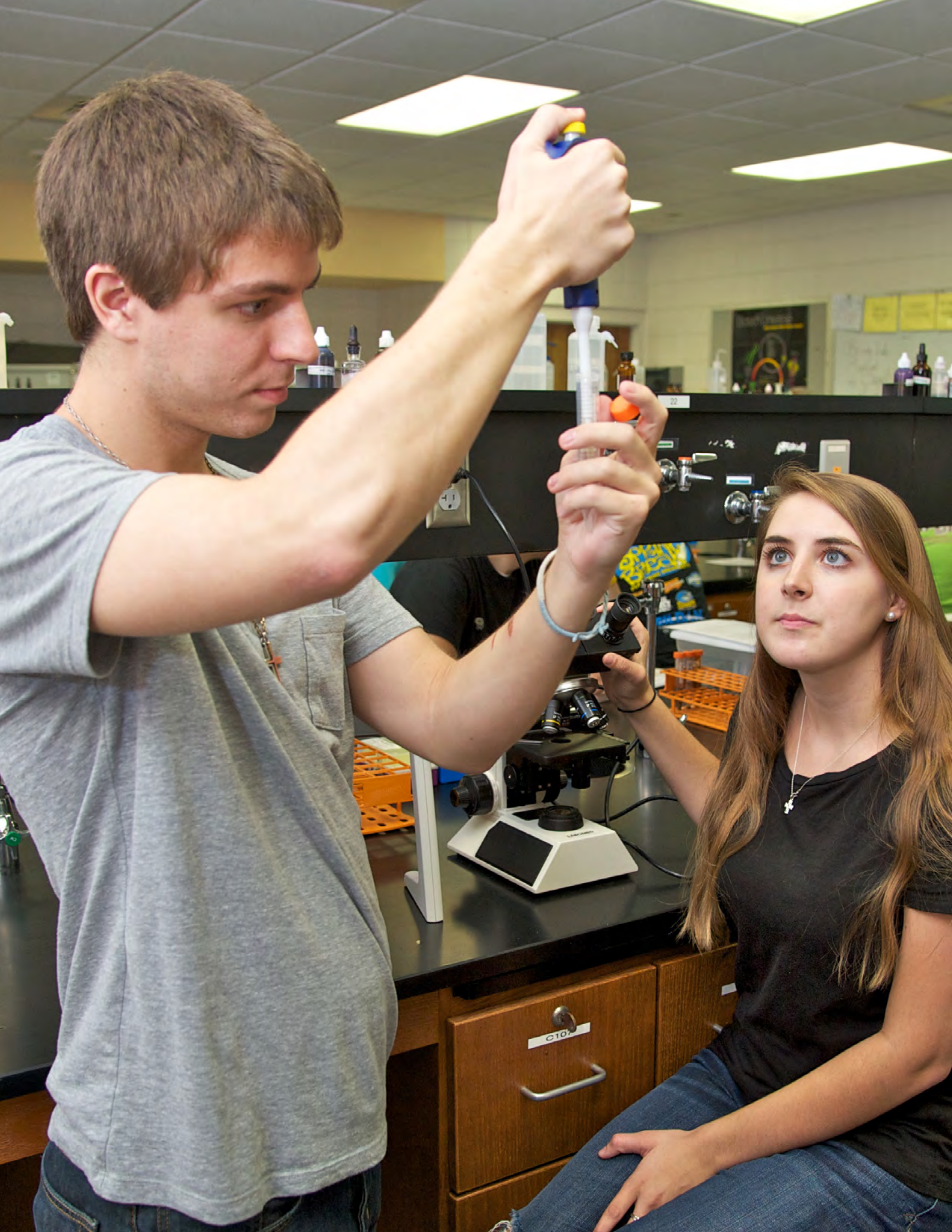
Annual Financial Report
Fiscal Year 2016

Jacksonville State University



Jacksonville State University
(A Component Unit of the State of Alabama)
Annual Financial Report
Fiscal Year 2016

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Acknowledgements

Kevin McFry, MBA, CPA
Controller

Kimberly Presson, MPA
Director of Institutional Effectiveness


JSU
COLLEGE OF NURSING

VICE PRESIDENT FOR FINANCE AND ADMINISTRATION/CFO
JACKSONVILLE STATE UNIVERSITY

Ashok K. Roy, Ph.D, CIA, CBA

May 1, 2017

Board of Trustees
Jacksonville State University

Dear Trustee:

On behalf of President Beehler, I am pleased to present to you the audited Annual Financial Statements of Jacksonville State University ("JSU") as of and for the year ended September 30, 2016. This single year presentation, rather than comparative, is needed due to the restatement of opening balances (October 1, 2015) audited by the predecessor auditor, the Alabama Department of Examiners of Public Accounts.

The Audited Financial Statements provide financial information regarding JSU's operations during the year and present its financial position as of the end of the fiscal year.

CDPA, PC, Certified Public Accountants, has performed the audit for the year ended September 30, 2016, and has issued an "unmodified" opinion, the most favorable outcome of the audit process. The audit opinion provides reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

We have also received from CDPA, reports on compliance for each major program and internal control over compliance and financial reporting in accordance with Government Auditing Standards, OMB Circular A-133, and Uniform Guidance.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion & Analysis. Accordingly, this letter of transmittal should be read with that statement.

Furthermore, I have also included the financial statements of the JSU Foundation Inc., a discretely presented component unit of JSU, as of December 31, 2015. These documents have been accepted by the Foundation's Board of Directors.

Respectfully submitted,

Ashok Roy

Ashok K. Roy, Ph.D, CIA, CBA

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JACKSONVILLE STATE UNIVERSITY

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John M. Beehler, Ph.D., CPA

04/11/17

Jacksonville State University **Financial Statements**

The JSU Canyon Center in Little River Canyon, Fort Payne, Alabama.


JACKSONVILLE
JACKSONVILLE STATE UNIVERSITY
FRESHMAN FORUM
05-06

Jacksonville State University
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September 30, 2016

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PART II REPORTS ON COMPLIANCE AND INTERNAL CONTROL

PART III SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

PART IV SCHEDULES OF FINDINGS AND QUESTIONED COSTS

PART I

FINANCIAL STATEMENTS


Firms vs. Markets: Make or Buy?
FIRST CORPORATE STRATEGY QUESTION
If $C_{in\text{-}house} < C_{market}$, then vertically integrate (make)
Ex: Google hires programmers to write code in-house rather than contracting out.
Disadvantage of "make" in-house
Principal–agent problem
✓ owner = principal, manager = agent
Disadvantage of "buy" from markets
Opportunism
Markets: Make or Buy?

