incorporated into the University's notes to the financial statements. During the year ended September 30, 2017, Athens State University Foundation, Inc. distributed \$214,537 to Athens State University for both restricted and unrestricted purposes.

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Athens State University follows all applicable GASB pronouncements. The financial statements of Athens State University have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and non-operating revenues. Operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of the University. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Non-operating revenues arise from exchange transactions not associated with the University's principal activities, such as investment income and from all non-exchange transactions, such as state appropriations.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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**D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position**

**1. Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the University to invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof or of the United States of America that meet specified criteria.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period.

**2. Receivables**

Accounts receivable relate to tuition and fees charged to students, amounts due from federal grants, state grants and third party tuition, net of an allowance for doubtful accounts.

**3. Inventories**

The inventories are comprised of consumable supplies. Inventories are valued at the lower of cost or market. Inventories are valued using the first in/first out (FIFO) method.

**4. Capital Assets**

Capital assets with a unit cost of over \$5,000 and an estimated useful life in excess of one year, and all library books, are recorded at historical cost or estimated historical cost if purchased or constructed. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at fair market value at the date of donation. Land, Construction in Progress and intangible assets with indefinite lives are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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capitalized. Upon the sale or retirement of fixed assets being depreciated using the straight-line method, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operation.

The method of depreciation and useful lives of the capital assets are as follows:

<u>Assets</u>	<u>Depreciation Method</u>	<u>Useful Lives</u>
Buildings and Improvements	Straight-Line	50 years
Improvements other than Buildings	Composite	25 years
Equipment	Composite	1 - 10 years
Library Materials	Composite	20 years
Capitalized Software	Straight-Line	10 years
Internally Generated Computer Software	Straight-Line	10 years
Easement and Land Use Rights	Straight-Line	20 years
Patents, Trademarks, and Copyrights	Straight-Line	20 years

## **5. Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond/Warrant premiums and discounts, if any, are deferred and amortized over the life of the bonds.

## **6. Compensated Absences**

No liability is recorded for sick leave. Substantially all employees of the University earn 12 days of sick leave each year with unlimited accumulation. Payment is not made to employees for unpaid sick leave at termination or retirement.

All non-instructional employees earn annual leave at a rate which varies from 12 to 24 days per year depending on duration of employment, with accumulation limited to 60 days. Instructional employees do not earn annual leave. Payment is made to employees for unused leave at termination or retirement.

## **7. Unearned Revenue**

Unearned revenue consists primarily of amounts received for fall student tuition and fees that are not earned until the next fiscal year. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

## **8. Pensions**

The Teachers' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (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.

**9. Recent Accounting Pronouncements**

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. This statement establishes requirements for accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB) and replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This statement is effective for periods beginning after June 15, 2017. The University is currently evaluating the impact of this pronouncement on their financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. The adoption did not materially affect the University's financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The University is currently evaluating the impact of this pronouncement on their financial statements.

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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of this Statement are effective for periods beginning after June 15, 2017. The University is currently evaluating the impact of this pronouncement on their financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating the impact of this pronouncement on their financial statements.

## **10. Net Position**

Net position is required to be classified for accounting and reporting purposes into the following categories:

*Invested in Capital Assets, Net of Related Debt* - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.

*Restricted:*

*Nonexpendable* - Net position subject to externally imposed stipulations that it be maintained permanently by the University. Such assets would include permanent endowment funds.

*Expendable* - Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. These include funds held in federal loan programs.

*Unrestricted* - Net positions that are not subject to externally imposed stipulations. These may be designated for specific purposes by action of management.

## **11. Federal Financial Assistance Programs**

The University participates in various federal programs. Federal programs are audited in accordance with the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

## **12. Scholarship Allowances and Student Aid**

Student tuition and fees are reported net of scholarship allowances and discounts. The amount for scholarship allowances and discounts is the difference between the stated charge for goods and services provided by the University and the amount that is paid by the student and/or third parties

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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making payments on behalf of the student. The University uses the alternate method as prescribed by the National Association of College and University Business Officers (NACUBO) in their Advisory Report (2000-05) to determine the amount of scholarship allowances and discounts.

**13. Deferred Outflows of Resources**

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

**14. Deferred Inflows of Resources**

Deferred inflows of resources are reported in the Statement of Net Position. Deferred inflows of resources are defined as an acquisition of net position by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position, similar to liabilities.

**15. Prepaid Expenses and Unearned Scholarships**

Prepaid expenses are composed predominantly of prepaid insurance. Unearned scholarship expense results from the Fall academic term spanning across the fiscal year end. The University prorates scholarship expense to recognize only the amounts incurred in each fiscal year.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

The University's deposits in banks at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. At September 30, 2017, funds held by financial institutions participating in the SAFE program totaled \$14,001,622.

The Statement of Net Position classification "cash and cash equivalents" includes all readily available cash such as petty cash, demand deposits, and certificates of deposits with maturities of three months or less.

**B. Investments**

The University invests its funds in securities and investments in accordance with the *Code of Alabama 1975*, Section 16-13-2, Sections 27-1-8 and 27-1-9, and Sections 27-41-1 through 27-41-

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

41. These laws provide that the University may invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof of the United States of America that meet specified criteria. The University's investment policy permits investments in the following: 1) U.S. Treasury bills, notes, bonds, and stripped Treasuries; 2) U.S. Agency notes, bonds, debentures, discount notes and certificates; 3) certificates of deposit (CDs), checking and money market accounts of savings and loan associations, mutual savings banks, or commercial banks whose accounts are insured by FDIC/FSLIC, and who are designated a Qualified Public Depository (QPD) under the SAFE Program; 4) mortgage backed securities (MBSs); 5) mortgage-related securities including collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMIC) securities; 6) repurchase agreements; and 7) stocks and bonds which have been donated to the institution. See Note 12 for the significant investment policies of ASUF.

