

**Athens State University
Financial Statements
September 30, 2016**

**FINANCIAL REPORT
2015-2016**



Athens State University

Table of Contents

September 30, 2016

	<u>PAGE</u>
<u>PART I FINANCIAL STATEMENTS</u>	
Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Statement of Net Position.....	15
Statement of Financial Position – Discretely Presented Component Unit	17
Statement of Revenues, Expenses and Changes in Net Position.....	18
Statement of Activities – Discretely Presented Component Unit.....	19
Statement of Cash Flows	20
Notes to the Financial Statements	22
Required Supplementary Information	
Schedule of Athens State University’s Proportionate Share of the Net Pension Liability.....	46
Schedule of Athens State University’s Contributions	47
Listing of University Officials	48
<u>PART II REPORTS ON COMPLIANCE AND INTERNAL CONTROL</u>	
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 <i>Government Auditing Standards</i>	49
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the <i>Uniform Guidance</i>	51
<u>PART III SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS</u>	
Schedule of Expenditures of Federal Awards Year Ended September 30, 2016.....	54
Notes to the Schedule of Expenditures of Federal Awards	56
<u>PART IV SCHEDULES OF FINDINGS AND QUESTIONED COSTS</u>	
Section I	
Summary of Auditors Results	58
Section II	
Financial Statement Findings	58
Section III	
Federal Award Findings and Questioned Costs Year Ended September 30, 2015	59
Management’s View and Corrective Action Plan	61
Status of Prior Year Findings and Questioned Costs	62

PART I

FINANCIAL STATEMENTS

Independent Auditor's Report

To the Board of Trustees
Athens State University

Report on the Financial Statements

We have audited the accompanying financial statements of Athens State University ("ASU" or "the University"), a component unit of the State of Alabama, as of and for the year ended September 30, 2016, 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.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Athens State University	Unmodified
Discretely Presented Component Unit	Disclaimer

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, 2016, and the changes in its financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 14, the schedule of Athens State University’s proportionate share of the net pension liability on page 46 and the schedule of Athens State University’s contributions on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The Listing of University Officials on page 48 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 23, 2017 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.

Athens, AL
February 23, 2017

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, 2016. 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. Financial information for the component unit, Athens State University Foundation, Inc. (the Foundation or ASUF) is also presented. Complete financial statements for ASUF are available from the Foundation's director upon request.

Athens State University

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

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

Athens State University is considered the youngest institution because it became an autonomous university in 2012. This occurred when, by act of the Alabama Legislature, Athens State University

Athens State University
Management's Discussion and Analysis
September 30, 2016

withdrew from governance under the Alabama State Board of Education and the Department of Postsecondary Education and from membership in the statewide community college system.

On October 1, 2012, the University officially became an autonomous public institution governed by a Board of Trustees.

Enrollment is approximately 3,000 students and 95% of our students are Alabama residents, located in 55 counties or 82% of the 67 counties in the state. 65% percent of students are female, average age of 31 years, gainfully employed, and most with children at home. 60% of students attend school on a part-time basis, and 86% are employed either full-time (57%) or part-time (29%). The racial composition of the student body is 78% White and 19% minority (3% not reported). 65% of students receive some form of financial assistance that may include federal, state, and/or institutional funding sources (Source: Fall 2015 Fact Book).

The Athens State University mission statement stresses the institution's emphasis on teaching, service, research and other creative activities to empower its students to make valuable contributions in their professional, civic, educational, and economic endeavors. The institution strives to provide appropriate learning resources and a variety of course formats and options that support quality teaching, learning, and the advancement of knowledge and actively promotes diversity and lifelong learning. Through affiliations with a variety of organizations, Athens State University provides resources that support continuing education for students and the community at large. The institution also sponsors and supports programs that stimulate cultural and intellectual enrichment in the community. As of Fall 2016, the University employed 226 full-time employees including 81 faculty members.

The University offers 33 undergraduate degree programs and 2 graduate degree programs for its students to choose from and continues to explore the latest technology in the delivery of these majors. In addition, the University offers 48 minors and 12 certificates. To better meet the needs of our students, the University provides 12 undergraduate and 2 graduate programs completely online through a distance learning format. A brief paragraph about each of the University's three Colleges and the University Centers follows.

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

Athens State University
Management's Discussion and Analysis
September 30, 2016

collaborating with the Teacher Education Accreditation Council (TEAC) to form a new national accrediting body called the Council for Accreditation of Educator Programs (CAEP).

College of Arts and Sciences – The College of Arts and Sciences (COAS) curricula are designed to prepare students for entry into the job market, or for continuing education in graduate or professional school. Through its course offerings, the college seeks to engage the intelligence, excite the imagination, and improve the scholarship of its students. Through engaged learning experiences the COAS seeks to assist its students to develop competencies in written and oral communications; appreciation of our cultural heritage and understanding of our world; a knowledge base conducive to self-growth and enriched life experiences; and, fundamental knowledge, research skills and computer literacy essential to lifelong learning. The COAS launched its first graduate degree program, a Master of Arts in Religious Studies, in the Fall 2016.

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

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

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

Athens State University

Management's Discussion and Analysis

September 30, 2016

Financial Highlights

Athens State University had another successful year financially. For the eleventh-consecutive year, the University increased its overall financial position. The University's total assets and deferred outflows of resources at the conclusion of the fiscal year ended September 30, 2016 were \$69 million and total liabilities and deferred inflows of resources were \$50 million. This resulted in the University's net position ending at \$18.9 million, representing a 21.94% increase 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:

- Advance refunding of the 2007 Revenue Bonds to reduce the interest costs to the University.
- The University in conjunction with Calhoun Community College completed the construction of the Alabama Center for the Arts, Phase II. The project was capitalized at an approximate cost of \$5.6 million.