Independent Auditor's Report

To the Board of Trustees
Jacksonville State University

Growing Business. Adding Value

Report on the Financial Statements

We have audited the accompanying financial statements of Jacksonville State University ("JSU" or "the University"), a component unit of the State of Alabama, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise JSU'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 did not audit the financial statements of the discretely presented component unit, Jacksonville State University Foundation, Inc. (JSUF). JSUF's statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Jacksonville State University Foundation, Inc., is based solely on the report of the other auditors. 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. The financial statements of JSUF were not audited in accordance with *Government Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of JSU and its discretely presented component unit as of September 30, 2016, and the changes in its financial position and, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the schedule of Jacksonville State University's proportionate share of the net pension liability on page 55 and the schedule of Jacksonville State University's contributions on page 56 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 Board of Trustees and University Officials on page 57 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017 on our consideration of Jacksonville State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jacksonville State University's internal control over financial reporting and compliance.

CDPA, P.C.

Athens, AL
March 29, 2017

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Jacksonville State University (University) for the year ended September 30, 2016. This discussion has been prepared by management and should be read in conjunction with the financial statements including the notes thereto, which follow this section.

Using the Financial Statements

The University's financial report includes the basic financial statements of the University and the financial statements of Jacksonville State University Foundation (Foundation), a legally separate, nonprofit component unit. The three basic financial statements of the University are: the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These statements are prepared in accordance with generally accepted accounting principles (Governmental Accounting Standards Board (GASB) pronouncements). The University is presented as a business-type activity. GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, establishes standards for external financial reporting for public colleges and universities and classifies resources into three net position categories – unrestricted, restricted, and net investment in capital assets.

The Foundation is presented as a component unit of the University in accordance with GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* The Foundation's financial statements include the Statement of Financial Position and the Statement of Activities and these statements are presented as originally audited according to U.S. generally accepted accounting principles and Financial Accounting Standards Board (FASB) pronouncements.

The Foundation was established to solicit donations and to hold and manage such assets for the exclusive benefit of the University. Resources managed by the Foundation and distributions made to the University are governed by the Foundation's Board of Directors (operating independently and separately from the University's Board of Trustees). The component unit status of the Foundation indicates that significant resources are held by the Foundation for the sole benefit of the University. However, the University is not accountable for, nor has ownership of, the Foundation's resources.

Statement of Net Position

The Statement of Net Position presents the financial position of the University at the end of the fiscal year and includes all assets, deferred outflows, liabilities and deferred inflows of the University. The net position is one indicator of the financial condition of the University, while the change in net position is an indicator of whether the financial condition has improved or declined during the year.

Condensed Statements of Net Position
($ in thousands)

	2016	2015
Assets		
Current Assets	$ 81,886	$ 93,832
Capital Assets, net	99,815	103,289
Other Assets	19,289	4,372
Total Assets	200,990	201,493
Deferred Outflow of Resources		
Deferral on Refunding	3,338	1,388
Deferred Outflows related to Pensions	10,979	5,266
Total Deferred Outflow of Resources	14,317	6,654
Liabilities		
Current Liabilities	45,073	43,823
Non-current Liabilities	148,903	137,894
Total Liabilities	193,976	181,717
Deferred Inflow of Resources		
Deferred Inflows related to Pensions	434	5,011
Net Position		
Invested in capital, net of debt	31,833	32,023
Restricted-expendable	14,318	15,107
Restricted-non-expendable	953	953
Unrestricted	(26,207)	(26,664)
	$ 20,897	$ 21,419

Total assets are categorized as either current assets, noncurrent assets, or capital assets on the Statement of Net Position. Current assets includes $10,664,000 in Accounts Receivable including $2,633,000 due from the federal government that was collected in November 2016. Current assets also include $8,507,000 of short term investments. Noncurrent assets include long term investments of $18,997,000.

Deferral on Refunding reflects the difference between the reacquisition price and the net carrying amount of the refunded bonds of $3,338,000, which will be amortized as a component of interest expense in future periods. The remainder of deferred outflow of resources represents the new accounting standard on pensions (GASB 68). This $10,979,000 is employee pension cost that has not been considered when calculating our pension liability by the Retirement System of Alabama (RSA) actuarial consultant.

Total liabilities are categorized as either current liabilities or noncurrent liabilities on the Statement of Net Position. Current liabilities are those due or will likely be paid in the next fiscal year. They are primarily comprised of accounts payable, accrued payroll, compensated absences, unearned revenue and other expenses and amounts due in the next year on debt. Noncurrent liabilities are comprised mostly of long-term debt and net pension liability. Total liabilities increased $12,259,000 during 2016 to a total of $193,976,000.

Total debt outstanding, which includes capital lease obligations, increased from $72,416,000 at September 30, 2015 to $73,347,000 at September 30, 2016 due to the issuance of new bonds to partially refund the 2009 Tuition and Fee Revenue Bond.

Deferred Inflows represent amounts that were earned from the RSA Pension Trust Fund in excess of the actual projections, and the change in our proportion within the trust fund.

Net Position for the prior year has been restated by $844,000 due to prior period accounting errors. This change is discussed in Note 18.