As of September 30, 2017, the University had the following investments held by trustee:

<u>Deposits with Trustee</u>	<u>Fair Value</u>
Federated Treasury Obligations Fund	\$ 367

The funds invested in the Federated Treasury Obligations Fund are invested by Regions Bank, Bond Trustee for the Bonds Series 2007 and 2010. The Federated Treasury Obligations Fund invests primarily in a portfolio of U.S. Treasury securities maturing in 397 days or less.

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the Statement of Net Position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at September 30, 2017:

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Fixed Income	\$8,272,373	\$8,272,373	\$ -	\$ -
Total Investments	<u>\$8,272,373</u>	<u>\$8,272,373</u>	<u>\$ -</u>	<u>\$ -</u>

At September 30, 2017, ASU had a significant amount invested in short and long term investments, primarily tax free bonds. During the year ended September 30, 2017, the University realized losses of \$2,375 from the disposal of investments. The calculation of realized gains is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The University had unrealized losses during the year ended September 30, 2017 of \$147,514.



**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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*Interest Rate Risk* – This risk pertains to changes in interest rates that adversely affect the fair value of an investment. While there is an active market for the below investments, generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk. At year end, the University had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>1-5</u>	<u>6-10</u>	<u>Thereafter</u>
Fixed Income	\$8,272,373	\$814,114	\$1,269,391	\$6,188,868

*Credit Risk* – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The University does not have a formal investment policy that specifically addresses its investment choices related to this risk.

<u>Investment Type</u>	<u>Rating</u>	<u>Percentage</u>
Fixed Income	AAA	17.16%
Fixed Income	AA	40.99%
Fixed Income	A	25.34%
Fixed Income	BBB	11.65%
Fixed Income	BB	1.81%
Fixed Income	B	1.07%
Fixed Income	Not Reported	<u>1.98%</u>
		100.00%

*Custodial Credit Risk* – For an investment, this is the risk that, in the event of the failure of a counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have an investment policy that limits the amount of securities that can be held by counterparties.

*Concentration of Credit Risk* – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University does not have a formal investment policy that places limits on the amount the University may invest in any one issuer.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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**NOTE 3 - RECEIVABLES**

Receivables are summarized as follows:

<u>Accounts Receivable:</u>	
Federal	\$ 308,803
Pell Grants	102,973
State	856,768
Third Party	508,158
Returned Checks	7,520
Other	<u>53,032</u>
Total Accounts Receivable	<u>1,837,254</u>
<u>Student Receivables:</u>	
Tuition & Fees	1,304,102
Student Loans	<u>3,014</u>
Total Student Receivables	<u>1,307,116</u>
Total Receivables	<u>3,144,370</u>
Less: Allowance for Doubtful Accounts	<u>(638,913)</u>
Total Receivables, Net	<u>\$ 2,505,457</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Land	\$ 2,593,856	\$ -	\$ -	\$ -	\$ 2,593,856
Improvements Other than Buildings	1,543,148	-	-	-	1,543,148
Buildings	49,668,595	-	(921,135)	886,367	49,633,827
Equipment	2,739,702	27,095	(60,931)	-	2,705,866
Library Holdings	1,233,726	24,561	(831)	-	1,257,456
Construction in Progress	913,353	73,647	-	(886,367)	100,633
Total	58,692,380	125,303	(982,897)	-	57,834,786
Less: Accumulated Depreciation Improvements Other than Buildings	917,034	53,200	-	-	970,234
Buildings	11,691,587	976,379	(576,118)	-	12,091,848
Equipment	2,330,476	109,069	(60,931)	-	2,378,614
Library Holdings	910,289	40,488	(830)	-	949,947
Total Accumulated Depreciation	15,849,386	1,179,136	(637,879)	-	16,390,643
Total Capital Assets, Net	\$ 42,842,994	\$(1,053,833)	\$ (345,018)	\$ -	\$ 41,444,143

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Total interest incurred for the year ended September 30, 2017 was \$513,112. All of this amount was charged to expense.

**NOTE 5 - DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

The Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 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).

**B. 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 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 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 a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 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 a 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 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

**C. 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 members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the

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TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation. Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were \$2,024,910 for the year ended September 30, 2017.

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

At September 30, 2017 the University reported a liability of \$27,086,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, rolled forward to September 30, 2016 using standard roll forward techniques. 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, 2016, the University's proportion was .2502%, which was a decrease of .0058% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2017, the University recognized pension expense of \$2,583,031. At September 30, 2017 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ -	\$ 698,000
Changes of assumptions	1,912,000	-
Net difference between projected and actual earnings on pension plan investments	391,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	460,000	682,000
Employer contributions subsequent to the measurement date	<u>2,024,910</u>	<u>-</u>
	<b><u>\$ 4,787,910</u></b>	<b><u>\$ 1,380,000</u></b>

\$2,024,910 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended September 30:**

2018	181,000
2019	181,000
2020	753,000
2021	146,000
2020	122,000

**E. Actuarial Assumptions**

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

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

\*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015. Since the prior measurement date, rates of retirement, disability, withdrawal and mortality were adjusted to more closely reflect actual experience. Economic assumptions and the assumed rates of salary increase were also adjusted to more closely reflect actual and anticipated experience.

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The expectation of retired life mortality and rates of disabled mortality were also changed.

Post Retirement mortality rates for service retirements and dependent beneficiaries were based on 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 RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	<u>3.00%</u>	1.50%
Total	<u>100.00%</u>	

*\*Includes assumed rate of inflation of 2.50%.*

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was 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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**G. Sensitivity of the University’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate**

The following table presents the University’s proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Rate <u>(7.75%)</u>	1% Increases <u>(8.75%)</u>
University’s proportionate share of collective net pension liability	36,085,000	27,086,000	19,468,000

**H. Pension Plan Fiduciary Net Position**

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2016. The auditor’s report dated August 1, 2017 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2016 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).

**NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**A. Plan Description**

The University contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov> under the Employers’ Financial Reports section.

