Athens State University
Financial Statements
September 30, 2018

FINANCIAL REPORT
2017-2018

Athens State University
Table of Contents
September 30, 2018

PAGE

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, and its discretely presented component unit as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise ASU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the discretely presented component unit, Athens State University Foundation ("ASUF" or "the Foundation"), were not audited in accordance with *Governmental Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ASU and its discretely presented component unit as of September 30, 2018, and the changes in its financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, in the year ended September 30, 2018, ASU adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The October 1, 2017 net position has been restated to reflect changes resulting from the adoption of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15, the schedule of Athens State University's proportionate share of the net pension liability and OPEB liability on pages 58 and 60, respectively, and the schedule of Athens State University's pension and OPEB contributions on pages 59 and 61, respectively, 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 63 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 January 25, 2019 on our consideration of Athens State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Athens State University's internal control over financial reporting and compliance.

CDPA, P.C.

Athens, Alabama
January 25, 2019

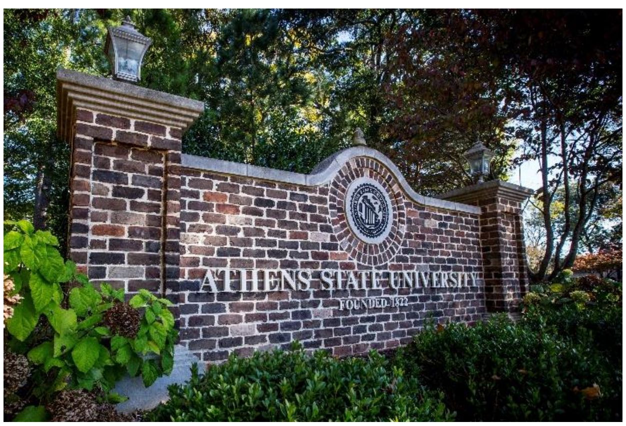
Introduction

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, 2018. This document has been prepared by management and should be read in conjunction with the financial statements and the notes to the financial statements.

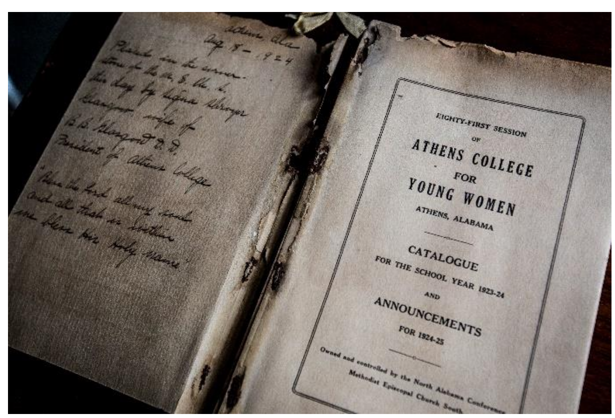
Athens State University's financial report consists of the following statements:

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

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



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



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

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

Enrollment is approximately 3,000 students and ninety-five (95) percent of our students are Alabama residents, located in 54 counties or 80 percent of the 67 counties in the state. Sixty-six (66) percent of students are female, average age of 31 years, gainfully employed, and most with children at home. Sixty (60) percent of students attend school on a part-time basis, and eighty-eight (88) percent are employed either full-time (59%) or part-time (29%). The racial composition of the student body is 76% White and 21% minority (3% not reported). Sixty-one (61) percent of students receive some form of financial assistance that may include federal, state, and/or institutional funding sources (Source: Fall 2017 Fact Book).

The Athens State University mission statement stresses the institution's emphasis on teaching, service, research and other creative activities to empower its students to make valuable contributions in their professional, civic, educational, and economic endeavors. The institution strives to provide appropriate learning resources and a variety of course formats and options that support quality teaching, learning, and the advancement of knowledge and actively promotes diversity and lifelong learning. Through affiliations with a variety of organizations, Athens State University provides resources that support continuing education for students and the community at large. The institution also sponsors and supports programs that stimulate cultural and intellectual enrichment in the community. As of Fall 2017, the University employed 226 full-time employees including 93 faculty members and 160 part-time employees which includes 120 part-time faculty.

The University offers 34 undergraduate degree programs and 3 graduate degree programs for its students to choose from and continues to explore the latest technology in the delivery of these majors. In addition, the University offers 54 minors and 13 certificates. To better meet the needs of our students, the University provides 12 undergraduate and 3 graduate programs completely online through a distance learning format. A brief paragraph about each of the University's three Colleges and the University Centers follows.

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

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

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

Financial Highlights

Athens State University had another successful year financially. For the twelfth-consecutive year, the University increased its overall financial position. The University's total assets at the conclusion of the fiscal year ended September 30, 2018 were $74.68 million and liabilities were $61.89 million. This resulted in the University's net position ending at $7.78 million. The most significant event that occurred during the year that will be reflected in the financial statements, notes to the financial statements, and the following paragraph were:

- A change in accounting principle requiring the recording of $15.71 million in Other Postemployment Liability. This change in accounting principle is discussed in Note 1 section E.10 of the Notes to the Financial Statements and represents a 62.4% decrease in the University's financial position.