Financial Statements

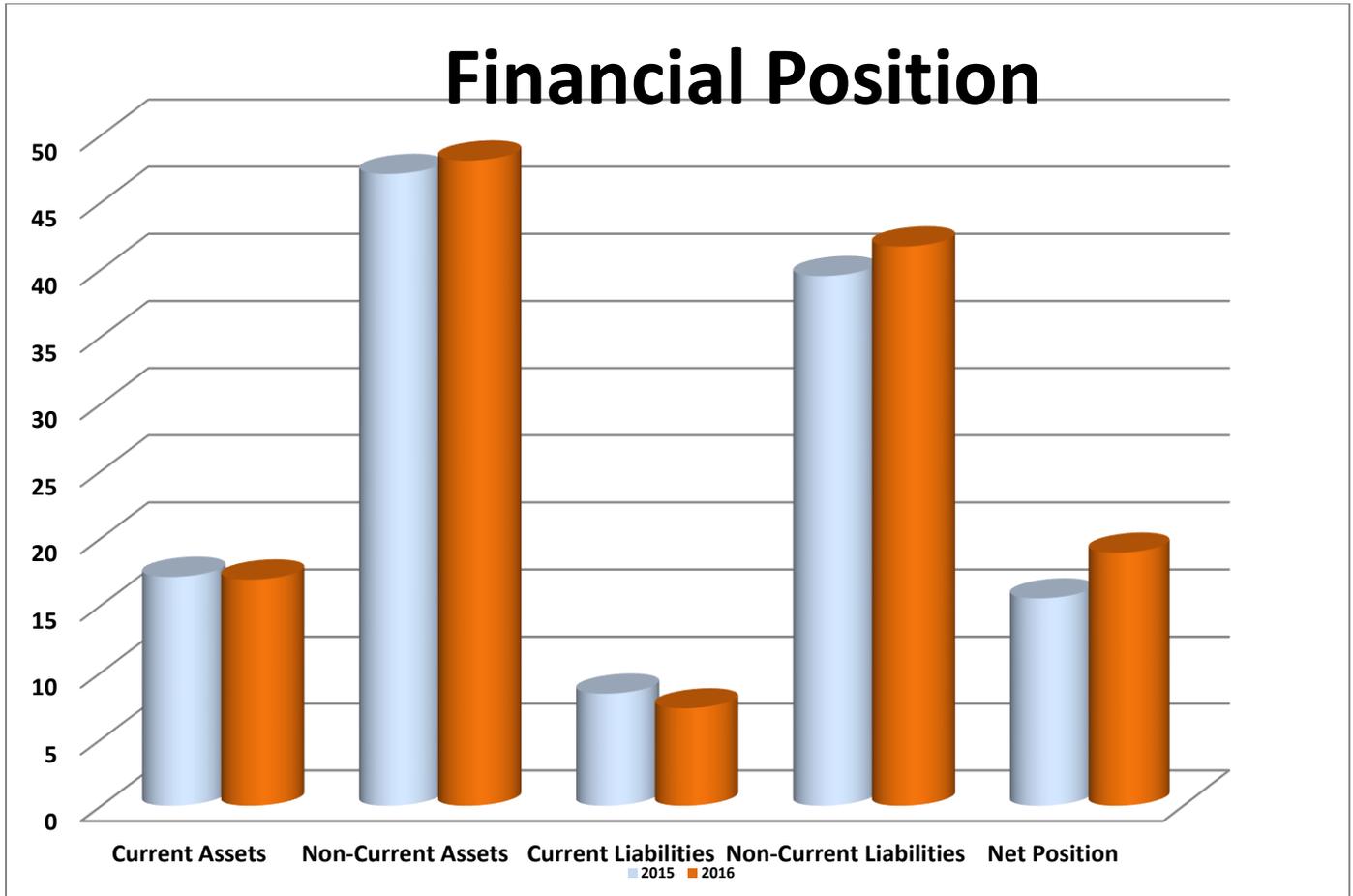
As stated in the previous paragraphs, the University's annual financial reports include the following three statements:

- 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, 2016. The below chart reflects assets and liabilities as compared to last fiscal year. The chart reflects an increase in net position of \$3.46 million.



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, 2016. (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
September 30, 2016

Summary: Statement of Net Position:

	<u>2016 FY</u>	<u>2015 FY</u>
<u>Assets:</u>		
Current Assets	\$ 16,870,657	\$ 15,454,450
Capital Assets, Net	42,842,994	42,129,231
Other Assets	5,214,030	6,717,870
Total Assets	<u>64,927,681</u>	<u>64,301,551</u>
Deferred Outflows of Resources	<u>4,084,382</u>	<u>1,748,180</u>
Total Assets and Deferred Outflows of Resources	<u>69,012,063</u>	<u>66,049,731</u>
<u>Liabilities:</u>		
Current Liabilities	\$ 7,305,364	\$ 8,474,148
Non-Current Liabilities	41,667,541	39,497,811
Total Liabilities	<u>48,972,905</u>	<u>47,971,959</u>
Deferred Inflows of Resources	<u>1,093,000</u>	<u>2,596,000</u>
<u>Net Position:</u>		
Invested in Capital, Net of Debt	\$ 26,390,464	\$ 28,073,602
Restricted - Capital Projects	60,896	60,892
Restricted Expendable	520,932	434,428
Unrestricted	(8,026,134)	(13,087,150)
Total Net Position	<u>\$ 18,946,158</u>	<u>\$ 15,481,772</u>
Total Liabilities, Deferred Inflows of Resources, Net Position	<u>\$ 69,012,063</u>	<u>\$ 66,049,731</u>

The changes in capital assets are directly related to the completed construction of ACA Phase II Project. The University expended approximately \$5.60 million to pay construction costs over a period of approximately 2 years, which in turn increased capital assets. The changes in noncurrent liabilities are directly related to debt issued to refund the 2007 Revenue Bonds.