**B. Funding Policy**

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 255, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available

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in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year <u>2017</u>
Individual Coverage - Non-Medicare Eligible	\$166
Individual Coverage - Medicare Eligible	\$ 25
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-spousal Dependent(s)	\$421
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents with Non-Medicare Eligible Spouse	\$521
Family Coverage - Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$280
Family Coverage - Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$310
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$280
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – with Non-Medicare Eligible Spouse	\$380
Family Coverage - Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$139
Family Coverage - Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$169
Tobacco Surcharge	\$50
Wellness Premium	\$50
Surviving Spouse - Non-Medicare Eligible	\$816
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$1,028
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	\$1,067
Surviving Spouse - Medicare Eligible	\$430
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	\$720
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	\$759

For employees that retire, other than for disability, on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. Employees who retire on or after January 1, 2012, with less than 25 years of service are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period.

The University is required to contribute at a rate specified by the State for each active employee. The University's share of premiums for retired employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for retirees:



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Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by University	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2017	\$800	\$153	19.07%	\$446,762	100%
2016	\$780	\$211	27.08%	\$606,573	100%
2015	\$780	\$181	23.17%	\$506,620	100%
2014	\$714	\$220	30.83%	\$637,306	100%

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill. This results in a pay-as-you-go funding method.

**NOTE 7 - ACCOUNTS PAYABLE**

Accounts payable and accrued liabilities represent amounts due at September 30, 2017, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	568,426
Interest Payable	34,367
Other	<u>178,725</u>
Total	<u>\$ 781,518</u>

**NOTE 8 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

As of September 30, 2017, the University is obligated under the following contracts:

	Total Commitment	Paid or Accrued	Remaining Commitment
Founders Hall - Improvements	\$ 390,000	\$ 340,813	\$ 49,187
Classroom Building - Reroofing	94,000	-	94,000
Sandridge Hall - Roof Repairs	81,350	-	81,350
Sandridge Hall - Structural Infill	156,000	-	156,000
Parking Lots and Paving	351,413	-	351,413
	<u>\$ 1,072,763</u>	<u>\$ 340,813</u>	<u>\$ 731,950</u>

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**NOTE 9 - LONG-TERM LIABILITIES**

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
2007 Revenue Bonds	\$ 1,285,000	\$ -	\$ (630,000)	\$ 655,000	\$ 655,000
2010 Revenue Bonds	3,200,000	-	-	3,200,000	-
2015 Revenue Bonds	7,760,000	-	(260,000)	7,500,000	270,000
ACA Phase II	4,207,529	-	(467,675)	3,739,854	478,785
Other Liabilities:					
Compensated Absences	1,042,920	15,040	-	1,057,960	58,131
<b>Total long-term liabilities</b>	<b>\$ 17,495,449</b>	<b>\$ 15,040</b>	<b>\$ (1,357,675)</b>	<b>\$ 16,152,814</b>	<b>\$ 1,461,916</b>

The 2007 and 2010 revenue bonds were issued by the State Board of Education to provide funds to finance the acquisition, to pay the costs of developing, constructing and equipping improvements and renovations of various capital projects. A trustee holds sinking fund deposits required for these bonds, including earnings on investments of these deposits.

Principal and interest maturity requirements on bond debt are as follows:

<b>Fiscal Year</b>	<b>Revenue Bonds</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Totals</b>
2017-2018	1,403,785	495,152	1,898,937
2018-2019	1,450,158	449,299	1,899,457
2019-2020	1,486,802	414,039	1,900,841
2020-2021	1,518,722	377,888	1,896,610
2021-2022	1,555,925	340,961	1,896,886
2022-2023	1,593,418	303,130	1,896,548
2023-2024	1,636,208	264,387	1,900,595
2024-2025	1,249,836	227,917	1,477,753
2025-2026	-	200,063	200,063
2026-2027	-	200,063	200,063
2027-2028	1,005,000	200,063	1,205,063
2028-2029	1,065,000	137,753	1,202,753
2029-2030	1,130,000	71,190	1,201,190
	<b>\$ 15,094,854</b>	<b>\$ 3,681,905</b>	<b>\$ 18,776,759</b>

**Pledged Revenues**

The University has pledged student tuition and fee revenue to repay \$13,295,000 in Revenue Bond Series 2007 issued in July 2007, for the purpose of providing funds to pay the costs of the current refunding of the Revenue Bonds, Series 1994 and 1996; to pay the costs of developing, constructing and equipping improvements and renovation of three buildings on campus and to pay the costs incurred in connection with the issuance of the Series 2007 Bonds. The Series 2007 bonds are limited obligations of the Board of Education of the State of Alabama, payable solely from the

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tuition and general fees (excluding technology fees) levied against all students enrolled at the University. Interest on the Series 2007 bonds is payable semiannually on March 1 and September 1. The interest rates on these bonds range from 4.0% to 5.0% and the bonds mature at various dates through September 1, 2027. In 2007, the University was given approval to assess a \$6.00 per credit hour special building fee to assist in meeting the required debt service on the bond issue.

A portion of the 2007 Revenue Bonds was advance refunded in October 2015 with the issuance of the Series 2015 Revenue Bonds. An escrow fund was established upon issuance of the Series 2015 Bonds that together with investment income was used for the redemption and retirement of \$7,405,000 of the outstanding principal of the 2007 Revenue Bonds plus accrued interest in July 2017. At September 30, 2017, the in substance defeased debt had an outstanding balance of \$0. At September 30, 2017, the outstanding principal balance of the unfunded bonds totaled \$655,000.

At the issuance of the Series 2015 Revenue Bonds, the remaining cash flows required to service the Refunded Series 2007 Bonds totaled \$10,385,219, while the remaining cash flows required to service the Series 2015 Bonds totaled \$9,309,967. The savings associated with this reduced cash flow discounted back to 2015 was approximately \$708,383.