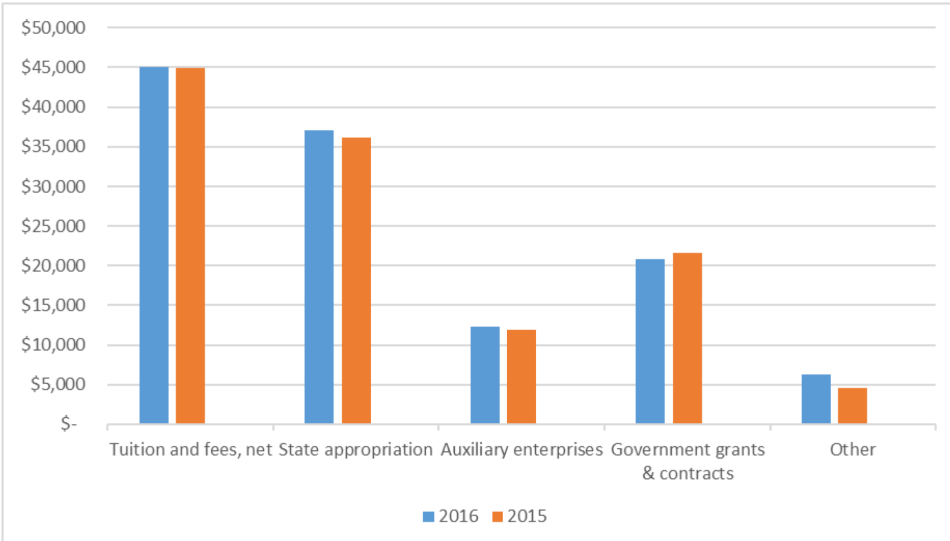
Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the results of operations for the University as a whole. Revenues, expenses and other changes in net position are reported as either operating or non-operating. Significant recurring sources of University revenue, such as state appropriations and investment earnings, are defined by GASB Statement No. 35 as non-operating.

Condensed Statements of Revenues Expenses and Changes in Net Position
($ in thousands)

	2016	2015
Operating Revenues	$ 70,668	$ 69,058
Operating Expenses	(118,679)	(116,500)
Operating Loss	(48,011)	(47,442)
Net nonoperating revenues	47,301	46,865
Income before other revenue, expenses, gains or losses	(710)	(577)
Other revenues, expenses, gains or losses	188	
Change in Net Position	(522)	(577)
Net position at beginning of year	21,419	21,996
Net position at end of year	$ 20,897	$ 21,419

Operating and Nonoperating Revenues by Year ($ in thousands)



The Statement of Revenues, Expenses and Changes in Net Position reflects an overall decrease in net position of 2 percent, or $522,000. Major changes in revenues in 2016 are described below.

Gross student tuition and fee revenue totaled $65,790,000 in 2016 as compared to $64,906,000 in 2015. The increase was primarily due to increase in enrollment for fall 2016.

Grant and contract revenue from government sponsors totaled $20,789,000 for 2016, as compared to $21,575,000 in the prior year. This includes a decrease in Pell revenue of $1,061,000 or 7.7%.

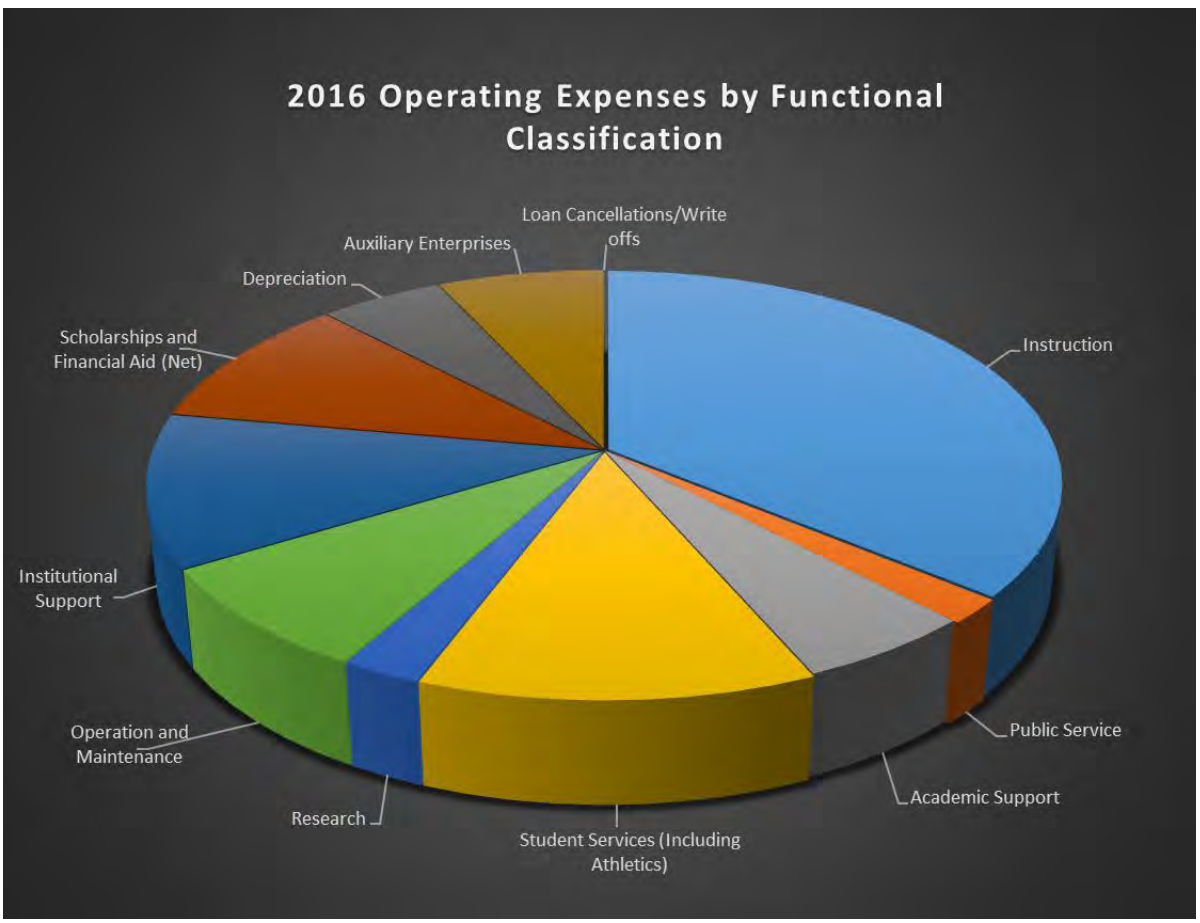
State appropriation increased by $891,000 or 2.5% from $36,204,000 in 2015 to $37,095,000 in 2016.

A comparison of operating expenses by functional and natural classification for selected fiscal years follows, with 2015 adjusted to reflect the prior period adjustments as discussed at Note 18 of the financial statements.