Financial Statements

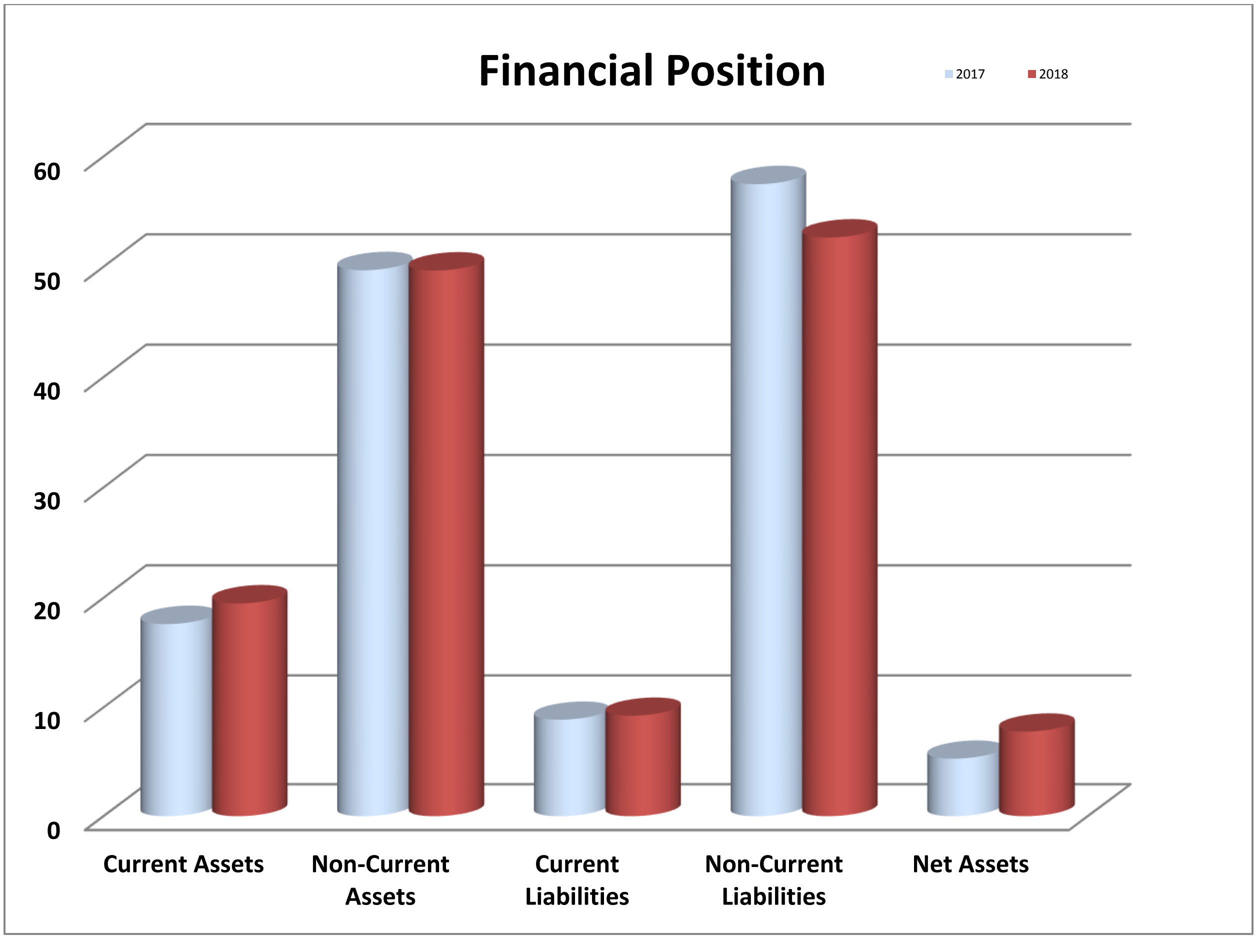
As stated in the previous paragraphs, the University's annual financial reports include the following three statements:

- 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, 2018. The below chart reflects assets and liabilities as compared to last fiscal year adjusted to account for the change in accounting principle. The chart reflects an increase in net position of $2.49 million.



Net position is divided into three major categories. (a) The first category, net investment in capital assets, 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, 2018. (c) The final category is unrestricted net position. Unrestricted net position is available to the University for any appropriate purpose.

Summary: Statement of Net Position:

	2018	2017 *Adjusted
Assets:		
Current Assets	$ 19,493,389	$ 17,671,270
Capital Assets, Net	41,559,164	41,444,143
Other Assets	8,100,419	8,196,576
Total Assets	69,152,972	67,311,989
Deferred Outflows of Resources	5,524,181	5,716,874
Liabilities:		
Current Liabilities	$ 9,243,434	$ 8,873,743
Non-Current Liabilities	52,647,299	57,483,536
Total Liabilities	61,890,733	66,357,279
Deferred Inflows of Resources	5,002,898	1,380,000
Net Position:		
Net Investment in Capital Assets	$ 27,868,095	$ 26,819,824
Restricted - Capital Projects	60,880	60,880
Restricted - Expendable	637,841	618,137
Unrestricted	(20,783,294)	(22,207,257)
Total Net Position	$ 7,783,522	$ 5,291,584

*2017 was adjusted to accurately compare the numbers for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. The numbers reflect the prior period adjustment discussed in Note 1, Section E.10.

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

	2018	2017	Change
Operating Revenues	$ 18,721,591	$ 19,055,750	$ (334,159)
Operating Expenses	34,736,977	34,398,970	338,007
Operating Loss	(16,015,386)	(15,343,220)	(672,166)
Non-Operating Revenues and Expenses	18,507,324	16,936,855	1,570,469
Increase in Net Position	2,491,938	1,593,635	898,303
Net Position - Beginning of Year	$ 5,291,584	$ 18,946,158	(13,654,574)
Change in Accounting Principle		(15,248,209)	
Net position - Beginning of Year	5,291,584	3,697,949	1,593,635
Net Position - End of Year	7,783,522	5,291,584	2,491,938

The Statement of Revenues, Expenses, and Changes in Net Position reflect operating revenues of $18,721,591, which is a decrease of $334,159 from the prior year. This is a result of decreased funding from Federal and State Grants and Contracts of 15.47%. The operating expenses increased less than 1% due to an increase in operational and salary and employee benefit budgets. See Note 1 of the Financial Statements for further explanation of the Change in Accounting Principle.

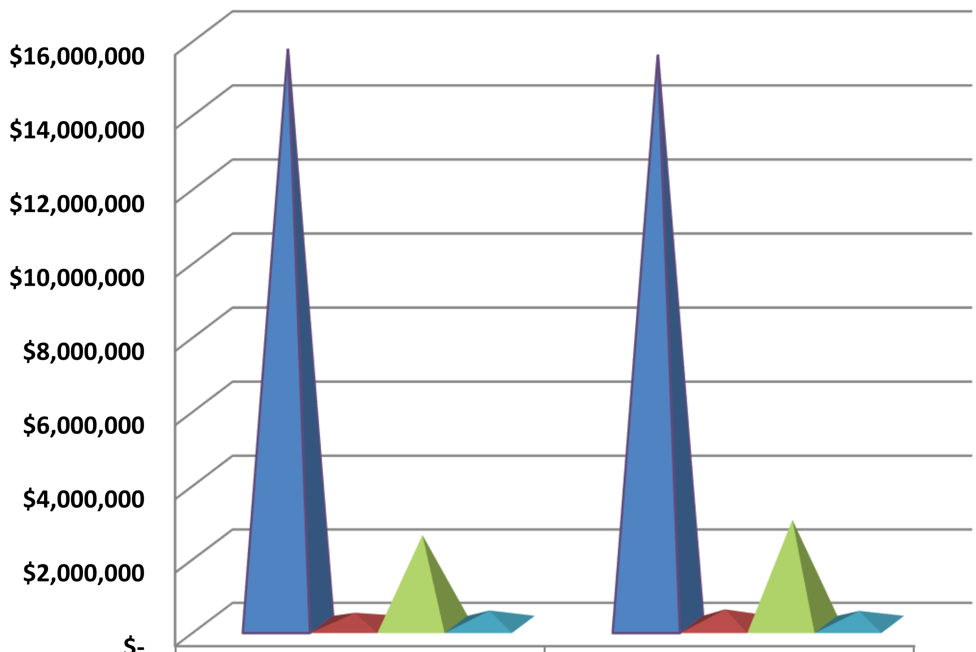
The following chart provides a picture of what the University's Unrestricted and Total Net Position would be before the Pension Liability and Other Postemployment Benefits Liability are applied to the Financial Statements.