The University issued Athens State University Recovery Zone Economic Development Revenue Bonds, Series 2010, in June 2010, in the principal amount of \$3,200,000. These bonds were secured by a pledge of revenue from certain fees payable by students. The purpose of the bonds was to provide funding to finance the acquisition, construction and equipping of a building located in downtown Decatur, Alabama for the use of the University and Calhoun Community College and to pay the expenses of issuing the Bonds. The Series 2010 bonds are limited obligations of the Board of Education of the State of Alabama, payable solely from the tuition and certain fees levied against all students enrolled at the University. Interest on the Series 2010 bonds is payable semiannually on March 1 and September 1. The interest rates on these bonds range from 6.2% to 6.3% and the bonds mature at various dates through September 1, 2030. During the year ended September 30, 2017, the University received \$83,816 in interest subsidy payments that offset Interest on Debt in the Statement of Revenues, Expenses and Changes in Net Position.

The University issued Athens State University Tuition and General Fees Revenue Bond, Series 2014, in December 2014, in the principal amount of \$5,000,000. These bonds were secured by a pledge of revenue from certain fees payable by students. The purpose of the bonds was to provide funding to finance the acquisition, construction and installation of Phase II of a building located in downtown Decatur, Alabama for the use of the University and Calhoun Community College and to pay the expenses of issuing the Bond. Principal and interest payments of \$46,795 are payable monthly on the Series 2014 bond. The interest rate on the bond is 2.35%, and the bond matures on December 17, 2024.

The University issued the Athens State University Tuition and Fee Revenue Bond, Series 2015, in October 2015, in the principal amount of \$8,040,000. These bonds were secured by a pledge of revenue from certain fees payable by students. The purpose of the bonds was to advance refund a portion of the Athens State University Revenue Bonds, Series 2007, and to pay the expenses of issuing the bonds. Interest on the Series 2015 bonds is payable semiannually on March 1 and September 1. The interest rates on these bonds is 2.46% and the bonds mature at various dates through September 1, 2025.

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Future revenues in the approximate amount of \$18,776,759 are pledged to repay principal and interest for the 2007, 2010, 2014 and 2015 bonds. During the 2017 fiscal year, pledged tuition and fee revenue in the amount of \$15,426,295 was received with \$1,814,866 or 11.76% of pledged revenues, being used to pay principal and interest. The 2007, 2010, 2014 and 2015 Series bonds are scheduled to mature in fiscal year 2018, 2030, 2024, and 2025, respectfully.

**NOTE 10 - RISK MANAGEMENT**

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama, Department of Finance; Division of Risk Management which operates as a common risk management and insurance program for state owned properties. The University pays an annual premium based on the amount of coverage requested. The SIF provides coverage up to \$2 million per occurrence and is self-insured up to a maximum of \$6 million in aggregate claims. The SIF purchases commercial insurance for claims which in the aggregate exceed \$6 million. The University purchases commercial insurance for its automobile coverage, general liability, professional legal liability, and cyber risk coverage. In addition, the University has fidelity bonds on the University's President, Vice-President of Financial Affairs, as well as on all other University personnel who handle funds.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The University contributes a specified amount monthly to the PEEHIF for each employee and this amount is applied against the employee's premiums for the coverage selected and the employee pays any remaining premium. Settled claims resulting from these risks have not exceeded the University's coverage in any of the past three fiscal years.

Claims which occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by the University.

**NOTE 11 – SUBSEQUENT EVENTS**

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, which was the date the financial statements were available to be issued.

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**NOTE 12 – ATHENS STATE UNIVERSITY FOUNDATION, INC. NOTES TO THE FINANCIAL STATEMENTS**

**A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Athens State University Foundation, Inc. was organized as a non-profit corporation without capital stock under the laws of the State of Alabama. The Foundation was founded to provide support for Athens State University by funding scholarships, promoting the University to the surrounding communities, and building a strong alumni group. Contributions to support the Foundation are primarily received from the general public.

Mission Statement

The Athens State University Foundation Inc., an incorporated non-profit organization, is dedicated to the financial support of Athens State University through the identification of prospective donors, the solicitation of gifts, and the administration and management of those resources for the betterment of the University, its faculty, staff and students.

Recognition of Donor Restrictions

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Basis of Presentation

Under Generally Accepted Accounting Principles, the Foundation is required to record and report all financial transactions in one of three classes of net assets:

- *Unrestricted net assets* – Represents the portion of expendable funds that are available for support of the Foundation’s operations and services that are not subject to donor-imposed stipulations. The Foundation’s board of directors has chosen to designate \$186,445 for endowment purposes.
- *Temporarily restricted net assets* – Represents contributions or resources whose use is limited by donor-imposed restrictions which expire by the passage of time or which can be fulfilled and removed by actions of the Foundation pursuant to the restrictions. Net assets released from restrictions represent expenses incurred during the year that satisfy the restricted purpose.
- *Permanently restricted net assets* – Represents contributions or resources, which are subject to donor imposed stipulations that the Foundation permanently maintain the contribution. Generally, the donors of such assets permit the Foundation to use all or a part of the income earned on the asset based on the donor-imposed restrictions.

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Net assets were released from donor-imposed temporary restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The composition of net assets released from restrictions by type for the year ended September 30, 2017 is as follows:

Scholarships	\$	201,238
Program Support		121,593
Other Program Expenses		131,038
Special Event Expense		93,463
Management and General		<u>132</u>
Total Fees	\$	<u>547,464</u>

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. All financial transactions have been recorded and reported as either unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor imposed restrictions.

Use of Estimates in the Preparation of Financial Statements

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

Donated Services and Supplies

Except for those disclosed in footnote J. Related Party, no amounts have been recorded in the accompanying financial statements for donated services through volunteers because no objective basis is available to measure the value of such services and donations. A number of volunteers have contributed their time to the activities and fundraisers of the Foundation without compensation.

