

**Athens State University  
Financial Statements  
September 30, 2015**

**FINANCIAL REPORT  
2014-2015**



# Athens State University

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September 30, 2015

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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"), a component unit of the State of Alabama, as of and for the year ended September 30, 2015, 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. Because of the matter described in the Basis for Disclaimer Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the discretely presented component unit.

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.

Except for the matter described in the Basis for Disclaimer of Opinion paragraph, we believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Basis for Disclaimer of Opinion on the Discretely Presented Component Unit**

The financial statements of Athens State University Foundation, Inc. (the Foundation or ASUF) have not been audited, and we were not engaged to audit the ASUF's financial statements as part of our audit of Athens State University's basic financial statements. ASUF's financial activities are included in Athens State University's basic financial statements as a discretely presented component unit. ASUF is the only discretely presented component unit.

### **Disclaimer of Opinion**

Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit of Athens State University. Accordingly, we do not express an opinion on these financial statements.

### **Unmodified Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ASU as of September 30, 2015, 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.

### **Emphasis of Matter**

As discussed in Note 1 to the basic financial statements, in the year ended September 30, 2015, ASU adopted new accounting guidance related to the manner in which it accounts for pensions. As described within the notes to the financial statements, ASU adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13, the schedule of Athens State University's proportionate share of the net pension liability on page 43 and the schedule of Athens State University's contributions on page 44 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* 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 45 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 February 11, 2016 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 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.***

February 11, 2016

## **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, 2015. 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 both the oldest and youngest institution of higher education in Alabama's education system and 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.

On May 10, 1974, the Board of Trustees requested 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 transfer of the Institution to the State of Alabama. In June 1975, the Institution was accepted by the Alabama State Board of Education and charged to serve the graduates of state junior, community, and technical colleges/institutes. It is the only upper division school in the Postsecondary Education System. Since Athens State University offers only the junior and senior level courses, all of its students are transfer students primarily from two-year schools in the Postsecondary Education System in the State of Alabama. The University is located in the northernmost part of the state in the city of Athens, Alabama. Enrollment is approximately 3500 students, consisting primarily of non-traditional students with an average age of over 32 years, many of which commute to and from school and maintain full time jobs.

Athens State University is dedicated to serving the students in the Postsecondary Education System in Alabama, while at the same time reaching out to our neighboring states such as Tennessee and Mississippi, to recruit students to our University. We are dedicated to providing academic excellence in instruction through our 93 professors and to providing quality customer service to our students in every department. Athens State University offers a wide array of majors and consistently ranks among the top universities in producing quality teachers.

**Athens State University**  
**Management's Discussion and Analysis**  
**September 30, 2015**

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The University offers 31 majors for its students to choose from and continues to explore the latest technology in the delivery of these majors. The University offers eleven majors 100% online in an effort to better serve the working student. A brief paragraph about each college and the university centers follows:

College of Education – The College of Education is one of the state leaders in teacher graduates. The faculty of the College of Education 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. Our teacher graduates are ready for the classroom and are attractive to many school systems looking for quality teachers. Additionally, 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 accredited schools produce over two-thirds of the nation's new teacher graduates as compiled by Westat. The College of Education currently offers courses in traditional, blended and online formats.

College of Arts and Sciences – The College of Arts and Sciences 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, excite the imagination, and improve the scholarship of its students, and 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 and research skills essential to lifelong learning. The College of Arts and Sciences currently offers two majors that can be completed online. These two majors are Religion and Computer Information Systems.

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 eight majors entirely online in addition to the traditional offerings. The online format enables the University to reach students across the state, the nation, and overseas. 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.

**Athens State University**  
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University Centers – Athens State University operates University Centers located on the campuses of two-year institutions in the Postsecondary Education System and on Redstone Arsenal, a military base in Huntsville, Alabama. The current University Centers are:

- The University Center at Wallace Hanceville
- The University Center at Northeast Community College in Rainsville
- The University Center at Redstone Arsenal

**Financial Highlights**

Athens State University had another successful year financially. For the tenth-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, 2015 were \$66 million and liabilities and deferred inflows of resources were \$50.5 million. This resulted in the University's net position ending at \$15.5 million, representing a 57% decrease in the University's financial position. The most significant events that occurred during the fiscal year that will be reflected in the financial statements, notes to the financial statements and the following paragraphs were:

- Addition of approximately \$5 million to Alabama Center for the Arts Phase II and other capital assets.
- Change in accounting principle requiring the recording of \$22.5 million in net pension liability.

**Financial Statements**

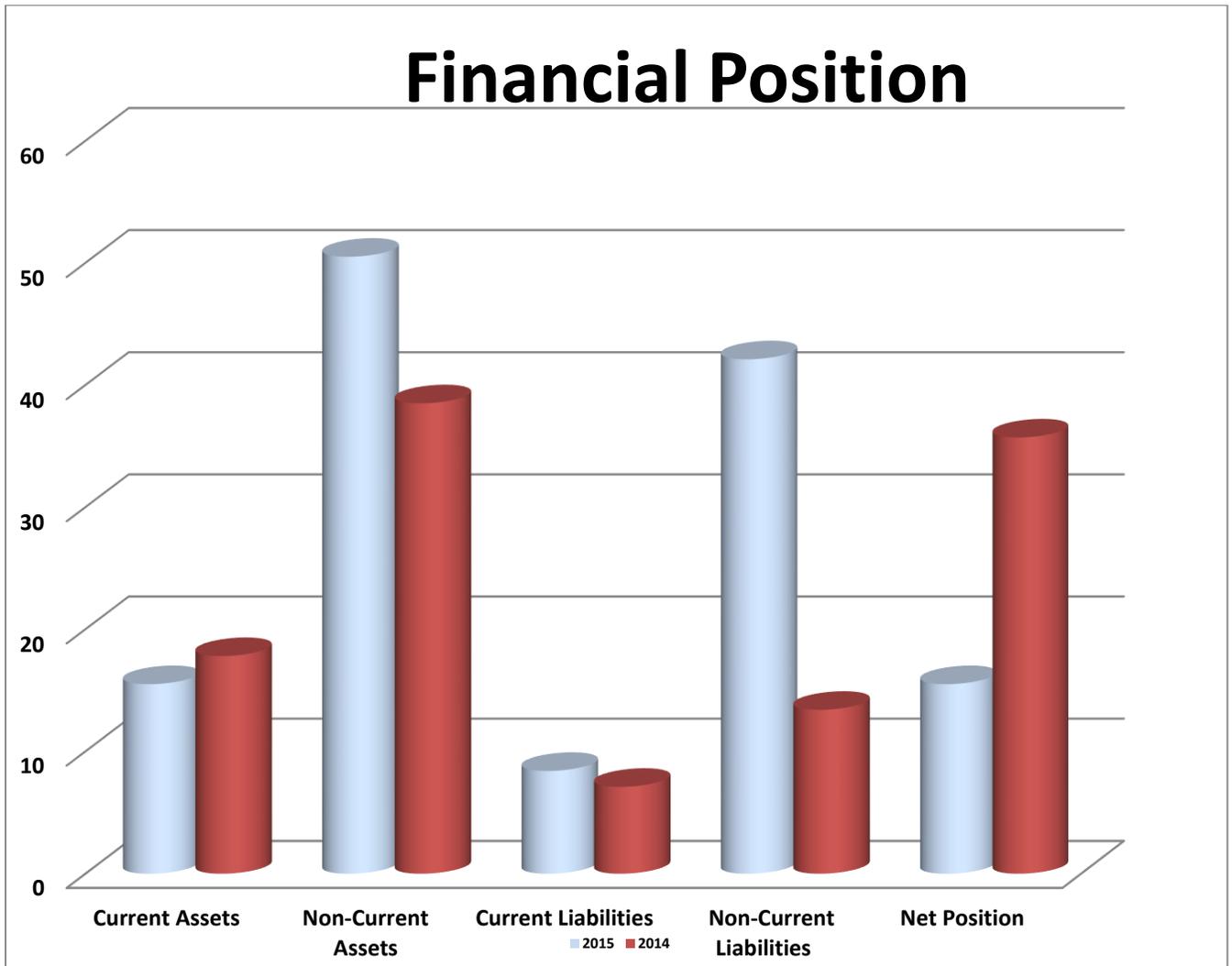
As stated in the previous paragraphs, the University's annual financial reports include the following three statements:

- 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, 2015. The below chart reflects assets and liabilities as compared to last fiscal year. The chart reflects a decrease in net position of \$20.3 million, which is the result of an increase in net position of \$3.3 million, net of an adjustment for the change in accounting principle of (\$23.6) million to net position.



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, 2015. (c) The final category is unrestricted net position. Unrestricted net position is available to the University for any appropriate purpose.

**Athens State University**  
**Management's Discussion and Analysis**  
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**Summary: Statement of Net Position**

	<u>2015 FY</u>	<u>2014 FY</u>
<b><u>Assets:</u></b>		
Current Assets	\$ 15,454,450	\$ 17,826,616
Capital Assets, Net	42,129,231	38,518,398
Other Assets	<u>6,717,870</u>	<u>-</u>
<b>Total Assets</b>	<b>64,301,551</b>	<b>56,345,014</b>
<b>Deferred Outflows of Resources</b>		
	<u>1,748,180</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 66,049,731</u></b>	<b><u>\$ 56,345,014</u></b>
<b><u>Liabilities:</u></b>		
Current Liabilities	\$ 8,474,148	\$ 7,107,247
Non-Current Liabilities	<u>39,497,811</u>	<u>13,450,287</u>
<b>Total Liabilities</b>	<b><u>47,971,959</u></b>	<b><u>20,557,534</u></b>
<b>Deferred Inflows of Resources</b>	2,596,000	-
<b><u>Net Position:</u></b>		
Invested in Capital, Net of Debt	\$ 28,073,602	\$ 25,458,398
Restricted - Capital Projects	60,892	60,715
Restricted Expendable	434,428	246,145
Unrestricted	<u>(13,087,150)</u>	<u>10,022,222</u>
<b>Total Net Position</b>	<b><u>15,481,772</u></b>	<b><u>35,787,480</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<b><u>\$ 66,049,731</u></b>	<b><u>\$ 56,345,014</u></b>

The changes in capital assets are directly related to the ongoing construction of ACA Phase II Project. The University expended approximately \$3.6 million to pay construction costs, including 1.7 million in accounts payable, relating to the aforementioned contract, which in turn increased capital assets. The changes in noncurrent liabilities are directly related to debt issued for construction on ACA Phase II and the recording of a net pension liability of 22.5 million.

**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>2015 FY</u>	<u>2014 FY</u>
Operating Revenues	\$ 18,413,143	\$ 17,173,023
Operating Expenses	<u>31,361,848</u>	<u>31,876,920</u>
Operating Loss	(12,948,705)	(14,703,897)
Non-Operating Revenues and Expenses	<u>16,249,724</u>	<u>16,943,036</u>
Increase in Net Position	3,301,019	2,239,139
Net Position - Beginning of Year	35,787,480	33,548,341
Change in Accounting Principle	<u>(23,606,727)</u>	<u>-</u>
Net Position – Beginning of Year (Restated)	<u>12,180,753</u>	<u>33,548,341</u>
Net Position - End of Year	<u>\$ 15,481,772</u>	<u>\$ 35,787,480</u>

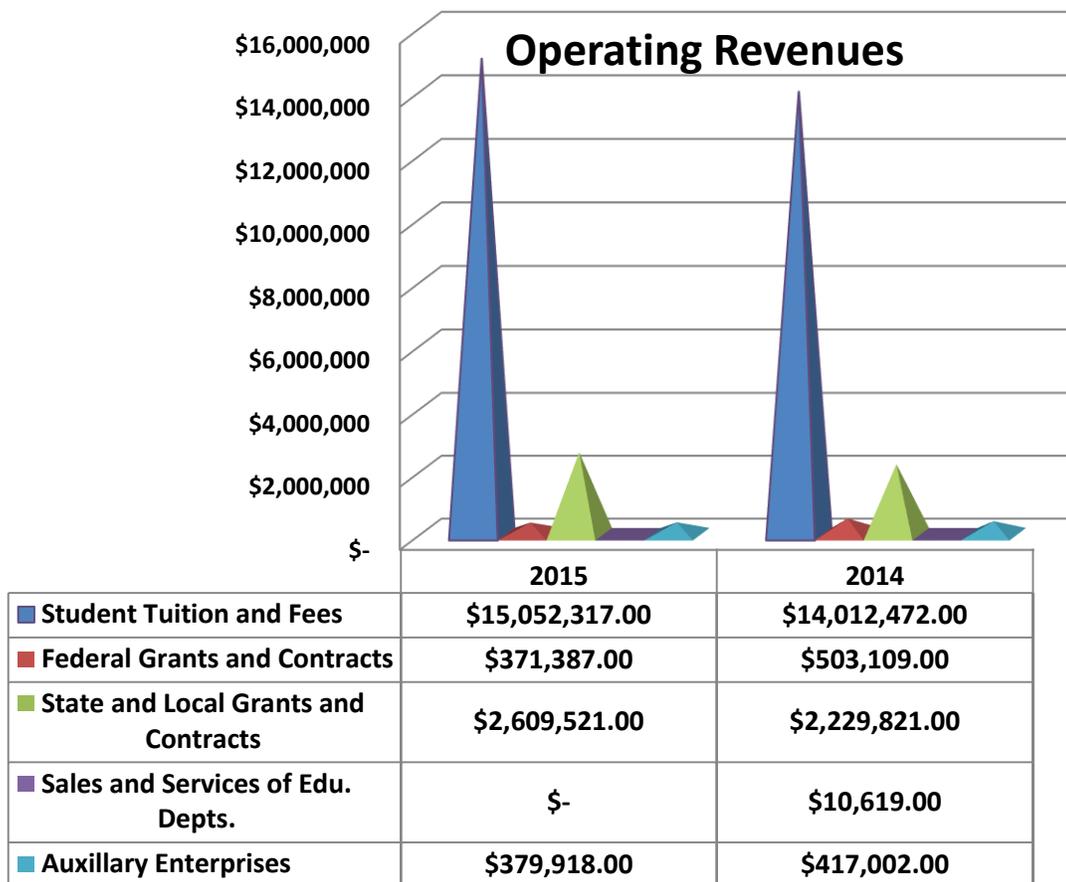
The Statement of Revenues, Expenses, and Changes in Net Position reflect operating revenues of \$18,413,143, which is an increase of \$1,240,120 from the prior year. The majority of the increase is a result of an increase in tuition and fees of approximately \$1 million and state and local grants of \$379,700. The operating expenses decreased 1.6% due to a decrease in operational budgets and hiring delays.