Athens State University
Management's Discussion and Analysis
September 30, 2016

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

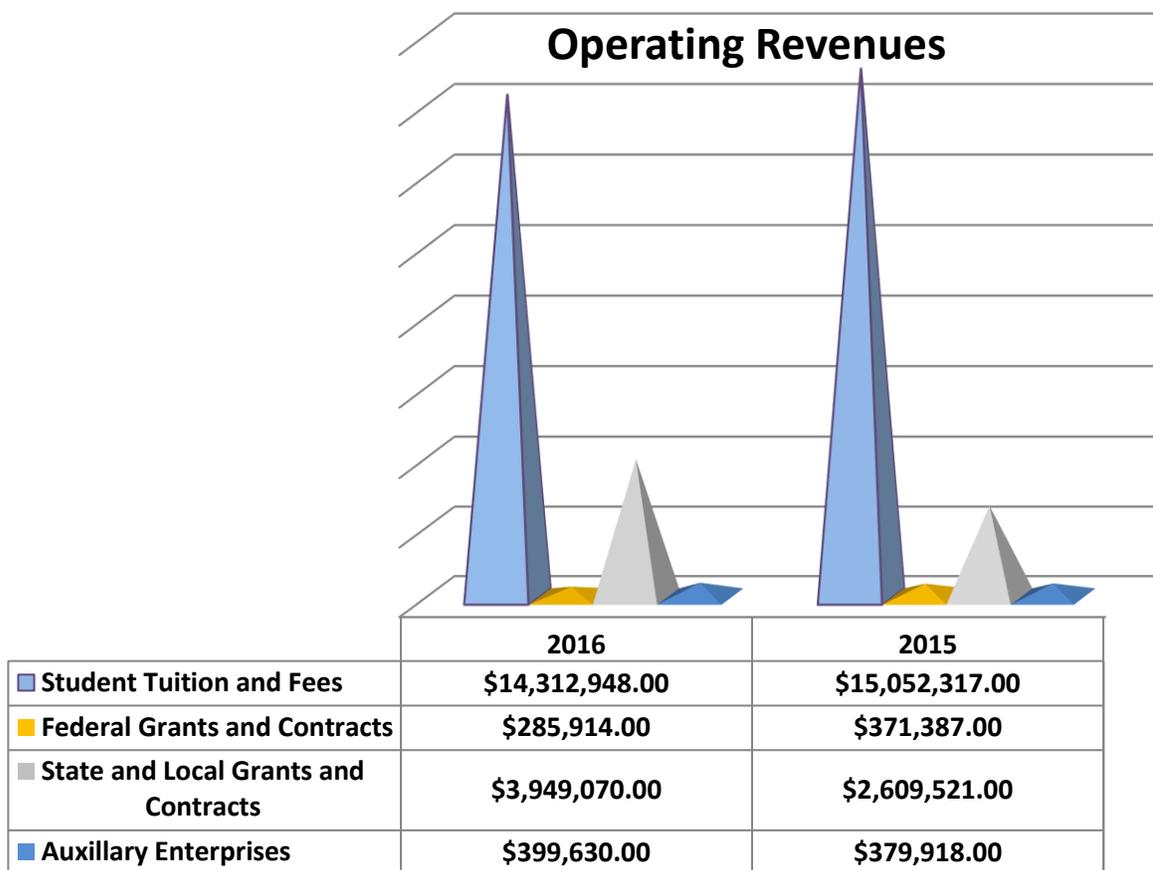
	<u>2016 FY</u>	<u>2015 FY</u>
Operating Revenues	\$ 18,947,562	\$ 18,413,143
Operating Expenses	<u>32,187,161</u>	<u>31,361,848</u>
Operating Loss	(13,239,599)	(12,948,705)
Non-Operating Revenues and Expenses	<u>16,703,985</u>	<u>16,249,724</u>
 Increase in Net Position	 3,464,386	 3,301,019
 Net Position - Beginning of Year	 15,481,772	 35,787,480
Change in Accounting Principle	<u>-</u>	<u>(23,606,727)</u>
Net Position – Beginning of Year (Restated)	<u>15,481,772</u>	<u>12,180,753</u>
 Net Position - End of Year	 <u>\$ 18,946,158</u>	 <u>\$ 15,481,772</u>

The Statement of Revenues, Expenses, and Changes in Net Position reflect operating revenues of \$18,947,562, which is an increase of \$534,419 from the prior year. The majority of the increase is a result of an increase in State and Local Grants. The operating expenses increased 2.63% due to an increase in operational and salary budgets.

Athens State University
Management’s Discussion and Analysis
September 30, 2016

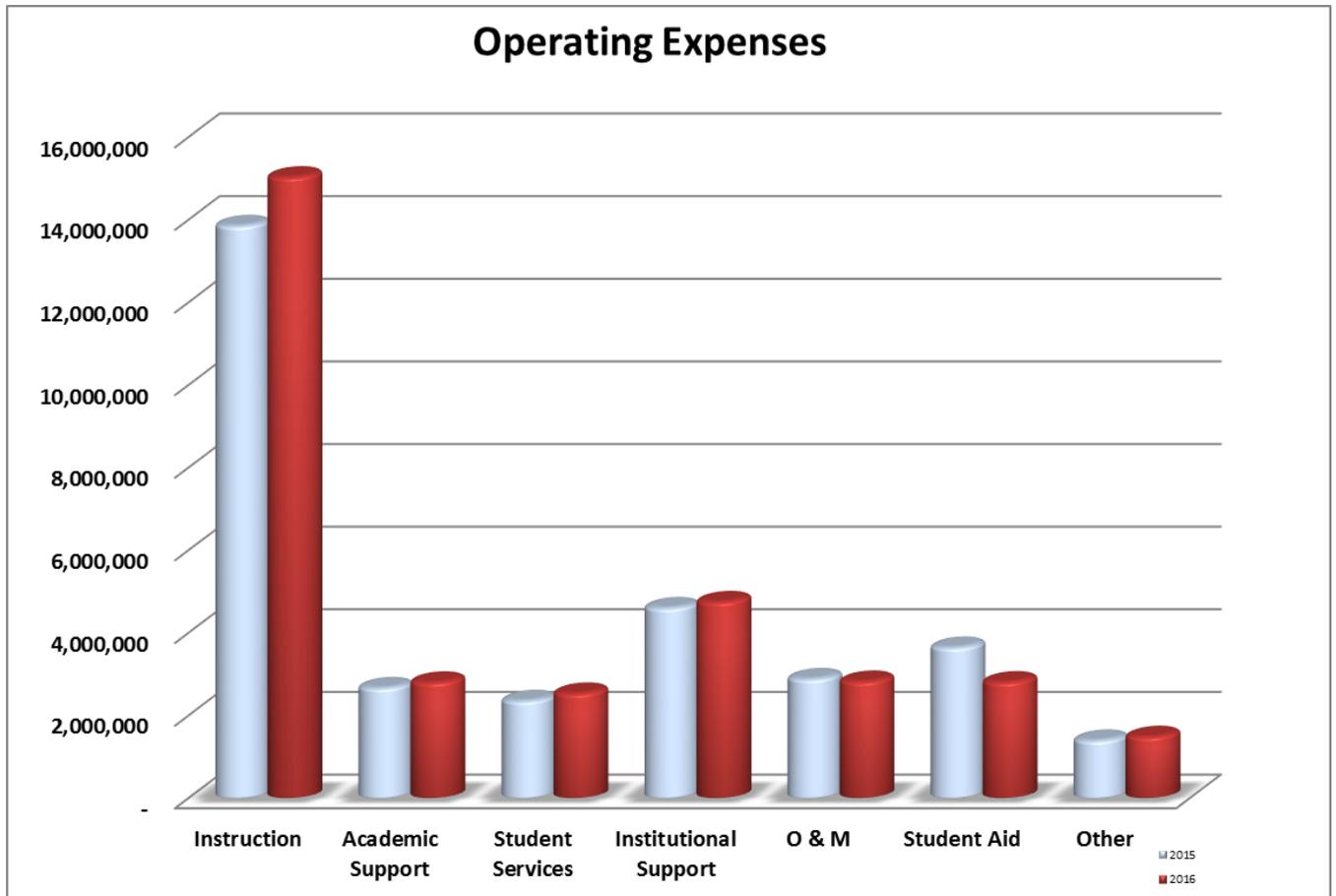
The chart below displays the operating revenues by type and their relationship to one another as discussed in the previous paragraph. The largest source of funds for FY 2016 is Student Tuition and Fees. State and Local Grants and Contracts make up the next largest source of funds. Federal Grants and 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 2016 FY State Appropriation totaled \$11,882,035 as compared to \$11,518,599 for the previous fiscal year.