Donated Assets

Donated artifacts and collectibles are recorded at cost if purchased or, if donated, at estimated fair value at the time of donation. The Foundation does not recognize depreciation on artifacts and collectibles.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Contributions to be received after one year are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivables is provided based upon management's judgment.

Income Taxes

The Foundation is exempt from paying tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

Uncertain Tax Positions

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Foundation had no unrelated business activities that are subject to taxes. The Foundation's federal Exempt Organization Business Income Tax Returns for 2014, 2015, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, which was the date the financial statements were available to be issued.

**B. CASH AND CERTIFICATES OF DEPOSITS**

The Foundation considers all time deposits, certificates of deposit and highly liquid instruments with an initial maturity of three months or less to be cash equivalents, except for investments purchased with endowment assets, which are classified as long-term investments. The Foundation maintains its cash balances with multiple financial institutions. At September 30, 2017, the carrying amount of the Foundation's deposits with banks exceeded FDIC insurable limits by \$1,012,895.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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C. INVESTMENTS

The primary purpose of the Athens State University Foundation is to receive and hold by gift, bequest, or purchase any real or personal property and to manage, invest, and reinvest the same and to use and to dispose of the same for scientific, literary and educational purposes, all for the purpose of Athens State University. Specifically, the Foundation is accountable for protecting the corpus of each scholarship endowment and responsible for properly investing each scholarship endowment to produce an annual scholarship. The investment objectives are to generate sufficient income that will be used to fund full or partial student scholarships. The endowment should include an element of growth to protect the endowment from the effects of inflation. The principal shall remain a protected corpus.

Investments are stated at fair market value at September 30, 2017 if readily determinable. They consist of the following:

American Trust Investment Services	\$	6,580
Berkshire Income Realty		11,484
UBS Foundation Scholarship Endowment		3,145,560
UBS McCoy Endowment		123,314
UBS Livingston Endowment		115,547
UBS Alumni Scholarship Endowment		<u>271,376</u>
Total Investments	\$	<u>3,673,861</u>

The Foundation approves of the following types of investments: Common Stock, Preferred Stock, U.S. Government and Agency Securities, Commercial Paper, Bonds (not to exceed 15 years in maturity and have at least an "A" rating from Moody's and Standard and Poor); Mutual Funds; Certificates of Deposit; Money Market Accounts. All other investments are prohibited unless approved through the written consent of the Investment Committee. The Foundation is not prohibited from receiving and accepting assets that may not be a part of the approved investment mix. The Foundation in accepting such assets may hold, liquidate or transfer these assets as deemed appropriate.

Investment Reporting

Security transactions are recorded on a trade date basis. Interest is recorded as earned and dividends are recorded as of the ex-dividend date. Investment income includes interest and dividends; realized/unrealized gains and losses are reported as fair values increase and decrease. Investment income attributable to amounts held for the benefit of the University is reported in temporarily restricted net assets. When the activities occur, the amounts are transferred from temporarily restricted to unrestricted net assets and the disbursements are reported as decreases in unrestricted net assets. Investment income attributable to amounts held for the benefit of the Foundation is reported in unrestricted net assets. Interest and dividend income is reported net of related investment expenses in the statement of activities. The amount of expenses netted with revenues was \$26,484 for the year ended September 30, 2017. Investment gain consisted of realized gain of \$233,405, netted with unrealized loss of \$29,891 for the year ended September 30, 2017.



**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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Endowment Accounts

An endowment consists of funds that are kept intact and invested. A portion of the earnings from the endowment are applied to purposes designated at the outset by the donor(s); the proportion of earnings applied in this manner is set in accordance to the endowment spending policies determined annually by the Foundation Executive Committee based on the recommendations of the Foundation Investment Committee and the Investment Fund Manager. Endowment accounts are housed in Special Endowment portfolios to provide greater investment flexibility. Prior to the initiation of any endowment, a set of guidelines is established. University Advancement develops the Letter of Agreement in coordination with the donor(s) and the designated campus unit. The donor(s), the Vice President for University Advancement, and the Foundation President approve the Letter of Agreement.

Spending Policy

The Foundation Executive Committee, based on the recommendation of the Foundation Investment Committee and the Investment Fund Manager, will determine annually the amount/percent of scholarship funds to be awarded through the Endowed Scholarship Fund. The annual return on investment and preservation of the invested corpus are factors that may be used to determine disbursements for endowed scholarships. A maximum rate of five percent may be distributed from the Foundation's Endowed Scholarship Fund. The annual recommended rate will be forwarded to the University Scholarship Committee.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration due to unfavorable market fluctuations. When this is the case, any such deficiencies would be reported in unrestricted net assets. At September 30, 2017, there were no funds with deficiencies.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets – 10/1/2016	\$ 188,040	\$ 1,798,315	\$ 1,568,722	\$3,555,077
Contributions, net	320	204,294	166,851	371,465
Investment income (loss), net of fees	(1,915)	301,363	-	299,448
Amounts appropriated for expenditure	<u>          -</u>	<u>     (39,063)</u>	<u>          -</u>	<u>     (39,063)</u>
Endowment net assets – 9/30/2017	<u>\$ 186,445</u>	<u>\$ 2,264,909</u>	<u>\$ 1,735,573</u>	<u>\$ 4,186,927</u>

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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**D. FAIR VALUE MEASUREMENTS**

The Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted market prices for identical assets, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level I inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when Level 1 or Level 2 inputs were not available.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of September 30, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of Deposit	\$ 790,996	\$ -	\$ -	\$ 790,996
Asset Backed Securities	320,840	-	-	320,840
Close End Funds & Exchange Traded Products	571,712	-	-	571,712
Common Stocks	1,005,543	-	-	1,005,543
Government Securities	384,787	-	-	384,787
Mutual Funds	476,364	-	-	476,364
PACE Equities	171,459	-	-	171,459
PACE Fixed Income	198,492	-	-	198,492
Corporate Bonds and Notes	<u>544,664</u>	<u>-</u>	<u>-</u>	<u>544,664</u>
	<u>\$ 4,464,857</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,464,857</u>