**Athens State University**  
**Management’s Discussion and Analysis**  
**September 30, 2015**

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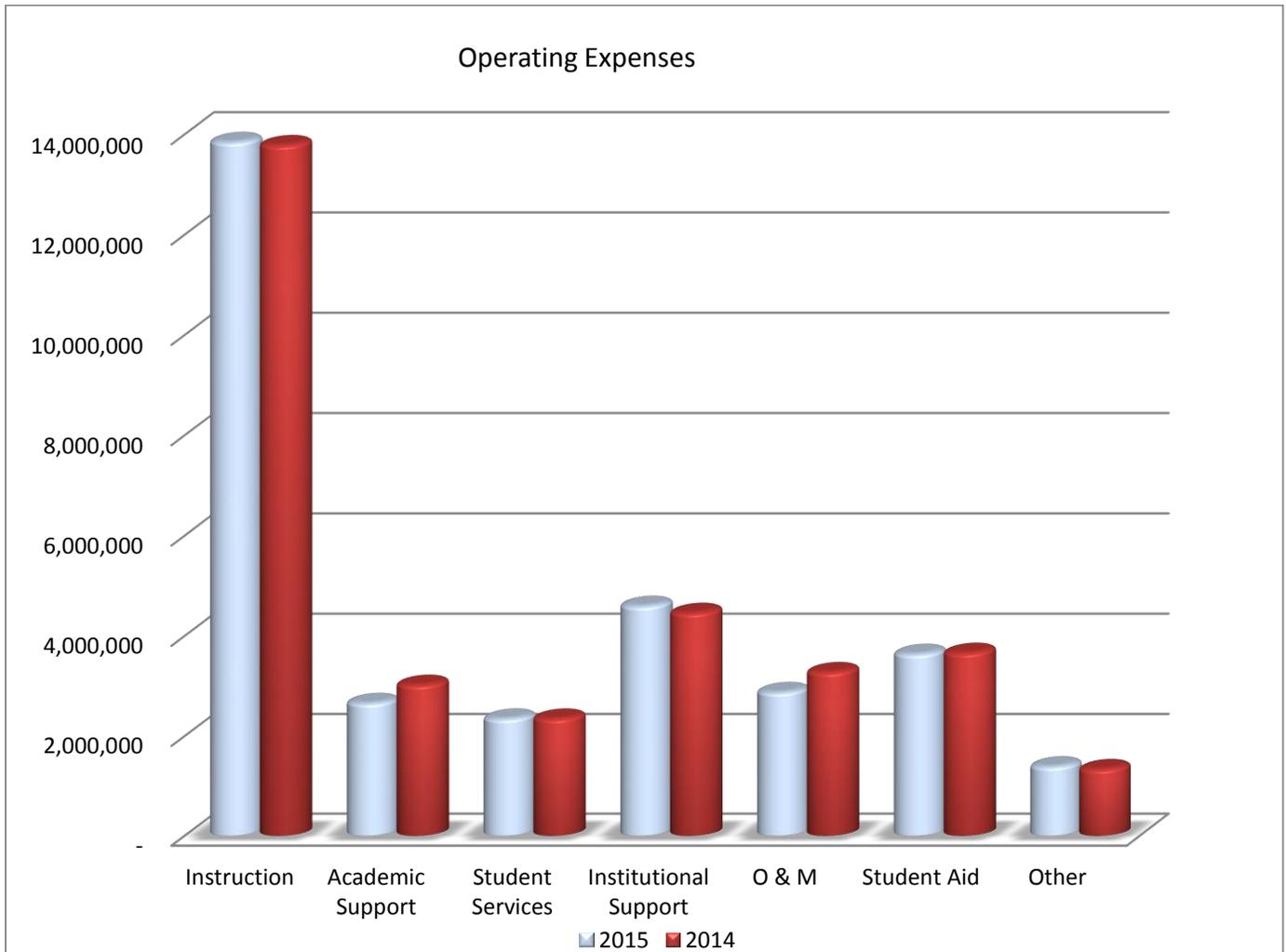
The chart below displays the operating revenues by type and their relationship to one another as discussed in the previous paragraph. The largest source of funds for FY 2015 is Student Tuition and Fees. State and Local Grants and Contracts make up the next largest source of funds. Federal Grants and 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 2015 FY State Appropriation totaled \$11,518,599 as compared to \$11,464,712 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 decreases in expenditures are primarily attributable to the delaying of replacing faculty and staff positions that separated service during fiscal year 2014.***

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.

Cash Flows for the Years Ended September 30:

	<u><b>2015 FY</b></u>	<u><b>2014 FY</b></u>
<b>Cash provided (used) by:</b>		
Operating activities	\$ (12,227,429)	\$ (13,045,800)
Non-capital financing activities	16,389,669	20,276,676
Investing activities	(5,041,011)	5,368,386
Capital and related financing activities	<u>168,869</u>	<u>(2,352,562)</u>
<b>Net Change in Cash</b>	(709,902)	10,246,700
Cash – Beginning of Year	<u>14,608,568</u>	<u>4,361,868</u>
Cash – End of Year	<u>\$ 13,898,666</u>	<u>\$ 14,608,568</u>

The above cash flow comparison reflects a decrease in cash of \$709,902 as compared to ending cash the previous year. The decrease in cash is due to the investment in long-term investments.