	2018	2017
Unrestricted Net Position per Audited Financial Statements	$ (20,783,294)	$ (22,207,257)
Effects of:		
Pension Liability	23,805,260	23,678,091
Other Postemployment Benefits Liability	15,537,353	15,248,209
Unrestricted Net Position, net of Pension and OPEB Liabilities	**18,559,319**	**16,719,043**
Net Investment in Capital Assets	27,868,095	26,819,824
Restricted:		
Expendable	637,841	618,137
Capital Projects	60,880	60,880
Total Net position, net of Pension and OPEB Liabilities	**$ 47,126,135**	**$ 44,217,884**

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 2018 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 2018 and 2017 FY State Appropriation totaled $12,867,151 and $12,621,764 for each year, respectively.

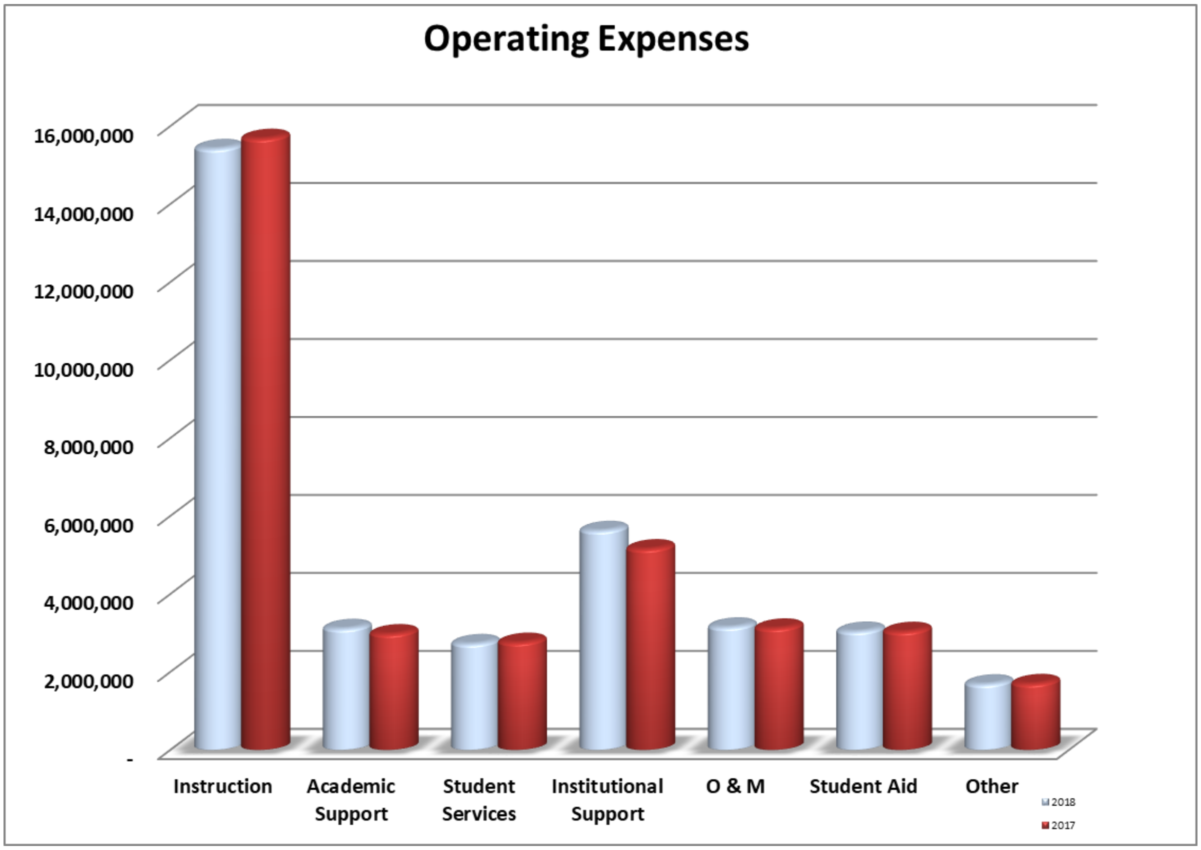
Operating Revenues



	2018	2017
Student Tuition and Fees	$15,584,286	$15,426,295
Federal Grants and Contracts	$319,269	$411,794
State and Local Grants and Contracts	$2,436,509	$2,848,429
Auxillary Enterprises	$381,527	$369,232

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.

Operating Expenses by Natural Classification

	2018	2017
Salaries	$ 18,449,677	$ 18,210,098
Benefits	6,357,538	6,456,503
Supplies and Others	5,025,251	4,826,846
Utilities	714,820	693,885
Financial Aid	3,037,734	3,032,502
Depreciation	1,151,957	1,179,136
	$ 34,736,977	$ 34,398,970

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:

	2018	2017
Cash provided (used) by:		
Operating Activities	$ (14,092,097)	$ (13,755,053)
Non-Capital Financing Activities	18,765,429	18,161,440
Investing Activities	194,668	(1,943,104)
Capital and Related Financing Activities	(3,050,694)	(2,849,857)
Net Change in Cash	1,817,306	(386,574)
Cash - Beginning of Year	13,010,976	13,397,550
Cash - End of Year	$ 14,828,282	$ 13,010,976

The above cash flow comparison reflects an increase in cash of $1,817,306 as compared to ending cash the previous year

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, under the 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 underserviced areas of the state, while continuing to provide the quality of education our students have become accustomed. The University is currently expanding our Liberal Arts program in Decatur with a joint agreement with Calhoun Community College. The University continues to develop new majors and programs in response to demand in the job market.

The University's overall enrollment remains fairly stable and we continue to look for ways to increase enrollment and better serve our student population.