**E. PLEDGE RECEIVABLES**

Pledge receivables, which are unconditional promises to give, are recorded as receivables and revenue when received. The Foundation distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

Total pledges receivable at September 30, 2017 are as follows:

	<u>Less Than One Year</u>	<u>One to Five Years</u>	<u>More Than Five Years</u>	<u>Total</u>
Total Pledges	\$ 9,800	\$ 64,535	\$ 5,000	\$ 79,335

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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**F. DONATED ASSETS**

Donated assets consisted of the following at September 30, 2017:

Donated artifacts and collectibles	\$ 1,527
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**G. COLLABORATIVE ARRANGEMENT**

The Alabama Center for the Arts (ACA), a joint operation between Calhoun Community College and Athens State University, along with their respective foundations, may be the recipient of gifts and contributions designated for use in support of the Center and its students. Calhoun College Foundation and the Athens State University Foundation entered into a collaborative arrangement in 2017 to direct funds jointly acquired or pledged in conjunction with the 2012 Gala and other gifts and contributions designated to benefit the Alabama Center for the Arts to joint financial accounts known as the Alabama Center for the Arts and to work cooperatively to manage and secure gifts in the Center's best interests. Revenue and expenses recorded by ASUF related to the collaborative arrangement for 2017 were approximately \$279,410 and \$105,864, respectively.

**H. SPECIAL EVENTS**

The Foundation receives income from various special fund raising events. Gross income is reported as revenues in the financial statements and expenses are reported separately. The major special events, during the current year are as follows:

	TENNESSEE VALLEY FIDDLER'S CONVENTION	ALUMNI GOLF CLASSIC TOURNAMENT	ACA HALL OF FAME
Gross Revenue	\$ 202,883	\$ 46,076	\$ 12,800
Expenses	\$ 58,633	\$ 15,546	\$ 19,284

**I. FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the Foundation's various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**J. RELATED PARTY**

University Support

The Athens State University Foundation exists to assist the University and is a discretely presented component unit of the University. Due to the nature of this relationship, there are numerous transactions between the two entities and their representatives for program services, instruction, and scholarship purposes. During the year ended September 30, 2017, the Foundation expended

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2017**

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\$214,537 in support of the University's programs and scholarships. At September 30, 2017, the Foundation had no payables due to or pledge receivables from the University.

Personnel Costs and Facilities

The Foundation uses office space owned by the University without paying rent for the facilities. The value of the donated facilities was \$14,962 for the year ending September 30, 2017. Furthermore, the Foundation employees are paid by the University. The salaries and benefits for year ending September 30, 2017, were \$73,935. The value of donated facilities and services were recognized as revenue and related expense in the statement of activities

**K. PRIOR PERIOD ADJUSTMENTS**

The beginning net assets were restated to write off donated assets that were used in prior periods, record pledges receivable, reclassify customer deposits to deferred revenue, adjust unrealized gains that were previously understated and to reclassify net assets to the appropriate class based on donor restrictions. The effect of these restatements was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Net Assets – October 1, 2016	\$ 301,689	\$ 1,483,664	\$ 2,441,470	\$ 4,226,823
<u>Prior Period Adjustments:</u>				
Donated Assets	(15,100)	-	-	(15,100)
ACA Receivable	-	26,000	-	26,000
Deferred Revenue	-	(16,675)	-	(16,675)
Pledges Receivable	-	100,000	40,135	140,135
Unrealized Gain	-	54,394	-	54,394
Reclassifications	<u>56,597</u>	<u>856,286</u>	<u>(912,883)</u>	<u>-</u>
Net Assets - October 1, 2016, as Restated	<u>\$ 343,186</u>	<u>\$ 2,503,669</u>	<u>\$ 1,568,722</u>	<u>\$ 4,415,577</u>

**Required Supplementary Information**

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

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	For the measurement period ended		
	<u>September 30, 2016</u>	<u>September 30, 2015</u>	<u>September 30, 2014</u>
ASU's proportion of the net pension liability	0.2502%	0.2444%	0.2477%
ASU's proportionate share of the net pension liability	\$27,086,000	\$25,582,000	\$22,501,727
ASU's covered-employee payroll	\$15,880,787	\$15,451,952	\$15,709,007
ASU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	170.56%	165.56%	143.24%
Plan fiduciary net position as a percentage of the total pension liability	67.93%	67.51%	71.01%

**Notes to the Schedule of Athens State University's Proportionate Share of the Net Pension Liability**

This schedule presents only three years of information, rather than ten years, as only three years of trend information is available at September 30, 2017.

Changes of Assumptions - In 2016, rates of retirement, disability, withdrawal and mortality 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, 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. 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.

**Athens State University**  
**Schedule of Athens State University's Contributions**  
**Teachers' Retirement System of Alabama**

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	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$2,024,910	\$ 1,880,030	\$ 1,748,180
Contributions in relation to the contractually required contribution	<u>\$2,024,910</u>	<u>1,880,030</u>	<u>1,748,180</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
System's covered-employee payroll	\$17,067,750	\$ 15,880,787	\$15,451,952
Contributions as a percentage of covered-employee payroll	11.86%	11.84%	11.31%

**Notes to the Schedule of University Contributions**

This schedule presents only three years of information, rather than ten years, as only three years of trend information is available at September 30, 2017.

Changes of Assumptions - In 2016, rates of retirement, disability, withdrawal and mortality 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, 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. 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.