## **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, 2015**

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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. The University was granted approval to offer its first graduate program in logistics and these courses are set to begin Spring 2016. Two additional graduate programs are in process, one in the College of Education and one in the College of Arts and Sciences. These programs are expected to be in place by Spring 2017.

**Athens State University**  
**Statement of Net Position**  
**September 30, 2015**

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ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and Cash Equivalents	\$ 12,168,289
Short-Term Investments	132,954
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$561,639	2,724,351
Inventories	34,083
Deposit with Bond Trustee	12
Prepaid Expenses	<u>394,761</u>
Total Current Assets	15,454,450
Non-Current Assets	
Restricted Cash	1,730,377
Long-Term Investments	4,987,493
Capital Assets:	
Land	2,593,856
Improvements Other Than Buildings	1,374,716
Buildings	44,047,690
Equipment and Furniture	2,678,841
Library Holdings	1,243,941
Construction in Progress	5,044,703
Less: Accumulated Depreciation	<u>(14,854,516)</u>
Total Capital Assets, Net of Depreciation	<u>42,129,231</u>
Total Non-Current Assets	<u>48,847,101</u>
Total Assets	64,301,551
Deferred Outflows of Resources	
Deferred Outflows of Resources Related to Pensions	<u>1,748,180</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 66,049,731</u>

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

**Athens State University**  
**Statement of Net Position**  
**September 30, 2015**

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LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities	
Deposits	\$ 156,108
Accounts Payable and Accrued Liabilities	2,659,467
Deferred Revenue	4,539,212
Compensated Absences	61,261
Bonds Payable	<u>1,058,100</u>
Total Current Liabilities	8,474,148
Non-Current Liabilities	
Bonds Payable	16,097,529
Net Pension Liability	22,501,727
Compensated Absences	<u>898,555</u>
Total Non-Current Liabilities	<u>39,497,811</u>
Total Liabilities	47,971,959
Deferred Inflows of Resources	
Deferred Inflows of Resources Related to Pensions	2,596,000
Net Position	
Invested in Capital Assets, Net of Related Debt	28,073,602
Restricted:	
Expendable	434,428
Capital Projects	60,892
Unrestricted	<u>(13,087,150)</u>
Total Net Position	<u>15,481,772</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 66,049,731</u>

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

**Athens State University Foundation, Inc.**  
**Discretely Presented Component Unit**  
**Statement of Financial Position (UNAUDITED)**  
**September 30, 2015**

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Assets	
Cash and Cash Equivalents	\$ 462,669
Certificates of Deposit	590,996
Investments	3,072,895
Other	<u>14,835</u>
Total Assets	<u>\$ 4,141,395</u>
Liabilities	\$ <u>-</u>
Total Liabilities	-
Net Assets	
Unrestricted	314,320
Temporarily Restricted	1,652,574
Permanently Restricted	<u>2,174,501</u>
Total Net Assets	<u>4,141,395</u>
Total Liabilities and Net Assets	<u>\$ 4,141,395</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, 2015**

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OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$2,815,100)	\$ 15,052,317
Federal Grants and Contracts	371,387
State and Local Grants and Contracts	2,609,521
Auxiliary Enterprises:	
Bookstore	187,077
Food Services	19,665
Student Activities	2,028
Vending	7,733
Other	<u>163,415</u>
Total Operating Revenues	18,413,143

OPERATING EXPENSES

Instruction	13,846,095
Academic Support	2,660,606
Student Services	2,349,363
Institutional Support	4,597,066
Operation and Maintenance	2,878,857
Scholarships and Financial Aid	3,639,688
Depreciation	959,538
Auxiliary Enterprises	<u>430,635</u>
Total Operating Expenses	<u>31,361,848</u>

Operating Income (Loss) (12,948,705)

NONOPERATING REVENUES (EXPENSES)

State Appropriations	11,518,599
Local Appropriations	50,000
Federal Grants	5,345,196
Interest and Dividend Income on Investments	147,030
Investment Gain/(Loss)	(113,763)
Other Nonoperating Revenues	336,026
Interest on Debt	(409,329)
Loss on Disposal of Plant Asset	(66,549)
Other Nonoperating Expenses	<u>(557,486)</u>
Net Nonoperating Revenues	<u>16,249,724</u>

Change In Net Position 3,301,019

Total Net Position - Beginning of Year	35,787,480
Adjustment for Change in Accounting Principle (Note 1)	<u>(23,606,727)</u>
Total Net Position – Beginning of Year (Restated)	<u>12,180,753</u>

Total Net Position - End of Year \$ 15,481,772

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 Twenty-One Months Ended September 30, 2015 (UNAUDITED)**

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	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support:				
Contributions	\$ 14,835	\$ 437,612	\$ 508,200	\$ 960,647
Special Events	-	271,207	-	271,207
Interest and Dividends Net of Fees	4,708	65,088	-	69,796
Realized Gain (Loss) on Investments	-	-	-	0
Unrealized Gain (Loss) on Investments	-	3,432	-	3,432
Change in Donor Restrictions				
Net Assets Released from Restrictions:				
Satisfaction of Purpose Restrictions	-	-	-	-
 Total Revenues, Gains and Other Support	 <u>19,543</u>	 <u>777,339</u>	 <u>508,200</u>	 <u>1,305,082</u>
 Expenses				
Program Expenses:				
Student Scholarships	-	-	305,038	305,038
University Support	22,330	212,866	49,476	284,672
Other Program Expenses	-	190,813	-	190,813
Other Expenses:				
Special Events	6,085	141,294	-	147,379
Management and General	-	-	-	-
 Total Expenses	 <u>28,415</u>	 <u>544,973</u>	 <u>354,514</u>	 <u>927,902</u>
 Change in Net Assets	 (8,872)	 232,366	 153,686	 377,180
 Net Assets - Beginning of Year	 <u>323,192</u>	 <u>1,420,208</u>	 <u>2,020,815</u>	 <u>3,764,215</u>
 Net Assets - End of Year	 <u>\$ 314,320</u>	 <u>\$ 1,652,574</u>	 <u>\$ 2,174,501</u>	 <u>\$ 4,141,395</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, 2015**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and Fees	\$ 15,192,992
Grants and Contracts	3,018,624
Payments to Suppliers	(4,515,648)
Payments for Utilities	(696,679)
Payments for Employees	(16,521,580)
Payments for Benefits	(5,375,413)
Payments for Scholarships	(3,639,688)
Auxiliary Enterprises	<u>309,963</u>
Net Cash Used in Operating Activities	(12,227,429)