Student Fall Enrollment Data - Head Count

	*2018	%	2017	%	2016	%	2015	%	2014	%	2013	%
Undergraduate	2,886	95%	2,969	95%	3,027	99%	3,042	100%	3,129	100%	3,175	100%
Graduate	159	5%	147	5%	38	1%	-	0%	-	0%	-	0%
Total	3,045		3,116		3,065		3,042		3,129		3,175	
Breakdown												
Graduate	156	5%	145	5%	37	1%	-	0%	-	0%	-	0%
Senior	1584	52%	1,681	54%	1,782	58%	1,776	58%	1,871	60%	1,909	60%
Junior	1150	38%	1,120	36%	1,106	36%	1,128	37%	1,120	36%	1,090	34%
Other	155	5%	170	5%	140	5%	138	5%	138	4%	176	6%
Female	2083	68%	2,071	66%	2,009	66%	1,979	65%	2,046	65%	2,066	65%
Male	962	32%	1,045	34%	1,056	34%	1,063	35%	1,083	35%	1,109	35%
In-State	2900	95%	2,973	95%	2,923	95%	2,902	95%	2,991	96%	3,046	96%
Out-of-State	145	5%	143	5%	142	5%	140	5%	138	4%	129	4%

Student Fall Enrollment Data - Credit Hour Production

	*2018	%	2017	%	2016	%	2015	%	2014	%	2013	%
Undergraduate	27,287	97%	27,624	97%	28,314	99%	28,582	100%	29,757	100%	30,076	100%
Graduate	969	3%	924	3%	233	1%						
Total	28,256		28,548		28,547		28,582		29,757		30,076	

*Preliminary Enrollment Data

Source: University Fact Book

Athens State University
Statement of Net Position
For the Year Ended September 30, 2018

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 14,767,402
Short-Term Investments	136,860
Accounts Receivable, Net of Allowance for Doubtful Accounts of $643,332	2,498,211
Inventories	16,790
Deposit with Bond Trustee	1,400
Prepaid Expenses and Unearned Scholarships	2,072,726
Total Current Assets	19,493,389
Non-Current Assets	
Restricted Cash	60,880
Long-Term Investments	8,039,539
Capital Assets:	
Land	2,593,856
Improvements Other Than Buildings	2,254,419
Buildings	49,633,827
Equipment and Furniture	2,740,870
Library Holdings	749,768
Construction in Progress	514,720
Less: Accumulated Depreciation	(16,928,296)
Total Capital Assets, Net of Depreciation	41,559,164
Total Non-Current Assets	49,659,583
Total Assets	$ 69,152,972
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows of Resources Related to Debt	411,718
Deferred Outflows of Resources Related to Pensions and OPEB	5,112,463
Total Deferred Outflows of Resources	$ 5,524,181

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

Athens State University
Statement of Net Position
For the Year Ended September 30, 2018

LIABILITIES	
Current Liabilities	
Deposits	$ 239,802
Accounts Payable and Accrued Liabilities	995,087
Unearned Revenue	6,482,783
Compensated Absences	75,604
Bonds Payable	1,450,158
Total Current Liabilities	9,243,434
Non-Current Liabilities	
Bonds Payable	12,240,911
Net Pension Liability	25,426,000
Net OPEB Liability	14,026,179
Compensated Absences	954,209
Total Non-Current Liabilities	52,647,299
Total Liabilities	$ 61,890,733
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflows of Resources Related to Pensions and OPEB	$ 5,002,898
NET POSITION	
Net Position	
Net Investment in Capital Assets	27,868,095
Restricted:	
Expendable	637,841
Capital Projects	60,880
Unrestricted	(20,783,294)
Total Net Position	$ 7,783,522

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

Athens State University Foundation, Inc.
Discretely Presented Component Unit
Statement of Financial Position
For the Year Ended September 30, 2018

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 502,426
Pledges Receivable - Current	17,000
Accounts Receivable - Current	5,000
Due from Athens State University for Vanity Tag Scholarships	15,900
Certificate of Deposit	804,547
Prepaid Expenses	35,100
Total Current Assets	1,379,973
Long-Term Cash and Investments	
Restricted Cash	118,465
Investments	3,855,735
Total Long-Term Cash and Investments	3,974,200
Fixed Assets	
Artifacts and Collectibles	18,000
Other Assets	
Donated Assets	3,227
Accounts Receivable - Non-Current	30,000
Pledges Receivable - Non-Current	111,885
Contribution Receivable- Non-Current	5,974
Total Other Assets	151,086
Total Assets	$ 5,523,259

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

Athens State University Foundation, Inc.
Discretely Presented Component Unit
Statement of Financial Position
For the Year Ended September 30, 2018

LIABILITIES AND NET ASSETS	
Current Liabilities	
Deferred Revenue	$ 103,845
Total Current Liabilities	103,845
Total Liabilities	103,845
Net Assets	
Unrestricted	410,269
Temporarily Restricted	3,089,187
Permanently Restricted	1,919,958
Total Net Assets	5,419,414
Total Liabilities and Net Assets	$ 5,523,259

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, 2018

OPERATING REVENUES	
Student Tuition and Fees (Net of Scholarship Allowances of $3,740,854)	$ 15,584,286
Federal Grants and Contracts	319,269
State and Local Grants and Contracts	2,436,509
Auxiliary Enterprises:	
Bookstore	137,417
Food Services	19,753
Student Activities	699
Vending	5,187
Other	218,471
Total Operating Revenues	18,721,591
OPERATING EXPENSES	
Instruction	15,416,843
Academic Support	3,107,923
Student Services	2,719,424
Institutional Support	5,621,907
Operation and Maintenance	3,146,537
Scholarships and Financial Aid	3,037,734
Depreciation	1,151,957
Auxiliary Enterprises	534,652
Total Operating Expenses	34,736,977
Operating Income (Loss)	(16,015,386)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	12,867,151
Federal Grants	5,699,719
Investment Income	369,192
Unrealized Loss	(269,470)
Other Nonoperating Revenue	445,731
Interest on Debt	(435,874)
Other Nonoperating Expenses	(169,125)
Net Nonoperating Revenues	18,507,324
Change In Net Position	2,491,938
Total Net Position - Beginning of Year	20,539,793
Adjustment for Change in Accounting Principle (Note 1)	(15,248,209)
Net Position - Beginning of Year (Restated)	5,291,584
Total Net Position - End of Year	$ 7,783,522

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, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Contributions	$ 88,980	$ 100,451	$ 119,325	$ 308,756
In-Kind Donations	110,055	-	-	110,055
Special Events Income	-	250,911	-	250,911
Other Income	750	8,000	-	8,750
Interest and Dividends, Net of Fees	3,090	97,500	-	100,590
Investment Gain (Loss)	-	40,833	65,060	105,893
Net Assets Released from Restrictions:				
Satisfaction of Purpose Restrictions	431,524	(431,524)	-	-
Total Revenues, Gains and Other Support	634,399	66,171	184,385	884,955
EXPENSES				
Program Expenses:				
Student Scholarships	205,868	-	-	205,868
Program Support	31,887	-	-	31,887
Other Program Expenses	65,599	-	-	65,599
Other Expenses:				
Special Events & Fundraising	153,112	-	-	153,112
Management & General	139,206	-	-	139,206
Total Expenses	595,672	-	-	595,672
Change in Net Assets	$ 38,727	$ 66,171	$ 184,385	$ 289,283
Net Assets at Beginning of Year	$ 371,542	$ 3,023,016	$ 1,735,573	$ 5,130,131
Net Assets at End of Year	$ 410,269	$ 3,089,187	$ 1,919,958	$ 5,419,414