Operating Expenses

Functional Classification ($ in thousands)

		2016	%		2015	%
Instruction	$	42,766	36.0%	$	41,926	36.1%
Public Service		2,250	1.9%		2,488	2.1%
Academic Support		6,606	5.6%		6,345	5.4%
Student Services (Including Athletics)		14,513	12.2%		12,669	10.9%
Research		2,917	2.5%		2,664	2.3%
Operation and Maintenance		9,589	8.1%		10,124	8.7%
Institutional Support		13,724	11.6%		11,897	10.2%
Scholarships and Financial Aid (Net)		11,988	10.1%		12,858	11.0%
Depreciation		6,108	5.1%		6,511	5.6%
Auxiliary Enterprises		8,213	6.9%		8,863	7.6%
Loan Cancellations/Write offs		5	0.0%		155	0.1%
	$	118,679	100.0%	$	116,500	100.0%

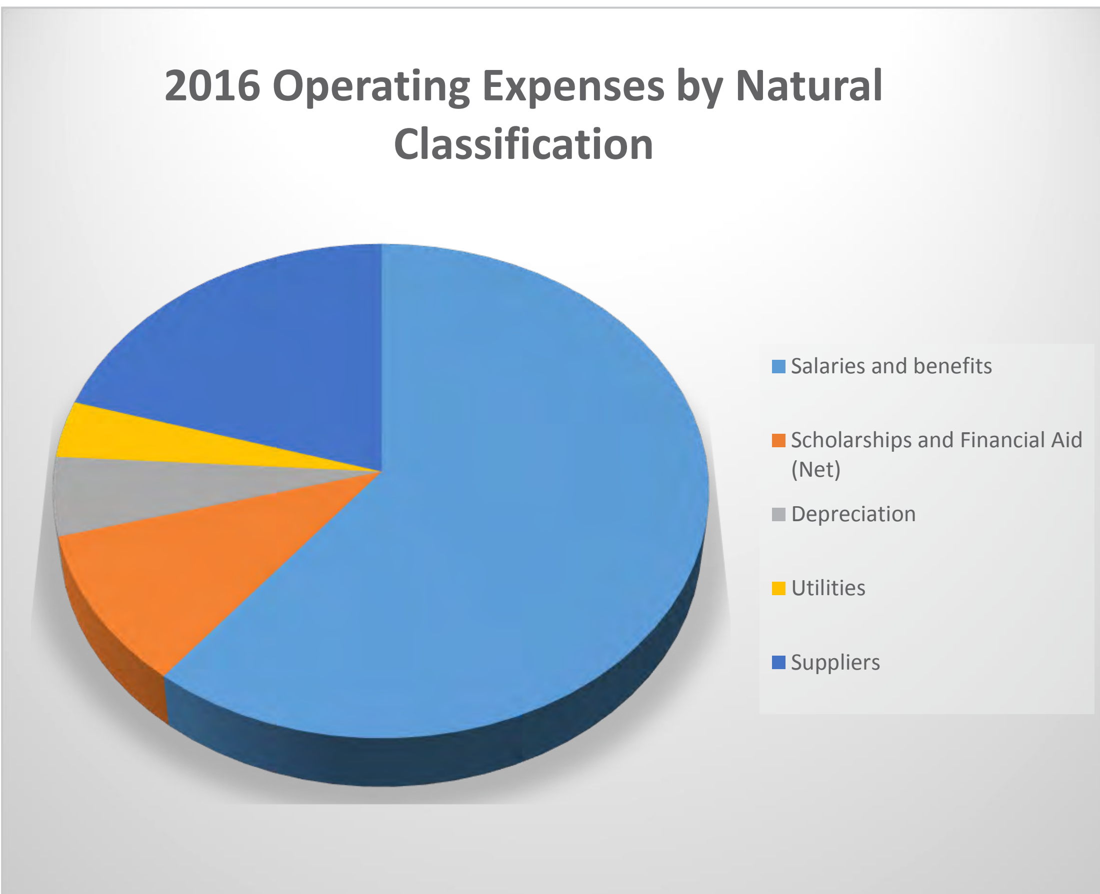


Total operating expenses increased by $2,179,000 or 2% primarily due to a one-time adjustment to allowance for doubtful accounts of $946,000 and increased salaries and benefits of $1,935,000 or 2.8%. These increases were partially offset by decreases in operations and maintenance, auxiliaries, and depreciation.

Operating Expenses

Natural Classification ($ in thousands)

	2016	%	2015	%
Salaries and benefits	$ 72,062	60.7%	$ 70,128	60.2%
Scholarships and Financial Aid (Net)	11,988	10.1%	12,858	11.0%
Depreciation	6,108	5.1%	6,511	5.6%
Utilities	4,001	3.4%	4,710	4.1%
Suppliers	24,520	20.7%	22,293	19.1%
	$ 118,679	100.0%	$ 116,500	100.0%



A portion of University resources applied to student accounts for tuition, fees, or room and board are not reported as student aid expense, but are reported in the financial statements as a scholarship allowance, directly offsetting student tuition and fee revenue or auxiliary revenue. Scholarship allowances totaled $20,780,000 in 2016 and $19,938,000 in 2015. In addition to the allowances, students participate in governmental financial aid/loan programs. The loans are neither recorded as revenue or expense in the financial statements, but are recorded in the Statements of Cash Flows as direct lending receipts totaling $42,085,000 and $38,656,000 in 2016 and 2015, respectively.

Condensed Statements of Cash Flows
($ in thousands)

	2016	2015
Cash provided (used) by:		
Operating activities	$ (41,940)	$ (42,003)
Non-capital financing activities	52,670	45,092
Capital and related financing activities	(6,775)	(10,810)
Investing activities	(17,326)	95
Net change in cash	(13,371)	(7,626)
Cash, beginning of year	63,517	71,143
Cash, end of year	$ 50,146	$ 63,517

The University's total cash balance decrease by $13.4 million primarily due to the purchase of investments of $22.3 million.

Capital and Debt Activities

Construction in progress at September 30, 2016 totaled $344,000 and includes the following major projects: Baseball complex, Library air handler, Tennis court resurfacing, Band practice field, and telephone system.

At September 30, 2016, $2,027,000 remains unexpended from refunding bond proceeds and is committed to capital projects.

Debt and Capital Leases

At September 30, 2016, total debt outstanding, including capital leases, totaled $73,347,000.

In fiscal year 2016, the University refunded $16 million of Series 2009 Tuition and Fee Revenue Bonds.

The University has an "A" Stable credit rating from Standard and Poor's. This rating was affirmed in December 12, 2016.