Operating Expenses

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



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

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

The University's Cash Flows

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

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

Cash Flows for the Years Ended September 30:

	<u>2016 FY</u>	<u>2015 FY</u>
Cash provided (used) by:		
Operating activities	\$ (12,727,997)	\$ (12,227,429)
Non-capital financing activities	17,136,849	16,389,669
Investing activities	208,230	(5,041,011)
Capital and related financing activities	<u>(5,118,198)</u>	<u>168,869</u>
Net Change in Cash	(501,116)	(709,902)
Cash – Beginning of Year	<u>13,898,666</u>	<u>14,608,568</u>
Cash – End of Year	<u><u>\$ 13,397,550</u></u>	<u><u>\$ 13,898,666</u></u>

The above cash flow comparison reflects a decrease in cash of \$501,116 as compared to ending cash the previous year. The decrease in cash is due to the increase in operating expenditures associated with employee salaries and benefits.

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, 2016

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

Athens State University
Statement of Net Position
September 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets	
Cash and Cash Equivalents	\$ 13,336,670
Short-Term Investments	137,913
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$660,817	2,937,320
Inventories	29,286
Deposit with Bond Trustee	16
Prepaid Expenses	<u>429,452</u>
Total Current Assets	16,870,657
Non-Current Assets	
Restricted Cash	60,880
Long-Term Investments	5,153,150
Capital Assets:	
Land	2,593,856
Improvements Other Than Buildings	1,543,148
Buildings	49,668,595
Equipment and Furniture	2,739,702
Library Holdings	1,233,726
Construction in Progress	913,353
Less: Accumulated Depreciation	<u>(15,849,386)</u>
Total Capital Assets, Net of Depreciation	<u>42,842,994</u>
Total Non-Current Assets	<u>48,057,024</u>
Total Assets	64,927,681
Deferred Outflows of Resources Related to Debt	529,352
Deferred Outflows of Resources Related to Pensions	<u>3,555,030</u>
Total Deferred Outflows	4,084,382
Total Assets and Deferred Outflows of Resources	<u>\$ 69,012,063</u>

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

Athens State University
Statement of Net Position
September 30, 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities	
Deposits	\$ 179,709
Accounts Payable and Accrued Liabilities	965,984
Deferred Revenue	4,749,763
Compensated Absences	52,233
Bonds Payable	<u>1,357,675</u>
Total Current Liabilities	7,305,364
Non-Current Liabilities	
Bonds Payable	15,094,854
Net Pension Liability	25,582,000
Compensated Absences	<u>990,687</u>
Total Non-Current Liabilities	<u>41,667,541</u>
Total Liabilities	48,972,905
Deferred Inflows of Resources	
Deferred Inflows of Resources Related to Pensions	1,093,000
Net Position	
Invested in Capital Assets, Net of Related Debt	26,390,464
Restricted:	
Expendable	520,932
Capital Projects	60,896
Unrestricted	<u>(8,026,134)</u>
Total Net Position	<u>18,946,158</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 69,012,063</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, 2016

Assets	
Cash and Cash Equivalents	\$ 204,182
Certificates of Deposit	590,996
Investments	3,415,582
Other	<u>16,063</u>
Total Assets	<u>\$ 4,226,823</u>
Liabilities	\$ <u>-</u>
Total Liabilities	-
Net Assets	
Unrestricted	301,689
Temporarily Restricted	1,483,664
Permanently Restricted	<u>2,441,470</u>
Total Net Assets	<u>4,226,823</u>
Total Liabilities and Net Assets	<u>\$ 4,226,823</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, 2016

OPERATING REVENUES	
Student Tuition and Fees (Net of Scholarship Allowances of \$3,533,202)	\$ 14,312,948
Federal Grants and Contracts	285,914
State and Local Grants and Contracts	3,949,070
Auxiliary Enterprises:	
Bookstore	172,985
Food Services	22,995
Student Activities	1,977
Vending	7,602
Other	<u>194,071</u>
Total Operating Revenues	18,947,562
OPERATING EXPENSES	
Instruction	15,022,896
Academic Support	2,795,871
Student Services	2,526,876
Institutional Support	4,743,572
Operation and Maintenance	2,816,872
Scholarships and Financial Aid	2,801,395
Depreciation	1,061,618
Auxiliary Enterprises	<u>418,061</u>
Total Operating Expenses	<u>32,187,161</u>
Operating Income (Loss)	(13,239,599)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	11,882,035
Local Appropriations	-
Federal Grants	5,257,587
Investment Income	206,165
Realized Gain/Loss	2,065
Unrealized Gain/Loss	170,616
Other Nonoperating Revenue	392,948
Interest on Debt	(361,063)
Other Nonoperating Expenses	<u>(846,368)</u>
Net Nonoperating Revenues	<u>16,703,985</u>
Change In Net Position	3,464,386
Total Net Position - Beginning of Year	<u>15,481,772</u>
Total Net Position - End of Year	<u>\$ 18,946,158</u>