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

Athens State University
Statement of Cash Flows
For the Year Ended September 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	$ 15,839,532
Grants and Contracts	2,683,306
Payments to Suppliers	(4,845,889)
Payments for Utilities	(714,820)
Payments for Employees	(18,411,062)
Payments for Benefits	(5,967,574)
Payments for Scholarships	(3,051,909)
Auxiliary Enterprises	376,319
Net Cash Used in Operating Activities	(14,092,097)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State and Local Appropriations	12,867,151
Federal Grants	5,699,720
Federal Direct Loan Receipts	14,401,715
Federal Direct Loan Disbursements	(14,529,695)
Deposit Held for Others	49,933
Other Nonoperating Revenues (Expenses)	276,605
Net Cash Provided by Noncapital Financing Activities	18,765,429
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets and Construction	(1,266,979)
Principal Paid on Capital Debt	(1,403,785)
Interest Paid on Capital Debt	(379,930)
Net Cash Used in Capital and Related Financing Activities	(3,050,694)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sale/Maturity of Investments	76,776
Purchase of Investments	(251,301)
Interest on Investments	369,193
Net Cash Use in Investing Activities	194,668
Net Increase (Decrease) in Cash and Cash Equivalents	1,817,306
Cash and Cash Equivalents - Beginning of Year	13,010,976
Cash and Cash Equivalents - End of Year	$ 14,828,282
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Current	$ 14,767,402
Restricted	60,880
	$ 14,828,282

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

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating Income (Loss)	(16,015,386)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities	
Depreciation Expense	1,151,957
Pension Expense	2,197,909
Employer Pension Contributions	(2,070,740)
OPEB Expense	760,868
Employer OPEB Contributions	(471,723)
Changes in Assets and Liabilities:	
Increase in Receivables	135,225
Decrease in Inventory	5,267
Increase in Prepaid Expenses and Unearned Scholarships	(16,112)
Increase in Compensated Absences	(28,147)
Increase in Payables	216,443
Increase in Unearned Revenue	42,342
Net Cash Used in Operating Activities	$ (14,092,097)

Noncash Investing, Capital, and Financing Activities:

The University held investments with a fair value of $8,176,399 at September 30, 2018. During the year ended September 30, 2018, the net change in the fair value of these securities was ($269,470).

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Component Units

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

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

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 10) to the Foundation's financial statements have been incorporated into the University's notes to the financial statements. During the year ended September 30, 2018, Athens State University Foundation, Inc. distributed $289,892 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.

D. Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

1. Deposits and Investments

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

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

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

2. Receivables

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

3. Inventories

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

4. Capital Assets

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

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

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

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

5. Long-Term Obligations

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

6. Compensated Absences

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

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

7. Unearned Revenue

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

8. Pensions

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

The Alabama Retired Education Employees' Health Care Trust (Trust) financial statements are prepared by using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

10. Recent Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* 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 adopted this statement for the year-ended September 30, 2018. See Note 1 and 6 for effect on the financial statements.

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

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

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

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The University is currently evaluating the impact of this pronouncement on their financial statements.

11. Net Position

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

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

Restricted:

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

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

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

12. Change in Accounting Principle

Net position as of October 1, 2017 has been restated as follows for the implementation of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.*

Net position as previously reported at September 30, 2017	$ 20,539,793
Total OPEB liability (measurement date as of September 30, 2017)	15,706,638
Deferred outflows	(458,429)
Total prior period adjustment	15,248,209
Net position as restated, October 1, 2017	$ 5,291,584

13. 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).

14. 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.

15. 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.

16. 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.

17. Subsequent Events

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

18. Prepaid Expenses and Unearned Scholarships

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

The University's deposits in banks at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. At September 30, 2018, funds held by financial institutions participating in the SAFE program totaled $15,890,552.

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, 2018, the University had the following investments held by trustee:

Deposits with Trustee	Fair Value
Federated Treasury Obligations Fund	$ 1,400

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, 2018:

		Fair Value Measurements Using		
Investments	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Bond Funds	$8,176,399	$8,176,399	$ -	$ -
Total Investments	$8,176,399	$8,176,399	$ -	$ -

At September 30, 2018, ASU had a significant amount invested in short and long term investments, primarily tax free bonds. During the year ended September 30, 2018, the University had no realized losses from the disposal of investments. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The University had unrealized losses during the year ended September 30, 2018 of $269,470.

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 Maturities (in Years)		
Investment Type	Fair Value	1-5	6-10	Thereafter
Bond Funds	$8,176,399	$814,725	$1,264,697	$6,096,977

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 Funds	AAA	14.71%
Bond Funds	AA	39.84%
Bond Funds	A	26.16%
Bond Funds	BBB	12.33%
Bond Funds	BB	1.92%
Bond Funds	B	0.94%
Bond Funds	NR	4.10%
		100.00%

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

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

NOTE 3 - RECEIVABLES

Receivables are summarized as follows:

Accounts Receivable:	
Federal	$ 513,309
Pell Grants	159,856
State	690,461

Third Party	421,720
Returned Checks	7,520
Other	86,332
Total Accounts Receivable	1,879,198
Student Receivables:	
Tuition & Fees	1,262,345
Total Receivables	3,141,543
Less: Allowance for Doubtful Accounts	(643,332)
Total Receivables, Net	$ 2,498,211

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Land	$ 2,593,856	$ -	$ -	$ -	$ 2,593,856
Improvements Other than Buildings	1,543,148	-	-	711,271	2,254,419
Buildings	49,633,827	-	-	-	49,633,827
Equipment	2,705,866	116,234	(81,230)	-	2,740,870
Library Holdings	1,257,456	25,386	(533,074)	-	749,768
Construction in Progress	100,633	1,125,358	-	(711,271)	514,720
Total	57,834,786	1,266,978	(614,304)	-	58,487,460
Less: Accumulated Depreciation					
Improvements Other than Buildings	970,234	53,867	-	-	1,024,101
Buildings	12,091,848	958,220	-	-	13,050,068
Equipment	2,378,614	100,395	(81,230)	-	2,397,779
Library Holdings	949,947	39,475	(533,074)	-	456,348
Total Accumulated Depreciation	16,390,643	1,151,957	(614,304)	-	16,928,296
Total Capital Assets, Net	$ 41,444,143	$ 115,021	$ -	$ -	$ 41,559,164

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.

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, 2018 was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were $2,070,740 for the year ended September 30, 2018.