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State and Local Appropriations	11,568,599
Federal Grants	5,349,632
Federal Direct Loan Receipts	13,926,656
Federal Direct Loan Disbursements	(14,246,912)
Deposit Held for Others	13,154
Other Nonoperating Revenues (Expenses)	<u>(221,460)</u>
Net Cash Provided by Noncapital Financing Activities	16,389,669

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets and Construction	(3,512,502)
Principal Paid on Capital Debt	(906,925)
Proceeds from Capital Debt	5,000,000
Interest Paid on Capital Debt	<u>(411,704)</u>
Net Cash Provided by Capital and Related Financing Activities	168,869

**CASH FLOWS FROM INVESTING ACTIVITIES**

Realized Gain (Loss)	(2,372)
Proceeds from Sale of Investments	2,913,326
Interest on Investments	147,030
Purchase of Investments	<u>(8,098,995)</u>
Net Cash Used in Investing Activities	<u>(5,041,011)</u>

Net Decrease in Cash and Cash Equivalents	(709,902)
Cash and Cash Equivalents - Beginning of Year	<u>14,608,568</u>

Cash and Cash Equivalents - End of Year \$ 13,898,666

**Reconciliation of Cash and Cash Equivalents to the Statement of Net Position**

Current	\$ 12,168,289
Restricted	<u>1,730,377</u>
	<u>\$ 13,898,666</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, 2015**

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Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating Loss	(12,948,705)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities	
Depreciation Expense	959,538
Pension Expense	1,491,000
Employer Pension Contributions	(1,748,180)
Changes in Assets and Liabilities:	
Decrease in Receivables	338,707
Decrease in Inventory	1,854
Increase in Prepaid Expenses	(3,516)
Decrease in Compensated Absences	(32,384)
Decrease in Payables	(55,472)
Decrease in Deferred Revenue	<u>(230,271)</u>
Net Cash Used in Operating Activities	<u>\$ (12,227,429)</u>

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

The University held investments with a fair value of \$5,120,447 at September 30, 2015. During the year ended September 30, 2015, the net change in the fair value of these securities was \$(111,391).

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, 2015**

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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.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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- 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.

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.

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 Foundation's financial statements have been incorporated into the University's notes to the financial statements. During the year ended September 30, 2015, Athens State University Foundation, Inc. distributed \$292,047 to Athens State University for both restricted and unrestricted purposes. Due to the difference in the fiscal year of the University and the period presented in the Foundation's financial statements, inconsistencies exist in the amounts reported as distributed to or received from.

**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, 2015**

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**D. Assets, Liabilities, 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 reported at fair value based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost.

**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 capitalized. Upon the sale or retirement of fixed assets being depreciated using the straight-line

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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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:

<b><u>Assets</u></b>	<b><u>Depreciation Method</u></b>	<b><u>Useful Lives</u></b>
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

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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payment is 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. Change in Accounting Principle**

Net position as of October 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Net position as previously reported at September 30, 2014	\$ 35,787,480
Net pension liability (measurement date as of September 30, 2014)	(25,386,000)
Deferred outflows – contributions subsequent to measurement date	<u>1,779,273</u>
Total prior period adjustment	<u>(23,606,727)</u>
Net position as restated, October 1, 2014	<u>\$ 12,180,753</u>

The financial statements as of and for the year ended September 30, 2014 have not been restated as a result of implementing GASB Statement No. 68 and 71 because it is impractical to do so. Pension expense, deferred inflows of resources and deferred outflows of resources related to pensions were not actuarially determined as of the year ended September 30, 2014. As such, the cumulative effect of this new guidance is reported as a restatement of beginning net position for the year ended September 30, 2015.

**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.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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*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 Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the Office of Management and Budget (OMB) Compliance Supplement.

**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 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.

**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, 2015, funds held by financial institutions participating in the SAFE program totaled \$13,898,666.

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 27-41-41. These laws provide that the University may invest in the same type of instruments as

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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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.

As of September 30, 2015, the University had the following investments held by trustee:

<u>Deposits with Trustee</u>	<u>Fair Value</u>
Federated Treasury Obligations Fund	\$ 12

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.

At September 30, 2015, ASU had a significant amount invested in short and long term investments, primarily tax free bonds. During the year ended September 30, 2015, the University realized losses of \$2,372 from the disposal of investments. The calculation of realized gains is independent of the calculation of the net increase 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, 2015 of \$111,391.

At year end, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>
		<u>Less Than 1 Year</u>
Bond Mutual Funds	\$ 5,120,447	\$ 5,120,447

*Interest Rate Risk* – This risk pertains to changes in interest rates that adversely affect the fair value of an investment. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to interest rate risk.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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*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>
Bond Mutual Funds	AAA	.5%
Bond Mutual Funds	A	31.5%
Bond Mutual Funds	BBB	67.9%
Bond Mutual Funds	BB	.1%
		<u>100.0%</u>

*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.

**NOTE 3 - RECEIVABLES**

Receivables are summarized as follows:

<u>Accounts Receivable:</u>	
Federal	\$ 1,114,413
Pell Grants	333,623
State	163,386
Third Party	510,909
Returned Checks	7,520
Other	<u>85,014</u>
Total Accounts Receivable	<u>2,214,865</u>
<u>Student Receivables:</u>	
Tuition & Fees	1,068,111
Student Loans	<u>3,014</u>
Total Student Receivables	<u>1,071,125</u>
Total Receivables	<u>3,285,990</u>
Less: Allowance for Doubtful Accounts	<u>(561,639)</u>
Total Receivables, Net	<u>\$ 2,724,351</u>

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

**NOTE 4 - CAPITAL ASSETS**

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

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Transfers</u>	Ending <u>Balance</u>
Land	\$ 2,569,856	\$ 24,000	\$ -	\$ -	\$ 2,593,856
Improvements Other than Buildings	1,299,966	74,750		-	1,374,716
Buildings	38,470,970	266,050	(68,962)	5,379,632	44,047,690
Equipment	2,802,551	102,385	(226,095)	-	2,678,841
Library Holdings	1,222,175	24,980	(3,214)	-	1,243,941
Construction in Progress	<u>6,279,580</u>	<u>4,144,755</u>	<u>-</u>	<u>(5,379,632)</u>	<u>5,044,703</u>
Total	52,645,098	4,636,920	(298,271)	-	56,983,747
Less: Accumulated Depreciation Improvements Other than Buildings	824,977	44,825	-	-	869,802
Buildings	10,047,957	781,073	(2,413)	-	10,826,617
Equipment	2,397,174	90,356	(226,095)	-	2,261,435
Library Holdings	<u>856,592</u>	<u>43,284</u>	<u>(3,214)</u>	<u>-</u>	<u>896,662</u>
Total Accumulated Depreciation	<u>14,126,700</u>	<u>959,538</u>	<u>(231,722)</u>	<u>-</u>	<u>14,854,516</u>
Total Capital Assets, Net	<u>\$ 38,518,398</u>	<u>\$ 3,677,382</u>	<u>\$ (66,549)</u>	<u>\$ -</u>	<u>\$ 42,129,231</u>

Construction in Progress additions shown above include \$259,339 of capitalized interest.