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

Athens State University Foundation, Inc.
Discretely Presented Component Unit
Statement of Activities
For the Year Ended September 30, 2016 (UNAUDITED)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, Gains and Other Support:				
Contributions	\$ 200,516	\$ 8,954	\$ 239,378	\$ 448,848
Special Events	-	220,445	-	220,445
Interest and Dividends Net of Fees	2,083	88,855	-	90,938
Gain (Loss) on Investments	-	303,674	-	303,674
Change in Donor Restrictions				
Net Assets Released from Restrictions:				
Satisfaction of Purpose Restrictions	<u>509,401</u>	<u>(509,401)</u>	<u>-</u>	<u>-</u>
 Total Revenues, Gains and Other Support	 <u>712,000</u>	 <u>112,527</u>	 <u>239,378</u>	 <u>1,063,905</u>
 Expenses				
Program Expenses:				
Student Scholarships	83,043	-	235,491	318,534
University Support	306,413	-	-	306,413
Other Program Expenses	115,982	-	250	116,232
Other Expenses:				
Special Events	214,758	-	-	214,758
Management and General	<u>23,406</u>	<u>-</u>	<u>-</u>	<u>23,406</u>
 Total Expenses	 <u>743,602</u>	 <u>-</u>	 <u>235,741</u>	 <u>979,343</u>
 Change in Net Assets	 (31,602)	 112,527	 3,637	 84,562
 Net Assets - Beginning of Year	 <u>333,291</u>	 <u>1,371,137</u>	 <u>2,437,833</u>	 <u>4,142,261</u>
 Net Assets - End of Year	 <u>\$ 301,689</u>	 <u>\$ 1,483,664</u>	 <u>\$ 2,441,470</u>	 <u>\$ 4,226,823</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, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	\$ 14,307,481
Grants and Contracts	3,713,579
Payments to Suppliers	(4,963,214)
Payments for Utilities	(693,371)
Payments for Employees	(17,115,497)
Payments for Benefits	(5,573,441)
Payments for Scholarships	(2,801,395)
Auxiliary Enterprises	<u>397,861</u>
Net Cash Used in Operating Activities	(12,727,997)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State and Local Appropriations	11,882,035
Federal Grants	5,591,210
Federal Direct Loan Receipts	14,468,283
Federal Direct Loan Disbursements	(14,374,860)
Deposit Held for Others	23,601
Other Nonoperating Revenues (Expenses)	<u>(453,420)</u>
Net Cash Provided by Noncapital Financing Activities	17,136,849
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Other Financing Source – Proceeds of Refunding Bonds	8,040,000
Other Financing Use – Payment to Refund Bond – Escrow Agent	(7,993,169)
Purchases of Capital Assets and Construction	(3,508,672)
Principal Paid on Capital Debt	(1,336,823)
Interest Paid on Capital Debt	<u>(319,534)</u>
Net Cash Used in Capital and Related Financing Activities	(5,118,198)
CASH FLOWS FROM INVESTING ACTIVITIES	
Realized Gain (Loss)	2,065
Interest on Investments	<u>206,165</u>
Net Cash Provided by Investing Activities	<u>208,230</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(501,116)
Cash and Cash Equivalents - Beginning of Year	<u>13,898,666</u>
Cash and Cash Equivalents - End of Year	<u>\$ 13,397,550</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Current	\$ 13,336,670
Restricted	<u>60,880</u>
	<u>\$ 13,397,550</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, 2016

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating Income (Loss)	(13,239,599)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities	
Provision for Doubtful Accounts	99,177
Depreciation Expense	1,061,618
Pension Expense	1,650,453
Employer Pension Contributions	(1,880,030)
Changes in Assets and Liabilities:	
Decrease in Receivables	(739,193)
Decrease in Inventory	4,797
Increase in Prepaid Expenses	(34,691)
Decrease in Compensated Absences	83,104
Decrease in Payables	55,816
Decrease in Deferred Revenue	<u>210,551</u>
Net Cash Used in Operating Activities	<u>\$ (12,727,997)</u>

Noncash Investing, Capital, and Financing Activities:

The University held investments with a fair value of \$5,291,079 at September 30, 2016. During the year ended September 30, 2016, the net change in the fair value of these securities was \$170,616.

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, 2016

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, 2016

- 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. Complete financial statements for ASUF are available from the Foundation's director upon request.

The Foundation is a not-for-profit organization that reports its financial results under the Financial Accounting Standard Board (FASB) Statements. Most significant to the Foundation's operations and reporting model is Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences; however, significant note disclosures (see Note 12) to the Foundation's financial statements have been incorporated into the University's notes to the financial statements. During the year ended September 30, 2016, Athens State University Foundation, Inc. distributed \$543,939 to Athens State University for both restricted and unrestricted purposes.

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

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

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

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

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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

1. Deposits and Investments

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

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

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

2. Receivables

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

3. Inventories

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

4. Capital Assets

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

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

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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 method, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operation.

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

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

5. Long-Term Obligations

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

6. Compensated Absences

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

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

7. Unearned Revenue

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

8. Pensions

The Teachers' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

9. Recent Accounting Pronouncements

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. This statement requires most investments to be measured at fair value, and disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. This statement is effective for periods beginning after June 15, 2015. The adoption did not materially affect the University's financial statements.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. The adoption did not materially affect the University's financial statements.

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

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in*

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraph 64, 74, and 82. The provisions of Statement No. 76 are effective for financial statements for periods beginning after June 15, 2015. The adoption did not materially affect the University's financial statements.

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

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

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.

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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

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

11. Federal Financial Assistance Programs

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

12. Scholarship Allowances and Student Aid

Student tuition and fees are reported net of scholarship allowances and discounts. The amount for scholarship allowances and discounts is the difference between the stated charge for goods and services provided by the University and the amount that is paid by the student and/or third parties making payments on behalf of the student. The University uses the alternate method as prescribed by the National Association of College and University Business Officers (NACUBO) in their Advisory Report (2000-05) to determine the amount of scholarship allowances and discounts.

13. Deferred Outflows of Resources

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

14. Deferred Inflows of Resources

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

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

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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, 2016, funds held by financial institutions participating in the SAFE program totaled \$13,397,550.