The University has traditionally utilized tax exempt financings to provide for its capital needs or to facilitate systematic renewals. Working capital is available to provide interim cash flow financing for facilities intended to be funded with general revenue bond proceeds or other debt arrangements.

Other Economic and Financial Conditions

The following is a description of currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations of the University.

The University continues to face significant financial challenges to its academic programs, stemming from the State's uncertain financial circumstances and our enrollment challenges.

The University issued a $10 million Tuition and Fee Revenue bond on February 6, 2017, to fund renovations to Sparkman and Daugette residence halls.

The University refunded the remaining 2009 Tuition and Fee Revenue Bonds in the amount of $35 million in January 2017. This refunding provided $5.4 million to be used for facility improvements.

GASB Statements 74 & 75 require the University to calculate and record a liability for postemployment benefits other than pensions. This calculation uses prescribed assumptions which will significantly impact the total liabilities and net position of the University for FY2018 and beyond.

Jacksonville State University
Statement of Net Position (in thousands)
September 30, 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current Assets		
Cash and Cash Equivalents	$	50,146
Accounts Receivable, Net of Allowance for Doubtful Accounts of $1,266		10,664
Prepaid Expenses and Unearned Scholarships		12,569
Investments		8,507
Total Current Assets		81,886
Noncurrent Assets		
Notes Receivable, Net of Allowance for Doubtful Accounts of $147		292
Deposit with Bond Trustee		4,934
Investments		14,008
Investment in Real Estate		55
Land		4,924
Depreciable Capital Assets		226,103
Less: Accumulated Depreciation		(131,212)
Total Noncurrent Assets		119,104
Total Assets	$	200,990
Deferred Outflows of Resources Related to Refunding of Debt		3,338
Deferred Outflows of Resources Related to Pensions		10,979
Total Deferred Outflows of Resources	$	14,317

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

Jacksonville State University
Statement of Net Position (in thousands)
September 30, 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current Liabilities	
Accounts Payable and Accrued Liabilities	$ 4,104
Wages Payable	3,462
Student Deposits	16
Unearned Revenue	33,076
Compensated Absences	893
Bonds Payable	3,423
Capital Lease Payable	64
Tuition Paid in Advance	35
Total Current Liabilities	45,073
Noncurrent Liabilities	
Compensated Absences	966
Bonds Payable	69,731
Capital Lease Payable	129
Deposits Held in Custody	1,004
Net Pension Liability	77,073
Total Noncurrent Liabilities	148,903
Total Liabilities	$ 193,976
Deferred Inflows of Resources	
Deferred Inflows of Resources Related to Pensions	$ 434
Net Position	
Invested in Capital Assets, Net of Related Debt	31,833
Restricted	
Nonexpendable	953
Expendable	
Scholarships and Fellowships	6,794
Loans	2,569
Debt Service	4,955
Unrestricted	(26,207)
Total Net Position	$ 20,897

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

Jacksonville State University Foundation, Inc.
Discretely Presented Component Unit
Statement of Financial Position
December 31, 2015

Assets	
Cash and Cash Equivalents	$ 1,740,386
Prepaid Insurance	12,424
Investments	31,398,799
Charitable Remainder Trusts, Restricted	1,075,434
Unconditional Promises to Give, Net	1,238,652
Note Receivable from JSUF Real Estate Holding Co., LLC	20,916
Property and Equipment, Net	132,043
Total Assets	$35,618,654
Liabilities	
Accounts Payable	$ 212,218
Charitable Trusts	252,143
Refundable Advances	1,744,299
Total Liabilities	2,208,660
Net Assets	
Unrestricted	459,440
Temporarily Restricted	21,694,458
Permanently Restricted	11,256,096
Total Net Assets	33,409,994
Total Liabilities and Net Assets	$ 35,618,654

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

Jacksonville State University

Statement of Revenues, Expenses and Changes in Net Position (in thousands)

For the Year Ended September 30, 2016

OPERATING REVENUES	
Student Tuition and Fees (Net of Scholarship Allowances of $20,780)	$ 45,010
Federal Grants and Contracts	5,340
State and Local Grants and Contracts	2,788
Nongovernmental Grants and Contracts	1,962
Sales and Services of Educational Departments	104
Athletic Income	3,086
Other Operating Revenues	110
Auxiliary Enterprises:	
Residential Life	6,216
Sales and Service	6,005
Other	47
Total Operating Revenues	70,668
OPERATING EXPENSES	
Instruction	42,766
Public Service	2,250
Academic Support	6,606
Student Services, including Athletics	14,513
Research	2,917
Operation and Maintenance	9,589
Institutional Support	13,724
Scholarships and Financial Aid	11,988
Depreciation	6,108
Auxiliary Enterprises	8,213
Loan Cancellations and Writeoffs	5
Total Operating Expenses	118,679
Operating Income (Loss)	(48,011)
NONOPERATING REVENUES (EXPENSES)	
State Appropriations	37,095
Federal Grants	12,661
Investment Income	545
Bond Issuance Cost	(352)
Bond Fees	(13)
Rental of Facilities	248
Other Nonoperating Revenue	3
Interest on Debt	(2,886)
Net Nonoperating Revenues	47,301
Excess of Revenues over Expenses	(710)
Capital Contributions Received	188
Change In Net Position	(522)
Total Net Position Restated - Beginning of Year (See Note 18)	21,419
Total Net Position - End of Year	$ 20,897

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

Jacksonville State University Foundation, Inc.
Discretely Presented Component Unit
Statement of Activities
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:				
Contributions	$ 16,339	$ 1,683,622	$ 393,922	$ 2,093,883
Investment Income	11,385	792,976	-	804,361
Realized Loss	(2,261)	(141,074)	-	(143,335)
Unrealized Loss	(14,475)	(1,061,998)	-	(1,076,473)
In-kind Gifts	315,594	166,371	-	481,965
Other Income	1,403	459,116	-	460,519
Management Fee Income	290,500	-	-	290,500
Total Revenue and Support	618,485	1,899,013	393,922	2,911,420
Net Assets Released from Restrictions	3,293,208	(3,293,208)	-	-
Net Revenue and Support	3,911,693	(1,394,195)	393,922	2,911,420
Expenses				
Program Services:				
JSU Supportive Services	3,866,060	-	-	3,866,060
Total Program Services	3,866,060	-	-	3,866,060
Fundraising	34,279	-	-	34,279
Management and General	35,645	-	-	35,645
Donation to JSUF Real Estate Holding Co., LLC	17,000	-	-	17,000
Total Expenses	3,952,984	-	-	3,952,984
Change in Net Assets	(41,291)	(1,394,195)	393,922	(1,041,564)
Net Assets - Beginning of Year	500,731	23,088,653	10,862,174	34,451,558
Net Assets - End of Year	$ 459,440	$21,694,458	$11,256,096	$33,409,994