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

At September 30, 2018 the University reported a liability of $25,426,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2017 the University's proportion was .2587%, which was an increase of .0085% from its proportion measured as of September 30, 2016. For the year ended September 30, 2018, the University recognized pension expense of $2,197,909. At September 30, 2018 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	$ -	1,520,000
Changes of assumptions	1,518,000	-
Net difference between projected and actual earnings on pension plan investments	-	1,090,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,052,000	410,000
Employer contributions subsequent to the measurement date	2,070,740	-
	$ 4,640,740	$ 3,020,000

$2,070,740 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, 2019. 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:	
2019	(234,000)
2020	352,000
2021	(279,000)
2022	(299,000)
2023	10,000

E. Actuarial Assumptions

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

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

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

Post Retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

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

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increases (8.75%)
University's proportionate share of collective net pension liability	35,071,000	25,426,000	17,267,000

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, 2017. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2017. The auditor's report dated August 20, 2018 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, 2017 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)

General Information about the OPEB Plan

Plan description

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

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

Benefits provided

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

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital

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

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

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The MAPDP plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the United Healthcare plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

Contributions

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

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

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

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

At September 30, 2018, the Athens State University reported a liability of $14,026,179 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017. The Athens State University proportion of the net OPEB liability was based on a projection of the Athens State University long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the Athens State University proportion was 0.188843% percent, which was a decrease of 0.006702% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the System recognized pension expense of $760,868, with no special funding situations. At September 30, 2018, the System 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	$ -	$ -
Changes of assumptions	$ -	$ 1,456,337
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 74,677
Changes in proportion and differences between Employer contributions and proportionate share of contributions	$ -	$ 451,884
Employer contributions subsequent to the measurement date	$ 471,723	$ -
Total	$ 471,723	$ 1,982,898

$471,723 reported as deferred outflows of resources related to OPEB resulting from the Athens State University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	
2019	(383,530)
2020	(383,530)
2021	(383,530)
2022	(383,530)
2023	(364,861)
Thereafter	(83,917)

Actuarial assumptions

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

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

[1]Includes 3.00% wage inflation.
[2]Compounded annually, net of investment expense, and includes inflation.

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

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

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

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

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

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

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

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

* Geometric mean, includes 2.5% inflation

Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2017 was 4.63%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.01%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 27.08% of the employer contributions were used to assist in funding retiree benefit payments in 2016 and it is assumed that the amount will increase by 3.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2115. The long term rate of return is used until the assets are expected to be depleted in 2042, after which the municipal bond rate is used.

Sensitivity of the Athens State University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.

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

	1% Decrease (6.75% decreasing to 4% for pre-Medicare, 4% for Medicare Eligible, and 1% for Optional Plans)	**Current Healthcare Trend Rate (7.75% decreasing to 5% for pre-Medicare, 5% for Medicare Eligible, and 2% for Optional Plans)**	**1% Increase (8.75% decreasing to 6% for pre-Medicare, 6% for Medicare Eligible, and 3% for Optional Plans)**
Net OPEB Liability	$ 11,324,476	$ 14,026,179	$ 17,512,117

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

	1% Decrease (3.63%)	**Current Discount Rate (4.63%)**	**1% Increase (5.63%)**
Net OPEB Liability	$ 16,954,733	$ 14,026,179	$ 11,691,756

OPEB plan fiduciary net position

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

NOTE 7 - ACCOUNTS PAYABLE

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

Salaries and Wages	$ 596,517
Interest Payable	31,493
ASU Foundation	15,900
Other	351,177
Total	$ 995,087

NOTE 8 - LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
2007 Revenue Bonds	$ 655,000	$ -	$ 655,000	$ -	$ -
2010 Revenue Bonds	3,200,000	-	-	3,200,000	-
2015 Revenue Bonds	7,500,000	-	270,000	7,230,000	960,000
ACA Phase II	3,739,854	-	478,785	3,261,069	490,158
Other Liabilities:					
Compensated Absences	1,057,960	-	28,147	1,029,813	75,604
	$ 16,152,814	$ -	$ 1,431,932	$ 14,720,882	$ 1,525,762

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:

	Revenue Bonds		
Fiscal Year	Principal	Interest	Totals
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
	$ 13,691,069	$ 3,186,753	$ 16,877,822

Pledged Revenues

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 was 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, 2017, the outstanding principal balance of the unfunded bonds totaled $655,000. During the year-ended September 30, 2018, the outstanding principal balance was paid in full. Outstanding principal balance of the unfunded bonds totaled $0 at September 30, 2018.

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, 2018, the University received $84,086 in interest subsidy payments that offset Interest on Debt in the Statement of Revenues, Expenses and Changes in Net Position.

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

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

Future revenues in the approximate amount of $16,877,822 are pledged to repay principal and interest for the 2010, 2014 and 2015 bonds. During the 2018 fiscal year, pledged tuition and fee revenue in the amount of $15,584,286 were received with $1,814,850 or 11.65% of pledged revenues, being used to pay principal and interest. The 2010, 2014 and 2015 Series bonds are scheduled to mature in fiscal year 2030, 2024, and 2025, respectfully.

NOTE 9 - RISK MANAGEMENT

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

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

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

NOTE 10 – ATHENS STATE UNIVERSITY FOUNDATION, INC. NOTES TO THE FINANCIAL SATEMENTS

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Mission Statement

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

Recognition of Donor Restrictions

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

Basis of Presentation

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

- *Unrestricted net assets* – Represents the portion of expendable funds that are available for support of the Foundation's operations and services that are not subject to donor-imposed stipulations. The Foundation's board of directors has chosen to designate $184,895 for endowment purposes.

- *Temporarily restricted net assets* – Represents contributions or resources whose use is limited by donor-imposed restrictions which expire by the passage of time or which can be fulfilled and removed by actions of the Foundation pursuant to the restrictions. Net assets released from restrictions represent expenses incurred during the year that satisfy the restricted purpose.

- *Permanently restricted net assets* – Represents contributions or resources, which are subject to donor imposed stipulations that the Foundation permanently maintain the contribution.

Generally, the donors of such assets permit the Foundation to use all or a part of the income earned on the asset based on the donor-imposed restrictions.

Net assets were released from donor-imposed temporary restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The composition of net assets released from restrictions by type for the year ended September 30, 2018 is as follows:

Scholarships	$ 205,868
Program Support	31,887
Other Program Expenses	40,657
Special Event Expense	153,112
Total Fees	$ 431,524

Basis of Accounting

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

Use of Estimates in the Preparation of Financial Statements

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

Donated Services and Supplies

Except for those disclosed in Note 12, no amounts have been recorded in the accompanying financial statements for donated services through volunteers because no objective basis is available to measure the value of such services and donations. A number of volunteers have contributed their time to the activities and fundraisers of the Foundation without compensation.

Donated Assets

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

Contributions

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

Accounts Receivable

Accounts receivable consist primarily of amounts owed to the Foundation associated with the Fiddler's Convention Fundraiser and is non-interest bearing.

Fixed Assets

Donated artifacts and collectibles are recorded at cost if purchased or, if donated, at estimated fair value at the time of donation. The Foundation does not recognize depreciation on artifacts and collectibles. In addition, the Foundation utilizes certain facilities owned by the University. Such facilities are not recorded on the books of the Foundation.