**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,

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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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 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, 2015 was 11.71% of annual pay for Tier 1 members and 11.05% 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 \$1,748,180 for the year ended September 30, 2015.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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

At September 30, 2015 the University reported a liability of \$22,501,727 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2013. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2014 the University's proportion was .2477%, which was a decrease of .0115% from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015, the University recognized pension expense of \$1,491,000. At September 30, 2015 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,687,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	909,000
Employer contributions subsequent to the measurement date	<u>1,748,180</u>	<u>-</u>
	<u>\$ 1,178,180</u>	<u>\$ 2,596,000</u>

\$1,748,180 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, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Athens State University**  
**Notes to the Financial Statements**  
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**Year ended September 30:**

2016	633,150
2017	633,150
2018	633,150
2019	633,150
2020	63,400

**E. Actuarial Assumptions**

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

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

\*Net of pension plan investment expense

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

Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

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

**Athens State University**  
**Notes to the Financial Statements**  
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	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	<u>2.00%</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 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease <u>(7.00%)</u>	Current Rate <u>(8.00%)</u>	1% Increases <u>(9.00%)</u>
University's proportionate share of collective net pension liability	30,654,000	22,501,727	15,592,000

**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, 2014. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2014. The auditor's report dated May 1, 2015 on the total pension

**Athens State University**  
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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, 2014 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/PEEHIP/peehip.html> under the Trust Fund Financials tab.

**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 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>2015</u>
Individual Coverage - Non-Medicare Eligible	\$151
Individual Coverage - Medicare Eligible	\$ 10
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$391
Family Coverage - Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$250
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$250
Family Coverage - Medicare Eligible Retired Member and Dependent Medicare Eligible	\$109
Surviving Spouse - Non-Medicare Eligible	\$700
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$934
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	\$907
Surviving Spouse - Medicare Eligible	\$354
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	\$595
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	\$568

**Athens State University**  
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**For the Year Ended September 30, 2015**

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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 tobacco premium is \$28.00 per month for retired members who use tobacco products.

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:

Fiscal Year Ended <u>September 30,</u>	Active Health Insurance Premiums <u>Paid by University</u>	Amount of Premium <u>Attributable to Retirees</u>	Percentage of Active Employee Premiums <u>Attributable to Retirees</u>	Total Amount Paid <u>Attributable to Retirees</u>	Percentage of Required Amount <u>Contributed</u>
2015	\$780	\$181	23.17%	\$506,620	100%
2014	\$714	\$220	30.83%	\$637,306	100%
2013	\$714	\$217	30.38%	\$654,604	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 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

The University has committed to funding a portion of the Alabama Center for the Arts Phase II. The total estimated amount remaining to complete this facility as of September 30, 2015, is \$1,701,869.

As of September 30, 2015, the University had been awarded approximately \$118,342 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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**NOTE 8 - ACCOUNTS PAYABLE**

Accounts payable and accrued liabilities represent amounts due at September 30, 2015, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	533,957
Retainage Payable	177,410
Construction Payable	1,531,396
Interest Payable	53,268
Other	363,436
Total	<u>\$ 2,659,467</u>

**NOTE 9 - LONG-TERM LIABILITIES**

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
2007 Revenue Bonds	\$ 9,860,000	\$ -	\$ 570,000	\$ 9,290,000	\$ 600,000
2010 Revenue Bonds	3,200,000	-	-	3,200,000	-
ACA Phase II	-	5,000,000	334,371	4,665,629	458,100
Other Liabilities:					
Compensated Absences	<u>992,200</u>	<u>-</u>	<u>32,384</u>	<u>959,816</u>	<u>61,261</u>
Total Long-term Liabilities	<u>\$ 14,052,200</u>	<u>\$ 5,000,000</u>	<u>\$ 936,755</u>	<u>\$ 18,115,445</u>	<u>\$ 1,119,361</u>

The Revenue bonds were issued in 2007 and 2010 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:

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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<u>Fiscal Year</u>	<u>Revenue Bonds</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	
2015-2016	1,058,100	743,932	1,802,032
2016-2017	1,097,675	703,080	1,800,755
2017-2018	1,133,785	663,620	1,797,405
2018-2019	1,175,158	624,409	1,799,567
2019-2020	1,216,802	582,797	1,799,599
2020-2021	1,258,722	539,596	1,798,318
2021-2022	1,300,925	494,798	1,795,723
2022-2023	1,348,418	447,430	1,795,848
2023-2024	1,406,208	394,140	1,800,348
2024-2025	1,034,836	341,611	1,376,447
2025-2026	940,000	296,313	1,236,313
2026-2027	985,000	249,313	1,234,313
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
Totals	<u>\$ 17,155,629</u>	<u>\$ 6,490,045</u>	<u>\$ 23,645,674</u>

**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 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.

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, 2015, the University received \$83,456 in interest subsidy payments that offset Interest on Debt in the Statement of Revenues, Expenses and Changes in

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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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. The Series 2014 bond is a limited obligation 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. 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.

Future revenues in the approximate amount of \$23,645,674 are pledged to repay principal and interest for the 2007, 2010 and 2014 bonds. During the 2015 fiscal year, pledged tuition and fee revenue in the amount of \$14,803,619 excluding technology fees, were received with \$1,576,720 or 10.6% of pledged revenues, being used to pay principal and interest. The 2007, 2010, and 2014 Series bonds are scheduled to mature in fiscal year 2027, 2030, and 2024, 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, and professional legal liability 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.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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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. Subsequent to year end, the University issued \$8,040,000 in revenue bonds to advance refund a portion of the Series 2007 bonds.

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

**Organization**

Athens State University Foundation, Inc. ("ASUF", the "Foundation" or the "Organization") was organized as a non-profit corporation without capital stock under the laws of the State of Alabama. The organization was formed to provide support for Athens State University by funding scholarships, promoting the college to the surrounding communities, and building a strong alumni group. Contributions to support the organization are primarily received from the general public. During the current period, the Organization incurred a change in fiscal year. The fiscal year changed from December 31<sup>st</sup> to September 30<sup>th</sup>. To accomplish this, the current period financial statements cover a 21 month period (January 2014 to September 2015).

**Summary of Significant Accounting Policies**

*Recognition of Donor Restrictions*

The Organization 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.