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 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, 2016, the University had the following investments held by trustee:

<u>Deposits with Trustee</u>	<u>Fair Value</u>
Federated Treasury Obligations Fund	\$ 16

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

Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the Statement of Net Position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments' fair value measurements are as follows at September 30, 2016:

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

Investments	Fair Value	Fair Value Measurements Using		
		Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Bond Mutual Funds	\$5,291,079	\$5,291,079	\$ -	\$ -
Total investments	\$5,291,079	\$5,291,079	\$ -	\$ -

At September 30, 2016, ASU had a significant amount invested in short and long term investments, primarily tax free bonds. During the year ended September 30, 2016, the University realized gains of \$2,065 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 gains during the year ended September 30, 2016 of \$170,616.

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

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1 Year	1-5	6-10	Thereafter
Bond Mutual Funds	\$ 5,291,079	\$ 6,806	\$103,276	\$13,045	\$5,167,952

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.

Investment Type	Rating	Percentage
Bond Mutual Funds	AAA	.5%
Bond Mutual Funds	A	30.9%
Bond Mutual Funds	BBB	68.3%
Bond Mutual Funds	BB	.3%
		100.0%

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.

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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	\$ 804,787
Pell Grants	465,303
State	415,377
Third Party	546,060
Returned Checks	7,520
Other	<u>122,411</u>
Total Accounts Receivable	<u>2,361,458</u>
<u>Student Receivables:</u>	
Tuition & Fees	1,233,665
Student Loans	<u>3,014</u>
Total Student Receivables	<u>1,236,679</u>
Total Receivables	<u>3,598,137</u>
Less: Allowance for Doubtful Accounts	<u>(660,817)</u>
Total Receivables, Net	<u>\$ 2,937,320</u>

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2016, was as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Land	\$ 2,593,856	\$ -	\$ -	\$ -	\$ 2,593,856
Improvements Other than Buildings	1,374,716	168,432	-	-	1,543,148
Buildings	44,047,690	-	-	5,620,905	49,668,595
Equipment	2,678,841	98,593	(37,732)	-	2,739,702
Library Holdings	1,243,941	18,801	(29,016)	-	1,233,726
Construction in Progress	5,044,703	1,489,555	-	(5,620,905)	913,353
Total	56,983,747	1,775,381	(66,748)	-	58,692,380
Less: Accumulated Depreciation Improvements Other than Buildings	869,802	47,232	-	-	917,034
Buildings	10,826,617	864,970	-	-	11,691,587
Equipment	2,261,435	106,773	(37,732)	-	2,330,476
Library Holdings	896,662	42,643	(29,016)	-	910,289
Total Accumulated Depreciation	14,854,516	1,061,618	(66,748)	-	15,849,386
Total Capital Assets, Net	\$ 42,129,231	\$ 713,763	\$ -	\$ -	\$ 42,842,994

Total interest incurred for the year ended September 30, 2016 was \$514,509. Of this amount, \$153,446 was capitalized as a component of the construction in progress additions shown above and \$361,063 was charged to expense.

NOTE 5 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

C. Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the 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, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% 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 \$1,880,030 for the year ended September 30, 2016.

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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

At September 30, 2016 the University reported a liability of \$25,582,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015 the University's proportion was .2444%, which was a decrease of .0033% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the University recognized pension expense of \$1,650,453. At September 30, 2016 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 139,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,675,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	954,000
Employer contributions subsequent to the measurement date	<u>1,880,030</u>	<u>-</u>
	<u>\$ 3,555,030</u>	<u>\$ 1,093,000</u>

\$1,880,030 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2017	10,000
2018	10,000
2019	10,000
2020	572,000
2021	(20,000)

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

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

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2014, were based on the results of an actuarial experience study for the period October 1, 2005 through September 30, 2010.

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:

	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%.

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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	33,844,000	25,582,000	18,576,000

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, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditor’s report dated October 17, 2016 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2014 along with supporting schedules is also available. The additional financial and actuarial information is available at 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

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov> under the Employers' Financial Reports section.

B. Funding Policy

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 255, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available 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>2016</u>
Individual Coverage - Non-Medicare Eligible	\$151
Individual Coverage - Medicare Eligible	\$ 10
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-spousal Dependent(s)	\$391
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents with Non-Medicare Eligible Spouse	\$416
Family Coverage - Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$250
Family Coverage - Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$260
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$250
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – with Non-Medicare Eligible Spouse	\$275
Family Coverage - Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$109
Family Coverage - Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$119
Tobacco Surcharge	\$50
Surviving Spouse - Non-Medicare Eligible	\$740
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$987
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	\$1,033
Surviving Spouse - Medicare Eligible	\$425
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	\$679
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	\$725

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

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period.

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

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

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

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable and accrued liabilities represent amounts due at September 30, 2016, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	562,323
Interest Payable	37,262
Other	366,399
Total	<u>\$ 965,984</u>

NOTE 8 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

As of September 30, 2016, the University is obligated under a contract for improvements to Founder's Hall. The amount of this contract commitments total \$390,000 of which \$0 has been paid or accrued at September 30, 2016, leaving a remaining contract commitment of \$390,000.

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

NOTE 9 - LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2007 Revenue Bonds	\$ 9,290,000	\$ -	\$ (8,005,000)	\$ 1,285,000	\$ 630,000
2010 Revenue Bonds	3,200,000	-	-	3,200,000	-
2015 Revenue Bonds	-	8,040,000	(280,000)	7,760,000	260,000
ACA Phase II	4,665,629	-	(458,100)	4,207,529	467,675
Other Liabilities:					
Compensated Absences	959,816	83,104	-	1,042,920	52,233
Total Long-term Liabilities	\$ 18,115,445	\$ 8,123,104	\$ (8,743,100)	\$ 17,495,449	\$ 1,409,908

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

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

Fiscal Year	Revenue Bonds		
	Principal	Interest	Totals
2016-2017	1,357,675	541,007	1,898,682
2017-2018	1,403,785	495,152	1,898,937
2018-2019	1,450,158	449,299	1,899,457
2019-2020	1,486,802	414,039	1,900,841
2020-2021	1,518,722	377,888	1,896,610
2021-2022	1,555,925	340,961	1,896,886
2022-2023	1,593,418	303,130	1,896,548
2023-2024	1,636,208	264,387	1,900,595
2024-2025	1,249,836	227,917	1,477,753
2025-2026	-	200,063	200,063
2026-2027	-	200,063	200,063
2027-2028	1,005,000	200,063	1,205,063
2028-2029	1,065,000	137,753	1,202,753
2029-2030	1,130,000	71,190	1,201,190
	<u>\$ 16,452,529</u>	<u>\$ 4,222,912</u>	<u>\$ 20,675,441</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

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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.