Income Taxes

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

Uncertain Tax Positions

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Foundation had no unrelated business activities that are subject to taxes. The Foundation's federal Exempt Organization Business Income Tax Returns for 2015, 2016, and 2017 are subject to examination by the IRS, generally for three years after they were filed.

Subsequent Events

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

B. CASH AND CERTIFICATES OF DEPOSITS

The Foundation considers all time deposits, certificates of deposit and highly liquid instruments with an initial maturity of three months or less to be cash equivalents, except for investments purchased with endowment assets, which are classified as long-term investments. The Foundation maintains its cash balances with multiple financial institutions. At September 30, 2018, the carrying amount of the Foundation's deposits with banks exceeded FDIC insurable limits by $826,430.

C. DUE FROM AFFILIATED ORGANIZATIONS

The amounts due from affiliated organizations consist of the following at September 30, 2018 respectively:

Funds due from Athens State University for Vanity Tag Scholarships	$15,900

D. INVESTMENTS

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

Investments are stated at fair market value at September 30, 2018 if readily determinable. They consist of the following:

American Trust Investment Services	$	6,580
Berkshire Income Realty		11,484
UBS Foundation Scholarship Endowment		3,313,225
UBS McCoy Endowment		128,354
UBS Livingston Endowment		118,697
UBS Alumni Scholarship Endowment		277,395

Certificate of Deposits	804,547
Total Investments and Certificates of Deposit	$ 4,660,282

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

Investment Reporting

Security transactions are recorded on a trade date basis. Interest is recorded as earned and dividends are recorded as of the ex-dividend date. Investment income includes interest and dividends; realized/unrealized gains and losses are reported as fair values increase and decrease. Investment income attributable to amounts held for the benefit of the University is reported in temporarily restricted net assets. When the activities occur, the amounts are transferred from temporarily restricted to unrestricted net assets and the disbursements are reported as decreases in unrestricted net assets. Investment income attributable to amounts held for the benefit of the Foundation is reported in unrestricted net assets. Interest and dividend income is reported net of related investment expenses in the statement of activities. The amount of expenses netted with revenues was $94,475 for the year ended September 30, 2018. Investment gain consisted of realized gain of $65,060, netted with unrealized gain of $40,833 for the year ended September 30, 2018.

Endowment Accounts

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

Spending Policy

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

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration due to unfavorable market fluctuations. When this is the case, any such deficiencies would be reported in unrestricted net assets. At September 30, 2018, there were no funds with deficiencies.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets – 10/1/2017	$ 186,445	$ 2,264,909	$ 1,735,573	$4,186,927
Contributions, net	-	-	184,385	184,385
Investment income (loss), net of fees	-	240,870	-	240,870
Amounts appropriated for expenditure	-	(67,476)	-	(67,476)
Endowment net assets – 9/30/2018	$ 186,445	$ 2,438,303	$ 1,919,958	$ 4,544,706

Investments by Group

	General Investment Pool	Total
Certificate of Deposits	$ 804,547	$ 804,547
Marketable Mutual Funds	3,855,735	3,855,735
Total	$ 4,660,282	$ 4,660,282

E. FAIR VALUE MEASUREMENTS

The Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level

2 inputs consist of observable inputs other than quoted market prices for identical assets, and Level 3 inputs have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level I inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs would be used only when Level 1 or Level 2 inputs were not available.

The following table sets forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of September 30, 2018:

	Level 1	Level 2	Level 3	Total
Certificates of Deposit	$ 804,547	$ -	$ -	$ 804,547
Mutual Fund	45,190	-	-	45,190
Asset Backed Securities	311,139	-	-	311,139
Close End Funds & Exchange Traded Products	669,427	-	-	669,427
Common Stocks	1,036,108	-	-	1,036,108
Government Securities	348,356	-	-	348,356
Mutual Funds	473,179	-	-	473,179
PACE Equities	182,156	-	-	182,156
PACE Fixed Income	197,435	-	-	197,435
Corporate Bonds and Notes	592,745	-	-	592,745
	$ 4,660,282	$ -	$ -	$ 4,660,282

F. PLEDGE RECEIVABLES

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

Total pledges receivable at September 30, 2018 are as follows:

	Less Than One Year	One to Five Years	More Than Five Years	Total
Total Pledges	$ 17,000	$ 106,855	$ 5,000	$ 128,855

G. CONTRIBUTION RECEIVABLE

The Foundation was named the beneficiary of a gift annuity contract during the year-ended September 30, 2018. The Foundation is not obligated under this contribution and is expected to receive the contribution in more than five years per the estimated life expectancy of the donor. The Foundation has recorded the contribution as the estimated remaining market value at the expected payment date of $5,974 at September 30, 2018.

H. DONATED ASSETS

Donated assets consisted of the following at September 30, 2018:

Donated artifacts and collectibles	$ 3,227

I. COLLABORATIVE ARRANGEMENT

The Alabama Center for the Arts (ACA), a joint operation between Calhoun Community College and Athens State University, along with their respective foundations, may be the recipient of gifts and contributions designated for use in support of the Center and its students. Calhoun College Foundation and the Athens State University Foundation entered into a collaborative arrangement in 2017 to direct funds jointly acquired or pledged in conjunction with the 2012 Gala and other gifts and contributions designated to benefit the Alabama Center for the Arts to joint financial accounts known as the Alabama Center for the Arts and to work cooperatively to manage and secure gifts in the Center's best interests. Revenue and expenses recorded by ASUF related to the collaborative arrangement for 2018 were approximately $8,595 and $19,361, respectively.

J. SPECIAL EVENTS

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

	TENNESSEE VALLEY FIDDLER'S CONVENTION	ALUMNI GOLF CLASSIC TOURNAMENT
Gross Revenue	$ 213,190	$ 37,721
Expenses	$ 131,122	$ 11,343

K. FUNCTIONAL ALLOCATION OF EXPENSES

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

L. RELATED PARTY

University Support

The Athens State University Foundation exists to assist the University and is a discretely presented component unit of the University. Due to the nature of this relationship, there are numerous transactions between the two entities and their representatives for program services, instruction, and scholarship purposes. During the year ended September 30, 2018, the Foundation expended $210,192 in support of the University's programs and scholarships. At September 30, 2018, the Foundation had no payables due to or pledge receivables from the University.

Personnel Costs and Facilities

The Foundation uses office space owned by the University without paying rent for the facilities. The value of the donated facilities was $24,104 for the year ending September 30, 2018. Furthermore, the Foundation employees are paid by the University. The salaries and benefits for year ending September 30, 2018, were $76,061. The value of donated facilities and services were recognized as revenue and related expense in the statement of activities

M. RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit and private entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost such as long-term debt. This provision of ASU 2016-01 may be early adopted for financial statements, which have not yet been issued or made available for issuance. The Foundation is currently evaluating the impact of this guidance.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, Leases. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for all business entities for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact of this guidance.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Non-for-Profit Entities*. ASU 2016-14 (1) reduces the number of net asset classes presented from three to two; (2) requires the presentation of expenses by functional and natural classification in one location; and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation is currently evaluating the impact of this guidance.