## **Additional Information**



**Athens State University**  
**Listing of University Officials**  
**October 1, 2016 through September 30, 2017**

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Officials

Position

Dr. Robert K. Glenn

President

Mr. Mike McCoy

Vice-President of Financial Affairs

Mrs. Mary Chambliss

Director of Financial Aid

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**PART II**

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

To the Board of Trustees  
Athens State University

We have audited the financial statements of Athens State University as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise Athens State University's basic financial statements, and have issued our report thereon dated March 19, 2018. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Athens State University Foundation, Inc., a discretely presented component unit of Athens State University, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Athens State University Foundation, Inc.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Athens State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Athens State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Athens State University's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Athens State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***CDPA, PC***

Athens, Alabama  
March 19, 2018

**Independent Auditor's Report on Compliance for Each Major Program  
and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Trustees  
Athens State University

**Report on Compliance for Each Major Federal Program**

We have audited Athens State University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Athens State University's major federal programs for the year ended September 30, 2017. Athens State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The financial statements of Athens State University Foundation, Inc. were not audited in accordance with the *OMB Compliance Supplement*, and, accordingly, this report does not extend to Athens State University Foundation, Inc.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Athens State University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Athens State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Athens State University's compliance.

## **Opinion on Each Major Federal Program**

In our opinion, Athens State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2017.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017.001 and 2017.002. Our opinion on each major federal program is not modified with respect to these matters.

Athens State University's response to the noncompliance findings identified in our audit are described in the accompanying "Management's View and Corrective Action Plan" on page 64. Athens State University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

Management of Athens State University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Athens State University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Athens State University's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify

any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*CDPA, PC*

Athens, Alabama  
March 19, 2018

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**PART III**

**SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS**

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**Athens State University**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2017**

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<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>MAJOR PROGRAMS</b>				
<b><u>Student Financial Assistance Cluster</u></b>				
<b><u>U.S. Department of Education Direct Programs</u></b>				
Federal Pell Grant Program	84.063	N.A.	\$ -	\$ 5,220,510
Federal Direct Student Loans	84.268	N.A.	-	15,137,645
Federal Work-Study Program	84.033	N.A.	-	82,505
Federal Supplemental Education Opportunity Grants	84.007	N.A.	-	103,367
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N.A.	-	<u>87,257</u>
Total Student Financial Assistance Cluster			-	<u>20,631,284</u>
<b>Total Major Programs</b>			\$ -	<u>\$ 20,631,284</u>

**Athens State University**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2017**

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<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>NON-MAJOR PROGRAMS</b>				
<b><u>Regional Economic Development Agency</u></b>				
<b><u>Appalachian Regional Development Direct Programs</u></b>				
Appalachian Regional Development	23.001	AL-18406	-	75,000
Total Appalachian Regional Development			-	75,000
<b><u>U. S. Department of Education Passed Through Alabama Commission on Higher Education</u></b>				
Improving Teacher Quality State Grants	84.367	N.A.	-	63,665
Total Improving Teacher Quality State Grants			-	63,665
<b>Total Non-Major Programs</b>			-	138,665
<b>Total Federal Awards</b>			\$ -	\$ 20,769,949

N.A. = Not Available

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

**Athens State University**  
**Notes to the Expenditures of Federal Awards**  
**For the Year Ended September 30, 2017**

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Athens State University (the “University”) under programs of the federal government for the year ended September 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position or cash flows of the University.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The awards are classified into Type A and Type B categories in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Programs classified as Type A are as follows:

Student Financial Assistance Programs

**Federal CFDA Numbers**

Catalog of Federal Domestic Assistance (CFDA) numbers are assigned to contracts and grants on the basis of program type.

**Athens State University**  
**Notes to the Expenditures of Federal Awards**  
**For the Year Ended September 30, 2017**

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**NOTE 3 – RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS TO THE STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS**

The following schedule is a reconciliation of total federal expenditures as shown on the Schedule of Expenditures of Federal Awards to the revenue items shown on the Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2017.

Federal Grants and Contracts– Operating Revenue	\$ 411,794
Federal Grants – Nonoperating Revenue	5,341,989
Fall 2017 Deferred Pell Grant Revenue	1,480,499
Fall 2016 Deferred Pell Grant Revenue	(1,601,978)
Federal Direct Student Loans	<u>15,137,645</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$20,769,949</u>

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**PART IV**

**SCHEDULES OF FINDINGS AND QUESTIONED COSTS**

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**Athens State University**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2017**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_ yes   x   no

Significant deficiency(ies) identified? \_\_\_ yes   x   none reported

Noncompliance material to financial statements noted? \_\_\_ yes   x   no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_ yes   x   no

Significant deficiency(ies) identified? \_\_\_ yes   x   none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) \_x\_ yes \_\_\_ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	<u>Student Financial Assistance Cluster</u>
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.033	Federal Work-Study Program
84.007	Federal Supplemental Educational Opportunity Grants
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)

Threshold used to determine Type A and Type B Programs: \$ 750,000

Auditee qualified as low-risk auditee? \_x\_ yes \_\_\_ no

**Section II – Financial Statement Findings**

The audit did not disclose any financial statement findings required to be reported.

**Athens State University**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2017**

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**Section III – Federal Award Findings and Questioned Costs**

<b>REFERENCE</b>	<b>PROGRAM</b>	<b>QUESTIONED COSTS</b>
2017.001	Student Financial Assistance	\$ 726

U.S. Department of Education  
Federal Pell Grant Program – CFDA 84.063  
Award Year – July 1, 2016 through June 30, 2017

**CRITERIA**

34 CFR §690.63 – Calculation of a Federal Pell Grant for a payment period

The University is responsible for accurately calculating the annual award of Federal Pell Grant as well as the amount of Pell Grant to be disbursed each payment period depending on the student’s enrollment status, expected family contribution (EFC) and cost of attendance (COA).

**CONDITION/CONTEXT**

During our review, we noted that 1 out of 40 students selected for testing was disbursed an inaccurate amount of Pell Grant due to an error in the attendance verification process. The sample was statistically valid.

**QUESTIONED COSTS**

The student was underpaid by \$726.