*Donated Services and Supplies*

No amounts have been recorded in the accompanying financial statements for donated services or office space, because no objective basis is available to measure the value of such services and donations. A number of volunteers have contributed time to the activities of the Organization without compensation.

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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*Tax-Exempt Status*

Athens State University Foundation, Inc. is a tax-exempt organization under Internal Revenue Code Section 501 and, as such, is not subject to income taxes on net income from exempt purposes.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the corporation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

*Use of Estimates*

In preparing the financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

*Basis of Presentation*

Financial statement presentation follows the Not-For-Profit Entities topic of the FASB Accounting Standards Codification with respect to financial statement presentation. Under this topic, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In addition, the Foundation is required to present a statement of cash flows.

*Special Events*

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

	Tennessee Valley Fiddler's Convention	Alumni Golf Tournament	Concert Lecture
Gross Revenue	\$117,174	\$40,897	\$ -
Expenses	\$ 81,068	\$ 8,090	\$ 18,331

**Investments**

Investments are stated at fair market value at September 30, 2015, if readily determinable. They consist of the following:

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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Regions Trust – Endowed	\$2,447,366
Regions Trust – McCoy	139,254
Regions Trust – Livingston	113,664
Regions Trust – Alumni	240,567
Regions Trust – AL Arts Center	94,533
Berkshire Income Realty	10,617
Miller Properties Stock*	<u>26,894</u>
Total Investments	<u>\$3,072,895</u>

\*Miller Properties, Inc. is not a publicly held company and a fair market value for its stock cannot be readily determined. This investment is valued at fair market value on the date of donation.

The Foundation’s policy is to hold investments to maturity; however, bookkeeping valuation adjustments must be made to “mark investments to market.”

Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the Foundation’s investments to this risk, using the segmented time distribution model is as follows:

<u>Investment Type</u>	<u>Fair Value*</u>	<u>Investment Maturity in Years</u>			
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>10 - Greater</u>
Corporate Debt	\$ 708,986	\$ 129,068	\$276,194	\$89,782	\$213,942
Domestic Stock	772,675	772,675			
Mutual Funds	1,552,622	1,552,622			
Money Market Accounts	<u>38,612</u>	<u>38,612</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 3,072,895</u>	<u>\$ 2,492,977</u>	<u>\$276,194</u>	<u>\$89,782</u>	<u>\$213,942</u>

Credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. Government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. The Foundation’s investments in corporate debt have an average rating of Aa2. All others are unrated.

The Foundation's concentration of credit risk for applicable investments is as follows:

<u>Investment</u>	<u>Amount</u>	<u>% of Investment</u>
Corporate Debt	\$ 708,986	23%
Domestic Stock	772,675	25%
Mutual Funds	1,552,622	51%
Money Market Accounts	38,612	1%

**Athens State University**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2015**

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**Restricted Net Assets**

Temporarily restricted net assets at September 30, 2015, are restricted for the purpose of providing scholarships, improvements to physical plant, and operating the alumni association, the Tennessee Valley Old Time Fiddlers Association, and various other Athens State University organizations. Permanently restricted net assets are endowed scholarships for which the principal is restricted. Scholarship funds are endowed when they reach a \$15,000 minimum level.

**Concentration of Credit Risk**

Athens State University Foundation, Inc., bank accounts and certificates of deposit are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 at each bank. Cash balances may from time to time exceed the insured amount. It is the opinion of management that the Foundation is not at risk of loss with the financial institutions that hold these monies.

**Fair Value of Financial Instruments**

The Foundation's financial instruments are cash and investments. The recorded value of cash approximates the fair value based on the short-term nature.

**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 1 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.

**Subsequent Events**

The Foundation has evaluated subsequent events and transactions through the date of ASU's auditor's report, which is the date the financial statements were available to be issued, for possible recognition and disclosure in the financial statements for the year ended September 30, 2015.

**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, 2014</u>
ASU's proportion of the net pension liability	0.2477%
ASU's proportionate share of the net pension liability	\$22,501,727
ASU's covered-employee payroll	\$15,709,007
ASU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	143.24%
Plan fiduciary net position as a percentage of the total pension liability	71.01%

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

This schedule presents only one year of information, rather than ten years, as only one year of trend information is available at September 30, 2015.

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

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	<u>2015</u>
Contractually Required Contribution	\$ 1,748,180
Contributions in relation to the contractually required contribution	<u>1,748,180</u>
Contribution deficiency (excess)	<u><u>-</u></u>
System's covered-employee payroll	\$ 15,451,952
Contributions as a percentage of covered- employee payroll	11.3%

**Notes to the Schedule of University Contributions**

This schedule presents only one year of information, rather than ten years, as only one year of trend information is available at September 30, 2015.

## **Additional Information**

**Athens State University**  
**Listing of University Officials**  
**October 1, 2014 through September 30, 2015**

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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, 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 as of and for the year ended September 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated February 11, 2016. 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**

Management of Athens State University is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Athens State University's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting.

*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.

## **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.

This report is intended solely for the information and use of management, President of the University, Chancellor of the Department of Postsecondary Education, others within the entity, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*CDPA, PC*

February 11, 2016

**Independent Auditor's Report on Compliance With Requirements  
That Could Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance with OMB Circular A-133**

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 Circular A-133 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, 2015. 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 OMB Circular A-133, accordingly, this report does not extend to Athens State University Foundation, Inc.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

## **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-001 and 2015-002. 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 schedule of findings and questioned costs on page 56 and 57 under the header "Management's View and Corrective Action Plan". 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 OMB Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of management, President of the University, Chancellor of the Department of Postsecondary Education, others within the entity, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*CDPA, PC*

February 11, 2016

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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, 2015**

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<u>Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Assistance Period</u>	<u>Expenditures</u>
<b>MAJOR PRGRAMS</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.	07/01/2014-06/30/2015	\$ 2,838,587
Federal Pell Grant Program	84.063	N.A.	07/01/2015-06/30/2016	2,395,036
Federal Pell Grant Program				
Federal Pell Grant Program Administrative Allowance	84.063	N.A.	07/01/2014-06/30/2015	<u>8,000</u>
Sub-Total Federal Pell Grant Program				5,241,623
Federal Work-Study Program	84.033	N.A.	07/01/2014-06/30/2015	72,210
Federal Work-Study Program	84.033	N.A.	07/01/2015-06/30/2016	<u>16,008</u>
Sub-Total Work-Study Program				87,218
Federal Supplemental Education Opportunity Grants	84.007	N.A.	07/01/2014-06/30/2015	37,554
Federal Supplemental Education Opportunity Grants	84.007	N.A.	07/01/2015-06/30/2016	<u>39,859</u>
Sub-Total Federal Supplemental Educational Opportunity Grants				77,413
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N.A.	07/01/2013-06/30/2014	126
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N.A.	07/01/2014-06/30/2015	42,415
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N.A.	07/01/2015-06/30/2016	<u>39,818</u>
Sub-Total Teacher Assistance for College and Higher Education Grants (TEACH Grants)				82,359
Total Student Financial Assistance Cluster				<u>5,488,612</u>
<b>Total Major Programs</b>				<b><u>\$ 5,488,612</u></b>