A portion of the 2007 Revenue Bonds were advance refunded in October 2015 with the issuance of the Series 2015 Revenue Bonds. An escrow fund was established upon issuance of the Series 2015 Bonds that together with investment income will be used for the redemption and retirement of \$7,405,000 of the outstanding principal of the 2007 Revenue Bonds plus accrued interest to July 15, 2017. At September 30, 2016, the in substance defeased debt had an outstanding balance of \$7,405,000. The amount of escrowed funds associated with the refunded Series 2007 balance together with investment income equals the outstanding principal amount plus accrued interest needed through July 15, 2017, the date of payoff. At September 30, 2016, the outstanding principal balance of the unfunded bonds totaled \$1,285,000.

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

The University issued Athens State University Recovery Zone Economic Development Revenue Bonds, Series 2010, in June 2010, in the principal amount of \$3,200,000. These bonds were secured by a pledge of revenue from certain fees payable by students. The purpose of the bonds was to provide funding to finance the acquisition, construction and equipping of a building located in downtown Decatur, Alabama for the use of the University and Calhoun Community College and to pay the expenses of issuing the Bonds. The Series 2010 bonds are limited obligations of the Board of Education of the State of Alabama, payable solely from the tuition and certain fees levied against all students enrolled at the University. Interest on the Series 2010 bonds is payable semiannually on March 1 and September 1. The interest rates on these bonds range from 6.2% to 6.3% and the bonds mature at various dates through September 1, 2030. During the year ended September 30, 2015, the University received \$83,456 in interest subsidy payments that offset Interest on Debt in the Statement of Revenues, Expenses and Changes in Net Position.

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

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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

Future revenues in the approximate amount of \$20,675,441 are pledged to repay principal and interest for the 2007, 2010, 2014 and 2015 bonds. During the 2016 fiscal year, pledged tuition and fee revenue in the amount of \$14,099,132 excluding technology fees, were received with \$1,809,799 or 12.84% of pledged revenues, being used to pay principal and interest. The 2007 2010, 2014 and 2015 Series bonds are scheduled to mature in fiscal year 2018, 2030, 2024, and 2025, respectfully.

NOTE 10 - RISK MANAGEMENT

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

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

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

University.

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.

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.

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.

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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	Travel Program
Gross Revenue	\$126,324	\$29,929	\$64,192
Expenses	\$ 145,173	\$ 8,048	\$61,537

Investments

Investments are stated at fair market value at September 30, 2016, if readily determinable. They consist of the following:

Regions Trust – Endowed	\$2,755,837
Regions Trust – McCoy	156,456
Regions Trust – Livingston	108,528
Regions Trust – Alumni	255,743
Regions Trust – AL Arts Center	100,636
Berkshire Income Realty	11,488
Miller Properties Stock*	26,894
Total Investments	<u>\$3,415,582</u>

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

*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 5</u>	<u>5-10</u>	<u>10-20</u>	<u>20 - Greater</u>
Corporate Debt	\$ 805,086	\$ 537,981	\$116,188	\$48,533	\$102,384
Domestic Stock	1,282,196	1,282,196			
Mutual Funds	1,278,036	1,278,036			
Money Market Accounts	50,264	50,264	-	-	-
Total	<u>\$ 3,415,582</u>	<u>\$ 3,148,477</u>	<u>\$116,188</u>	<u>\$48,533</u>	<u>\$102,384</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	\$ 805,086	24%
Domestic Stock	1,282,196	38%
Mutual Funds	1,278,036	37%
Money Market Accounts	50,264	1%

Restricted Net Assets

Temporarily restricted net assets at September 30, 2016, 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

Athens State University
Notes to the Financial Statements
For the Year Ended September 30, 2016

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, 2016.

Required Supplementary Information

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

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

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

This schedule presents only two years of information, rather than ten years, as only two years of trend information is available at September 30, 2016.

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

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 1,880,030	\$ 1,748,180
Contributions in relation to the contractually required contribution	<u>1,880,030</u>	<u>1,748,180</u>
Contribution deficiency (excess) System's covered-employee payroll	<u><u>-</u></u>	<u><u>-</u></u>
Contributions as a percentage of covered-employee payroll	11.84%	11.3%

Notes to the Schedule of University Contributions

This schedule presents only two years of information, rather than ten years, as only two years of trend information is available at September 30, 2016.

Additional Information

Athens State University
Listing of University Officials
October 1, 2015 through September 30, 2016

Officials

Position

Dr. Robert K. Glenn

President

Mr. Mike McCoy

Vice-President of Financial Affairs

Mrs. Mary Chambliss

Director of Financial Aid

PART II

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

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

To the Board of Trustees
Athens State University

We have audited the financial statements of Athens State University as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Athens State University's basic financial statements, and have issued our report thereon dated February 23, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Athens State University Foundation, Inc., a discretely presented component unit of Athens State University, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Athens State University Foundation, Inc.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

CDPA, PC

Athens, AL
February 23, 2017

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

To the Board of Trustees
Athens State University

Report on Compliance for Each Major Federal Program

We have audited Athens State University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Athens State University's major federal programs for the year ended September 30, 2016. Athens State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The financial statements of Athens State University Foundation, Inc. were not audited in accordance with the *OMB Compliance Supplement*, and, accordingly, this report does not extend to Athens State University Foundation, Inc.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Athens State University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-002. Our opinion on each major federal program is not modified with respect to these matters.