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

Jacksonville State University
Statement of Cash Flows (in thousands)
For the Year Ended September 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and Fees	$ 44,359
Federal Grants and Contracts	4,986
State and Local Grants and Contracts	4,972
Sales and Services of Educational Departments	104
Athletic Income	3,135
Auxiliary	12,636
Other Operating Revenues	110
Payments to Suppliers	(23,759)
Payments for Utilities	(4,001)
Payments for Employees	(52,318)
Payments for Benefits	(19,191)
Payments for Scholarships	(12,973)
Net Cash Used in Operating Activities	(41,940)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State and Local Appropriations	37,095
Federal Grants	13,209
Federal Direct Loan Receipts	42,085
Federal Direct Loan Disbursements	(39,742)
Deposit Held for Others	(214)
Other Nonoperating Revenues (Expenses)	237
Net Cash Provided by Noncapital Financing Activities	52,670
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Other Financing Source – Proceeds of Refunding Bonds	18,110
Other Financing Use – Payment to Refund Bond – Escrow Agent	(17,940)
Other Financing Source – Premium on Bond Issuance	1,836
Principal Paid on Capital Debt	(3,130)
Payments on Capital Leases	(54)
Purchases of Capital Assets and Construction	(2,446)
Bond Issuance Costs	(352)
Interest Paid on Capital Debt	(2,799)
Net Cash Used in Capital and Related Financing Activities	(6,775)
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment Income	252
Proceeds from Sale and Maturity of Investments	4,771
Purchase of Investments	(22,349)
Net Cash Used in Investing Activities	(17,326)
Net Increase (Decrease) in Cash and Cash Equivalents	(13,371)
Cash and Cash Equivalents - Beginning of Year	63,517
Cash and Cash Equivalents - End of Year	$ 50,146

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

Statement of Cash Flows (in thousands)

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities	
Operating Income (Loss)	(48,011)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities	
Provision for Doubtful Accounts	1,077
Depreciation Expense	6,108
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(1,815)
Increase in Prepaid Expenses and Unearned Scholarships	(934)
Decrease in Notes Receivable	167
Increase in Compensated Absences	60
Decrease in Payables	(109)
Decrease in Other Liabilities	(2)
Increase in Pension Related Deferrals and Liabilities	235
Increase in Unearned Revenue	1,284
Net Cash Used in Operating Activities	$ (41,940)

Noncash Investing, Capital, and Financing Activities:

The University held investments with a fair value of $27,504 at September 30, 2016. During the year ended September 30, 2016, the net change in the fair value of these securities was $402.

During the year ended September 30, 2016, the University received noncash contributed assets of $188.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Jacksonville State University (the "University" or "JSU") 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 Jacksonville State University are described below.

A. Reporting Entity

Jacksonville State University is 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. The Governmental Accounting Standards Board (GASB) in Statement No. 14, "The Financial Reporting Entity," states that a primary government is financially accountable for a component unit if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama. The Governor appoints Jacksonville State University's Board of Trustees and the Alabama Senate ratifies the appointments. In addition, the University receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, Jacksonville State University is considered, for financial reporting purposes, to be a component unit of the State of Alabama.

B. Component Units

The Foundation's financial statements and accompanying notes are reported separately because of the difference in the reporting model for the Foundation. The Foundation follows the Financial Accounting Standards Board (FASB) rather than the Governmental Accounting Standards Board (GASB). As a result, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial statements for these differences. Significant note disclosures (see Note 20) to the Foundation's financial statements have been incorporated into the University's notes to the financial statements.

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

The financial statements of Jacksonville 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.

Jacksonville State University follows all applicable GASB pronouncements as well as the following pronouncements unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board (APB) Opinions, and Accounting Research Bulletins (ARBs).

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 nonoperating 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. Nonoperating revenues arise from exchange transactions not associated with the University's principal activities, such as investment income and from all nonexchange transactions, such as state appropriation.

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

1. Deposits and Investments

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

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

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

2. Receivables

Accounts receivable relate to amounts due from students for tuition and fee billings, federal grants, state appropriations, third party tuition, and auxiliary enterprise sales. Notes receivable reflect amounts due from students for loans collected by the University. The receivables are shown net of allowance for doubtful accounts.

3. Capital Assets

Equipment, furniture, and vehicles with a unit cost over $5,000 and an estimated useful life in excess of one year; buildings and building improvements with a unit cost over $250,000 and an estimated useful life in excess of one year, land improvements with a unit cost over $100,000 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. The capitalization threshold for intangible assets such as capitalized software and internally-generated computer software is $1 million, and $200,000 for easements and land use rights and patents, trademarks, and copyrights. In addition, works of art, 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 cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life is 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, that 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	40 Years
Improvements Other Than Buildings	Straight Line	5 Years
Equipment:		
Furniture, Office Equipment, Automobiles, Computer Hardware and Software, Cameras	Straight Line	4 Years
Athletic Equipment, Grounds Equipment	Straight Line	8 Years
Library Materials	Composite	8 Years
Capitalized Software	Straight Line	8 Years
Internally-Generated Computer Software	Straight Line	8 Years
Easement and Land Use Rights	Straight Line	20 Years
Patents, Trademarks, and Copyrights	Straight Line	20 Years

4. Long-Term Obligations

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

5. Compensated Absences

The Board of Trustees determines annual and sick leave policies for the University's employees. The annual and sick leave policies adopted by the University are as follows:

Staff and department head employees earn eight hours per month of sick leave with no maximum accumulation. Staff and department head employees earn and accumulate annual leave at the following rates:

Years of Employment	Number of Days Each Year	Maximum Days Accumulation
Less than 10 years	12 days	24 days
10 – 20 Years	15 days	30 days
More than 20 Years	18 days	36 days

Faculty of the University earn eight hours of sick leave for each of the nine months of the contract year and for each month paid for a summer assignment, with no maximum accumulation. Faculty members do not earn annual leave. No liability is recorded for sick leave. Payment is not made to employees for unused sick leave at termination or retirement.