Required Supplementary Information

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

	For the measurement period ended			
	September 30, 2017	September 30, 2016	September 30, 2015	September 30, 2014
ASU's proportion of the net pension liability	0.2587%	0.2501%	0.2444%	0.2477%
ASU's proportionate share of the net pension liability	$25,426,000	$27,086,000	$25,582,000	$22,501,727
ASU's covered-employee payroll	$17,067,750	$15,880,787	$15,451,952	$15,709,007
ASU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	148.97%	170.56%	165.56%	143.24%
Plan fiduciary net position as a percentage of the total pension liability	71.50%	67.93%	67.51%	71.01%

This schedule presents only four years of information, rather than ten years, as only four years of trend information is available at September 30, 2018.

	2018	2017	2016	2015
Contractually Required Contribution	$2,070,740	$2,024,910	$1,880,030	$1,748,180
Contributions in relation to the contractually required contribution	2,070,740	2,024,910	1,880,030	1,748,180
Contribution deficiency (excess)	-	-	-	-
System's covered-employee payroll	$17,202,826	$17,067,750	$15,880,787	$15,451,952
Contributions as a percentage of covered-employee payroll	12.04%	11.86%	11.84%	11.30%

This schedule presents only four years of information, rather than ten years, as only four years of trend information is available at September 30, 2018.

Athens State University

Schedule of Athens State University's Proportionate Share of the Net OPEB Liability
Alabama Retired Education Employees' Health Care Trust

	2017
Athens State University's proportion of the net OPEB liability	0.188843%
Athens State University's proportionate share of the net OPEB liability	14,026,179
Athens State University's covered-employee payroll	17,202,826
Athens State University's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	81.53%
Plan fiduciary net position as a percentage of the total OPEB liability	15.37%

This schedule presents only one year of information, rather than ten years, as only one year of trend information is available at September 30, 2018.

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

		2017
Contractually required contribution	$	1,447,743
Contributions in relation to the contractually required contribution	$	(1,447,743)
Contribution deficiency (excess)	$	-
Athens State University covered-employee payroll	$	17,202,826
Contributions as a percentage of covered-employee payroll		8.42%

This schedule presents only one year of information, rather than ten years, as only one year of trend information is available at September 30, 2018.

Changes in actuarial assumptions

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females.

Recent Plan Changes

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

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

Method and assumptions used in calculations of actuarially determined contributions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2014 three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

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

Additional Information

Officials	Position
Dr. Robert K. Glenn	President (October 1, 2017-July 13, 2018)
Dr. Ronald Ingle	Interim President (July 14,2018- September 30, 2018)
Mr. Mike McCoy	Vice-President of Financial Affairs
Ms. Sarah McAbee	Vice President for Enrollment and Student Affairs

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, 2018, 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 January 25, 2019. 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.

Growing business. Adding Value

Compliance and Other Matters

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

Purpose of this Report

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

CDPA, PC

Athens, Alabama
January 25, 2019

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, 2018. 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.

Growing business. Adding Value

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, 2018.

Report on Internal Control Over Compliance

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

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

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

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

CDPA, PC

Athens, Alabama
January 25, 2019

PART III

SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
MAJOR PROGRAMS				
Student Financial Assistance Cluster				
U.S. Department of Education Direct Programs				
Federal Pell Grant Program	84.063	N.A.	$ -	$ 5,729,795
Federal Direct Student Loans	84.268	N.A.	-	14,529,695
Federal Work-Study Program	84.033	N.A.	-	77,892
Federal Supplemental Education Opportunity Grants	84.007	N.A.	-	110,587
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N.A.	-	64,321
Total Student Financial Assistance Cluster			-	20,512,290
Total Major Programs			$ -	$ 20,512,290

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
NON-MAJOR PROGRAMS				
U. S. Department of Education Passed Through Alabama Commission on Higher Education				
Improving Teacher Quality State Grants	84.367	N.A.	-	66,469
Total Improving Teacher Quality State Grants			-	66,469
Total Non-Major Programs			-	66,469
Total Federal Awards			$ -	$ 20,578,759

N.A. = Not Available

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

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, 2018. 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.

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, 2018.

Federal Grants and Contracts– Operating Revenue	$ 319,269
Federal Grants – Nonoperating Revenue	5,699,719
Fall 2018 Deferred Pell Grant Revenue	1,510,575
Fall 2017 Deferred Pell Grant Revenue	(1,480,499)
Federal Direct Student Loans	14,529,695
Expenditures per Schedule of Expenditures of Federal Awards	$20,578,759

PART IV

SCHEDULES OF FINDINGS AND QUESTIONED COSTS

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)	___ yes	x no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Assistance Cluster
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.

Section III – Federal Award Findings and Questioned Costs

The audit did not disclose any federal award findings or questioned costs required to be reported.

OFFICE OF FINANCIAL AFFAIRS
Founders Hall

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Reference: 2016.001 and 2017.001

The University accurately calculated the award but failed to disburse the appropriate amount during the spring term because the student's attendance was not verified in one class, causing the student's enrollment status to drop to ¾ time rather than full time. The student received a grade for the class of "W" for withdrawal and the student's attendance in the class was later verified. The error was not detected by management. The Office of Student Financial Aid now provides an attendance deadline to all instructors each semester through the Office of the Provost. When attendance is checked after the provided deadline during a daily process, the report indicates if a student has earned a grade of "W" in a course and marks if verified attendance exists for that same course. If verified attendance exists, and that attendance is prior to the partial withdrawal date of that course, then our office reviews the student account to make sure they are accurately paid. Once adjusted or once verified the correct amount is paid to the student account, we lock the fund period for that student so they are not effected by any future batch processes concerning this issue.

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

Reference: 2017.002

The University failed to identify and request financial aid history using the National Student Loan Data System Transfer Monitoring System for one transfer student. The student was not detected by management. The transfer student's eligibility for Title IV aid was not impacted when the financial aid history was evaluated. However, the student was not identified due to a coding error in the University's software which leaves the University at risk of disbursing an improper amount or disbursing to an ineligible student. These information technology policies are formalized and have been implemented and are now followed. The Office of Student Financial Aid also updated procedures to more frequently request all Transfer Monitoring and Financial Aid History files to have the most up-to-date student ISIR and history information. This allows us to always have an accurate view of the students that chose to send us their FAFSA information to Athens State University; enrolled or not.

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

300 North Beaty Street Athens, Alabama 35611 Phone 256-233-8100 1-800-522-0272