Athens State University's response to the noncompliance findings identified in our audit are described in the accompanying "Management's View and Corrective Action Plan" on page 61. Athens State University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

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

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

CDPA, PC

Athens, AL
February 23, 2017

PART III

SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

Athens State University
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
MAJOR PROGRAMS				
<u>Student Financial Assistance Cluster</u>				
<u>U.S. Department of Education Direct Programs</u>				
Federal Pell Grant Program	84.063	N.A.	\$ -	\$ 5,302,792
Federal Direct Student Loans	84.268	N.A.	-	14,374,860
Federal Work-Study Program	84.033	N.A.	-	68,127
Federal Supplemental Education Opportunity Grants	84.007	N.A.	-	96,658
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N.A.	-	<u>71,029</u>
Total Student Financial Assistance Cluster			-	<u>19,913,466</u>
Total Major Programs			\$ -	<u>\$ 19,913,466</u>

Athens State University
Schedule of Expenditures of Federal Awards
For the Year ended September 30, 2016

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
NON-MAJOR PROGRAMS				
<u>WIA Cluster</u>				
<u>U.S. Department of Labor</u>				
<u>Passed Through Alabama Department of Postsecondary Education</u>				
WIA Adult Program	17.258	1H200093	-	4,879
WIA Dislocated Worker Formula Grants	17.278	1Q200098	-	5,537
Total WIA Cluster			-	10,416
<u>U. S. Department of Education Passed Through Alabama Commission on Higher Education</u>				
Improving Teacher Quality State Grants	84.367	N.A.	-	25,452
<u>U.S. Department of Education Passed Through Jacksonville State University</u>				
Improving Teacher Quality State Grants	84.367	N.A.	-	14,232
Total Improving Teacher Quality State Grants			-	39,684
Total Non-Major Programs			-	50,100
Total Federal Awards			\$ -	\$ 19,963,566

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, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Athens State University (the “University”) under programs of the federal government for the year ended September 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position or cash flows of the University.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Student Financial Assistance Programs

Federal CFDA Numbers

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

Athens State University
Notes to the Expenditures of Federal Awards
For the Year ended September 30, 2016

**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, 2016.

Federal Grants and Contracts– Operating Revenue	\$ 285,914
Federal Grants – Nonoperating Revenue	5,257,587
Fall 2015 Deferred Pell Grant Revenue	1,601,978
Fall 2014 Deferred Pell Grant Revenue	(1,556,773)
Federal Direct Student Loans	<u>14,374,860</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$19,963,566</u>

PART IV

SCHEDULES OF FINDINGS AND QUESTIONED COSTS

Athens State University
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ___ yes x no

Significant deficiency(ies) identified? ___ yes x none reported

Noncompliance material to financial statements noted? ___ yes x no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? ___ yes x no

Significant deficiency(ies) identified? ___ yes x none reported

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

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? _x_ yes ___ no

Section II – Financial Statement Findings

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

Athens State University
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

Section III – Federal Award Findings and Questioned Costs

REFERENCE	PROGRAM	QUESTIONED COSTS
2016-001	Student Financial Assistance	\$ 1,068

U.S. Department of Education
Federal Pell Grant Program – CFDA 84.063
Award Year – July 1, 2015 through June 30, 2016

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 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 awards but failed to disburse the appropriate amounts during the spring term because the students' attendance was not verified in one class, causing the students' enrollment status to drop to ¾ time rather than full time. Both students received a grade for the class in which their attendance was not verified, which indicates that the lack of attendance verification was an error. The error was not detected by management. This error is a repeat of finding 2015-002 from the prior year.

RECOMMENDATION

We recommend the implementation of a detective control whereby a system report is generated to match any students who received a grade but did not have attendance verified for the same class.

VIEWS OF RESPONSIBLE OFFICIALS

See letter from management on page 61.

Athens State University
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2016

REFERENCE	PROGRAM	QUESTIONED COSTS
2016-002	Student Financial Assistance	\$ -

U.S. Department of Education
Federal Pell Grant Program – CFDA 84.063, Federal Direct Student Loans – CFDA 84.268
Award Year – July 1, 2015 through June 30, 2016

CONDITION

The University is responsible for returning the amount of unearned title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of determination that the student withdrew. During our review, we noted that 1 out of 12 return calculations selected for testing was returned late due to an error in the processing of officially withdrawn students.

REFERENCE

34 CFR §668.22 – Treatment of title IV funds when a student withdraws

CAUSE/EFFECT

The University accurately calculated the return of unearned title IV funds for which it was responsible, but the calculation and return of funds occurred after the 45 day deadline. A report critical to the timely return of unearned title IV funds for officially withdrawn students was not run during the week of this student’s official withdrawal, and this caused the error. Management detected the need for a return of unearned title IV funds in their controls processes at the end of the spring term of 2016, but submitted the return of title IV funds late based on the determination date applicable for officially withdrawn students.

RECOMMENDATION

We recommend the implementation of a weekly checklist of reports and procedures to ensure that officially withdrawn students are communicated timely to the student financial aid department. When possible, we recommend that any system reports critical to compliance be automatically generated.

VIEWS OF RESPONSIBLE OFFICIALS

See letter from management on page 61.

Management View And Corrective Action Plan

Reference: 2016-001

Management concurs with finding. We have corrected the Pell disbursement error. The university currently has a report that is ran after grades post to identify students with a grade with no attendance checked. That report is reviewed and funds posted to student's accounts.

Person Responsible: Mary Chambliss

Completion Date: Fall 2016

Reference: 2016-002

Management concurs with finding. An instructional sheet is being designed on how to complete the Withdrawal Pending Status Report and Withdrawal Student Report. This report is used to identify students from the term that need to have a withdrawal calculation. Email will be sent from the Registrar's Office to the Financial Aid Office once the reports run. The reports will run on Wednesdays every week. Once the email is received the Return to Title 4 process will run.

Person Responsible: Mary Chambliss

Completion Date: February 16, 2017

Schedule Of Prior Year Findings And Questioned Costs

Reference: 2015-001

The university disbursed summer Pell to a student enrolled for 9 hours and student had attendance confirmed for 6 hours. We corrected the Pell disbursement error. The enrollment process was ran in a manual process instead by student. Immediate action was taken to correct to ensure the staff is aware of updating enrollment.

Person Responsible: Mary Chambliss

Status: Resolved for 2015-001

Reference: 2015-002

The university calculated summer Pell but did not disburse the full amount the student was eligible for due to enrollment verification of one class was not confirmed. The student received a grade in the class at the end of the summer term. The student was paid once the error was discovered.

We currently have a report that is ran after grades post to identify students that received a grade with no attendance marked. Report not in place in time to catch similar finding in current year (2016-001).

Person Responsible: Mary Chambliss

Status: See similar finding 2016-001