6. Prepaid Expenses and Unearned Scholarships

Prepaid expenses and unearned scholarships consist primarily of prepaid costs resulting 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.

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. 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.

9. 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.

10. Net Position

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

Invested in Capital Assets, Net of Related Debt - Capital assets, including restricted capital assets, reduced by accumulated depreciation and by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. 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 include the University's 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.

Unrestricted - Net Position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of investment in capital assets, net of related debt, or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Board of Trustees.

11. Federal Financial Assistance Programs

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

12. Scholarship Allowances and Student Aid

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

13. 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.

14. Recent Accounting Pronouncements

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

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

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than 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 is currently evaluating the impact of this pronouncement on their financial statements.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 64, 74, and 82. The provisions of Statement No. 76 are effective for financial statements for periods beginning after June 15, 2015. The adoption did not materially affect the University's financial statements.

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

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

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, 2016, deposits held by financial institutions participating in the SAFE program totaled $57,767,488.

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 investments of the University are invested pursuant to the "Non-endowment Cash Pool Investment Policy" as adopted by the Board of Trustees. The purpose of the non-endowment cash pool investment policy is to provide guidelines by which commingled funds not otherwise needed to meet daily operational cash flows can be invested to earn a maximum return, yet still maintain sufficient liquidity to meet fluctuations in the inflows and outflows of the University's operational funds. The University Investment Policy requires that management apply the "prudent person" standard in the context of managing its investment portfolio. The University is allowed to hold donated investments, such as stocks, mutual funds, and real estate in accordance with donor stipulations. These investments are maintained separately from other University investments.

Certificates of deposit and commercial paper are measured using cost-based measures as provided by GASB 31.

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

		Fair Value Measurements Using		
Investments	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Bonds	$16,724,760	$16,724,760	$ -	$ -
Mutual Funds	4,076,731	4,076,731	-	-
Stocks	141,544	141,544	-	-
Real Estate	54,637	-	-	54,637
	$20,997,672	$20,943,035	$ -	$ 54,637
Investments Valued Using Cost-Based Measures				
Certificates of Deposit	5,512,385			
Commercial Paper	993,472			
Total Investments	$27,503,529			

The investments shown above that are categorized as Level 1 are valued based on prices quoted in active markets for those securities. The investments shown above that are categorized as Level 3 are valued using a capitalization of earnings cash flow technique under the income approach.

During the year ended September 30, 2016, the University realized losses of $109,214 from the disposal of investments. The calculation of realized losses is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The University had unrealized gains during the year ended September 30, 2016 of $401,772.

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 fair value losses arising from interest rate risk. At year end, the University had the following investments subject to interest rate risk:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1 Year	1-5	6-10	Thereafter
Bonds	$16,724,760	$2,250,745	$14,474,015	$ -	$ -
Total	$16,724,760	$2,250,745	$14,474,015	$ -	$ -

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
Bonds	AAA	100%

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 limiting investments to any one issuer to less than five percent of the University’s total investments. At September 30, 2016, the University had $3,092,017 in mutual funds issued by Ameriprise Financial, $781,266 in a Large Cap Value Fund issued by Legg Mason Global Asset Management and $12,784,083 in commercial paper and bonds with Regions Bank.

For the University Trustee that Holds Bond Funds

At September 30, 2016, the University had $4,934,148 in accounts administered by its bond trustee. In accordance with the covenants of the University's Revenue Bonds, the trustee is permitted to invest these funds in direct general obligations of the United States or securities the payment of which is unconditionally guaranteed by the United States.

NOTE 3 - RECEIVABLES

Receivables are reported net of uncollectible amounts and are summarized as follows:

Accounts Receivable:	
Federal	$ 3,259,169
State	3,290,613
Other	1,641,813
Student Accounts Receivable	3,737,906
Less: Allowance for Doubtful Accounts	(1,265,745)
Total Accounts Receivable, Net	10,663,756
Notes Receivable:	
Loans	438,960
Less: Allowance for Doubtful Accounts	(146,920)
Total Notes Receivable, Net	292,040
Total Receivables, Net	$ 10,955,796

NOTE 4 - CAPITAL ASSETS

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

	Restated Balance October 1, 2015	Additions	Deductions	Transfers	Balance September 30, 2016
Land	$ 4,873,226	$ 50,353	$ -	$ -	$ 4,923,579
Buildings	172,633,200	415,639		2,275,551	175,324,390
Improvement Other than Buildings	11,736,559	337,184	-	-	12,073,743
Equipment	17,914,542	1,126,247	(163,222)	-	18,877,567
Library Holdings	19,328,885	360,976	(206,304)	-	19,483,557
Construction in Progress	2,275,551	343,855	-	(2,275,551)	343,855
Total	228,761,963	2,634,254	(369,526)	-	231,026,691
Less: Accumulated Depreciation					
Buildings	80,559,002	4,388,488	-	-	84,947,490
Improvements Other than Buildings	11,639,298	164,698	-	-	11,803,996
Equipment	15,655,144	1,116,599	(163,222)	-	16,608,521
Library Holdings	17,619,655	438,677	(206,304)	-	17,852,028
Total Accumulated Depreciation	125,473,099	6,108,462	(369,526)	-	131,212,035
Total Capital Assets, Net	$ 103,288,864	$(3,474,208)	$ -	$ -	$ 99,814,656

Total interest incurred for the year ended September 30, 2016 was $2,885,576. All of this amount was charged to expense.

NOTE 5 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

B. Benefits Provided

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

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

C. Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were

$5,623,694 for the year ended September 30, 2016.

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

At September 30, 2016 the University reported a liability of $77,073,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2015 the University's proportion was .736%, which was an increase of .004% from its proportion measured as of September 30, 2014.