**Athens State University**  
**Schedule of Expenditures of Federal Awards**  
**For the Year ended September 30, 2015**

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Assistance Period</u>	<u>Expenditures</u>
<b>NON-MAJOR PROGRAMS</b>				
<b><u>WIA Cluster</u></b>				
<b><u>U.S. Department of Labor</u></b>				
<b><u>Passed Through Alabama Department of Postsecondary Education</u></b>				
WIA Adult Program	17.258	1H200093	07/01/2010-06/30/2015	7,121
WIA Dislocated Worker Formula Grants	17.278	1Q200098	07/01/2010-06/30/2015	<u>6,463</u>
Total WIA Cluster				13,584
<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.	01/27/2014-06/15/2015	23,150
<b><u>U.S. Department of Education Passed Through Jacksonville State University</u></b>				
Improving Teacher Quality State Grants	84.367	N.A.	05/01/2012-04/30/2013	<u>9,864</u>
Total Improving Teacher Quality State Grants				53,190
<b><u>U.S. Department of Education Passed Through Alabama Department of Education</u></b>				
Mathematics and Science Partnerships	84.366	U300485	10/01/2014-09/30/2015	23,227
Mathematics and Science Partnerships	84.366	U100566	10/01/2013-02/28/2015	<u>38,788</u>
Total Mathematics and Science Partnerships				62,015
Individuals with Disabilities Educations (IDEA)	84.027	N.A.	N.A	10,000
Federal School Improvement	84.010	N.A.	N.A	5,785
<b>Total Non-Major Programs</b>				<u>124,398</u>
<b>Total Federal Awards</b>				<u>\$ 5,613,010</u>

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, 2015**

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**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of Athens State University (the “University”) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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 Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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.

**NOTE 2 - LOANS OUTSTANDING**

**Federal Direct Student Loans (CFDA Number 84.268)** - The Federal Direct Student Loan Program (FDSLP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During 2015, the University disbursed approximately \$14,246,912 under the FDSLP, which is not reflected on the schedule.

**Athens State University**  
**Notes to the Expenditures of Federal Awards**  
**For the Year ended September 30, 2015**

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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, 2015.

Federal Grants and Contracts– Operating Revenue	\$ 371,387
Federal Grants – Nonoperating Revenue	5,345,196
Fall 2015 Deferred Pell Grant Revenue	1,556,773
Fall 2014 Deferred Pell Grant Revenue	<u>(1,660,346)</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 5,613,010</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, 2015**

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

**Financial Statements**

Type of auditor's report issued: Unqualified

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: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(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
84.033	Federal Work-Study Program
84.007	Federal Supplemental Educational Opportunity Grants
84.268	Federal Direct Student Loans
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)

Threshold used to determine Type A and Type B Programs: \$ 300,000

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, 2015**

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

<b>REFERENCE</b>	<b>PROGRAM</b>	<b>QUESTIONED COSTS</b>
2015-001	Student Financial Aid	\$ 174

Award Year – July 1, 2014 through June 30, 2015  
Federal Pell Grant Program – CFDA 84.063

**CONDITION**

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). During our review, we noted that 2 out of 40 students selected for testing were disbursed an inaccurate amount of Pell Grant in the summer term.

**REFERENCE**

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

**CAUSE/EFFECT**

The University accurately calculated the annual award but failed to disburse the appropriate amount during the summer term due to inaccurate determination of summer credit hours in relation to previous summer disbursements. The amount of Pell available to a student attending during the summer term depends on the student’s enrollment status as well as the amount of Pell remaining to disburse after the fall and spring term disbursements. Both errors that related to the calculation of the summer disbursement were the result of human error in a manual process. Neither error was detected by management.

**RECOMMENDATION**

We recommend that the University automate the determination, calculation and disbursement of summer term Pell. For any manual processes that remain, we recommend a secondary detective control to ensure that similar errors are detected in the future within the same term.

**MANAGEMENT’S VIEW AND CORRECTIVE ACTION PLAN**

Management concurs with this finding and has adjusted the student accounts appropriately. The University will utilize any automation available through Banner to calculate and disburse Pell during the summer term. The University will also implement a detective control to review summer term Pell disbursements following the last day to “drop/add” classes to ensure that the appropriate amount of Pell was disbursed based on the summer term enrollment status.

**CORRECTIVE ACTION PLAN CONTACT**

Mary Chambliss, Director of Student Financial Services

**Athens State University**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2015**

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<b>REFERENCE</b>	<b>PROGRAM</b>	<b>QUESTIONED COSTS</b>
2015-002	Student Financial Aid	\$ 717

Award Year – July 1, 2014 through June 30, 2015  
Federal Pell Grant Program – CFDA 84.063

**CONDITION**

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). 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.

**REFERENCE**

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

**CAUSE/EFFECT**

The University accurately calculated the award but failed to disburse the appropriate amount during the fall term 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 error was not detected by management.

**RECOMMENDATION**

We recommend that the University automate the attendance verification process. Furthermore, we recommend the implementation of a secondary detective control whereby a system report is generated to match any students who received a grade but did not have attendance verified for the same class.

**MANAGEMENT'S VIEW AND CORRECTIVE ACTION PLAN**

Management concurs with this finding. The University has already automated the attendance verification process in the summer of 2015, although not quickly enough to prevent this error in the fall of 2014. The University will also begin running a report at the end of the semester to detect any student's whose attendance was not appropriately verified but who received a grade for the same class. This control will allow for detection of such errors in the future.

**CORRECTIVE ACTION PLAN CONTACT**

Mary Chambliss, Director of Student Financial Services

**Athens State University**  
**Schedule of Prior Year Findings and Questioned Costs**  
**For the Year Ended September 30, 2015**

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**2014-001 Student Financial Aid Enrollment Reporting**

When testing for timely enrollment and status change reporting, we noted that 2 out of 40 students selected for testing did not have their change of status reported within the required timeframe.

**Status**

Issue resolved. This condition resulted from a lack of monitoring/review controls to ensure that that enrollment and status change reporting files were submitted timely and accurately. Athens State University has added monitoring controls to compare the students' status per NSLDS with Banner to ensure that information regarding student status changes is submitted within the prescribed time period.

No similar findings found in the current year.