**CAUSE/EFFECT**

The University accurately calculated the awards but failed to disburse the appropriate amount during the spring term because the student’s attendance was not initially verified in one class, causing the student’s enrollment status to drop to ¾ time rather than full time. The student received a grade of “W” for withdrawal, and the student’s attendance in the class was later verified. The error was not detected by management.

**REPEAT**

This error is a partial repeat of finding 2016.001 from the prior year.

**RECOMMENDATION**

We recommend the implementation of a detective control whereby a system report is generated to match any students who received a grade, even a grade of “W”, but did not have attendance verified for the same class. Then, the student financial assistance department will need to determine whether the student attended the class. Additionally, the University must establish deadlines and hold instructors accountable for timely updating attendance records as this is a critical step in the financial aid process at ASU.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS**

See letter from management on page 64.

**Athens State University**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2017**

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REFERENCE	PROGRAM	QUESTIONED COSTS
2017.002	Student Financial Assistance	\$ -

U.S. Department of Education  
 Federal Pell Grant Program – CFDA 84.063, Federal Direct Student Loans – CFDA 84.268,  
 Teacher Education Assistance for College and Higher Education Grants (TEACH Grants) –  
 CFDA 84.379  
 Award Year – July 1, 2016 through June 30, 2017

**CRITERIA**

34 CFR §668.19 – Financial aid history

The University is required to request financial aid history using the National Student Loan Data System Transfer Monitoring System (NSLDS) for transfer students.

**CONDITION/CONTEXT**

During our review, we noted that 1 out of 60 students selected for testing was a transfer student whose financial aid history should have been requested from NSLDS but was not. The sample was statistically valid.

**QUESTIONED COSTS**

The student’s aid was not impacted when the financial aid history was evaluated. Therefore, \$- are reported as questioned costs for this student.

**CAUSE/EFFECT**

The University failed to identify and request financial aid history using the National Student Loan Data System Transfer Monitoring System for one transfer student. The student was not detected by management. The transfer student’s eligibility for Title IV aid was not impacted when the financial aid history was evaluated. However, the student was not identified due to a coding error in the University’s software which leaves the University at risk of disbursing an improper amount or disbursing to an ineligible student.

**RECOMMENDATION**

We recommend correction of the coding error that failed to identify this student as a transfer student requiring monitoring of financial aid history. After correcting the coding error, we recommend that management formalize information technology policies in writing regarding the amount of testing to be performed when software changes are made and when updates are installed. Furthermore, the written policy should identify who is responsible for performing the testing to ensure that coding errors are detected before they are implemented in a live version of the software.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS**

See letter from management on page 64.



**MANAGEMENT'S VIEW AND CORRECTIVE ACTION PLAN****Reference: 2017.001**

Management concurs with this finding and has corrected the PELL disbursement error. The University currently has a report that is run after grades post to identify students with a grade but without an attendance verification. This report will be modified to include grades of W to identify additional students needing evaluation. Furthermore, Academic Affairs will educate professors and deans on the importance of timely verification of attendance for each student enrolled in their classes.

Person Responsible: Sarah McAbee, Vice President of Enrollment and Student Support Services  
Joe Delap, Provost/Vice President of Academic Affairs

Anticipated Completion Date: Spring 2018

**Reference: 2017.002**

Management concurs with this finding and has corrected the coding error in the software to properly identify all students who need transfer monitoring. Extensive testing has been performed and the information technology policies resulting from this testing will be formalized in writing. These policies will be enforced to ensure that coding errors are detected before implementation to the live version of the software.

Person Responsible: Sarah McAbee, Vice President of Enrollment and Student Support Services

Anticipated Completion Date: Spring 2018

**SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS****Reference: 2016.001**

The University accurately calculated the award but failed to disburse the appropriate amount for two students because their attendance was not verified in one class, causing the students' enrollment status to drop to  $\frac{3}{4}$  time rather than full time. Both students received a grade for the class in which their attendance was not verified, which indicates that the lack of attendance verification was an error. The error was not detected by management and was a repeat of 2015.002. We have automated the attendance verification process, and we currently have a report that is run after grades post to identify students that received a grade with no attendance marked. However, the end of term report was not designed to identify students who received a grade of W and whose initial enrollment was not properly verified. Furthermore, an additional preventive control is needed to ensure that instructors are timely updating attendance. As such, a similar finding was found in the current year (2017.001).

Person Responsible: Sarah McAbee, Vice President of Enrollment and Student Support Services  
Joe Delap, Provost/Vice President of Academic Affairs

Status: Partially Resolved. See similar finding 2017.001.

**Reference: 2016.002**

The University accurately calculated the return of unearned title IV funds for which it was responsible, but the calculation and return of funds occurred after the 45 day deadline. A report critical to the timely return of unearned title IV funds for officially withdrawn students was not run during the week of this student's official withdrawal, and this caused the error. Management detected the need for a return of unearned title IV funds in their controls processes at the end of the spring term of 2016, but submitted the return of title IV funds late based on the determination date applicable for officially withdrawn students. We now receive an email notification weekly after the Registrar's office has completed their procedures related to the Return to Title IV process. This ensures that the processes are performed and performed in the necessary order to timely identify the students who have officially withdrawn.

Person Responsible: Mary Chambliss

Status: Resolved

**Reference: 2015.002**

The University accurately calculated the award but failed to disburse the appropriate amount for one student in the fall term of 2014 because the student's attendance was not verified in one class, causing the student's enrollment status to drop to  $\frac{3}{4}$  time rather than full time. The student received a grade for the class in which his attendance was not verified, which indicates that the lack of attendance verification was an error. The student was paid once the error was discovered. We have automated the attendance verification process, and we currently have a report that is run after grades post to identify students that received a grade with no attendance marked. Report was not in place in time to catch similar finding 2016.001 and was not properly designed to catch similar finding 2017.001.

Person Responsible: Sarah McAbee, Vice President of Enrollment and Student Support Services  
Joe Delap, Provost/Vice President of Academic Affairs

Status: Partially Resolved. See similar finding 2016.001 and 2017.001