For the year ended September 30, 2016, the University recognized pension expense of $6,027,000. At September 30, 2016 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 418,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	5,046,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	309,000	16,000
Employer contributions subsequent to the measurement date	5,623,694	-
	$ 10,978,694	$ 434,000

$5,623,694 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2017	917,000
2018	917,000
2019	917,000
2020	2,175,000
2021	(5,000)

E. Actuarial Assumptions

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

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

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2014, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

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

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

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

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

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increases (9.00%)
University's proportionate share of collective net pension liability	101,963,000	77,073,000	55,964,000

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditor's report dated October 17, 2016 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 6 – TEACHERS' INSURANCE AND ANNUITY ASSOCIATION – COLLEGE RETIREMENT EQUITIES FUND (TIAA-CREF)

Regular full-time employees that have completed two years of continuous service are eligible for an optional supplemental retirement program, Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). The University contributes 1% of gross salary for all eligible employees with an additional match to those employees that opt to contribute to the plan for an additional 2 – 4%. Participants become immediately vested and are eligible for distributions upon severance from employment, upon incurring a disability, upon hardship, and upon attainment of age 59 ½. Distributions may be in the form of lump sum payments or through the purchase of an annuity contract. Employee contributions to the plan during the year ended September 30, 2016, were $1,808,934. Jacksonville State University contributed $1,408,389 under this plan for the year ended September 30, 2016. At September 30, 2016, the University had a payable of $240,647 due to TIAA-CREF, which was included in accounts payable and accrued liabilities on the Statement of Net Position.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

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

B. Funding Policy

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

	Fiscal Year 2016
Individual Coverage - Non-Medicare Eligible	$ 151
Individual Coverage - Medicare Eligible	$ 10
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-spousal Dependent(s)	$ 391
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents with Non-Medicare Eligible Spouse	$ 416
Family Coverage - Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	$ 250
Family Coverage - Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	$ 260
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	$ 250
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – with Non-Medicare Eligible Spouse	$ 275
Family Coverage - Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	$ 109
Family Coverage - Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	$ 119
Tobacco Surcharge	$ 50
Surviving Spouse - Non-Medicare Eligible	$ 740
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	$ 987
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	$1,033
Surviving Spouse - Medicare Eligible	$ 425
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	$ 679
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	$ 725

For employees that retire, other than for disability, on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. Employees who retire on or after January 1, 2012, with less than 25 years of service are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is $50 per month for retired members that use tobacco products.

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

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by University	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2016	$780	$211	27.08%	$2,289,957	100%
2015	$780	$181	23.17%	$1,944,349	100%
2014	$714	$220	30.83%	$2,314,384	100%

Effective October 1, 2014, the PEEHIP allocation increased from $714 per month to $780. The Alabama legislature did not support funding to cover the employer rate increase for any University. As a result, the Jacksonville State University Board of Trustees voted to pass Resolution 561 authorizing an increase in the payroll deduction for each full-time, active University employee. Each JSU employee will be required to pay an additional insurance deduction, based on the following sliding salary scale.

	Staff and Escrow* Faculty	**Non-Escrow** Faculty**
Salary Range	*Additional Monthly Insurance Deduction*	
$ 0 — $ 34,999	$ 46.00	$ 61.33
$ 35,000 — $ 53,999	$ 66.00	$ 88.00
$ 54,000 or more	$ 86.00	$ 114.67

*Escrow faculty are 9-month faculty who receive payments over 12 months.

**Non-escrow faculty are 9-month faculty who receive payments over 9 months.

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

NOTE 8 – ON-BEHALF PAYMENTS

The U. S. Department of Health and Human Services makes retiree drug subsidy (RDS) payments under the provisions of Medicare Part "D" directly to the Public Education Employees' Health Insurance Plan (PEEHIP) on behalf of the University. For the period October 1, 2015 through September 30, 2016, these payments totaled $605,932.

NOTE 9 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Jacksonville State University's construction project commitments as of September 30, 2016 are estimated at $350,000 consisting primarily of various heating, ventilation and air conditioning projects, tennis courts, coliseum improvements and Bibb Graves restrooms.

As of September 30, 2016, Jacksonville State University had been awarded approximately $13,921,031 in contracts and grants on which performance had not been initiated, nor funds received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

NOTE 10 - ACCOUNTS PAYABLE

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

Salaries and Wages	3,462,385
Benefits	415,783
Payroll Taxes	1,233,999
Interest Payable	935,943
Other	1,518,259
Total	$ 7,566,369

NOTE 11 – CAPITAL LEASE OBLIGATIONS

The University leases certain items of equipment that are classified as capital leases. The University entered into a five year lease agreement with Canon Financial Services on October 1, 2014. The leased assets are included with equipment in depreciable capital assets with a cost of $296,912, net of accumulated depreciation of $148,456. Amortization of leased assets is included with depreciation expense. Interest on the lease is at 5.93%. Minimum lease payments under capital leases together with the present value of the net minimum lease payments are shown in the table below:

Fiscal Years	Equipment
2016-2017	$ 74,396
2017-2018	68,765
2018-2019	68,765
Minimum Lease Payments	211,926
Less: Amounts Representing Interest	18,687
Present Value of Net Minimum Lease Payments	$ 193,239

NOTE 12 - LONG-TERM LIABILITIES

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

	Restated Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Lease Obligations	$ 246,936	$ -	$ 53,697	$ 193,239	$ 63,852
Revenue Bonds	72,960,000	18,110,000	19,130,000	71,940,000	3,340,000
Bond Discounts	(791,275)	-	(239,528)	(551,747)	(27,289)
Bond Premiums	-	1,836,281	70,814	1,765,467	110,172
Total Bonds	72,168,725	19,946,281	18,961,286	73,153,720	3,422,883
Other Liabilities:					
Compensated Absences	1,798,988	952,474	892,610	1,858,852	892,610

The Board of Trustees issued Tuition and Fee Revenue Bonds in 2009, 2011, 2014, 2015 and 2016. The 2009 bonds were issued to cover construction costs and the defeasance of the 1999 Revenue Bond. The 2011 bonds were issued to defease the 2002 Revenue Bond. The 2014 Bonds were issued to defease the 2008 Revenue Bonds. The 2015 and 2016 bonds were issued to partially defease the 2009 Revenue Bonds.

Deferrals on Refunding, Original Issue Discount and Original Issue Premium

The University has deferrals on refunding in connection with the issuance of its 2011, 2014, 2015 and 2016 Series Revenue Bonds. The University has an original issue discount in connection with the issuance of its 2009 and 2014 Series Revenue Bonds and an original issue premium in connection with the issuance of its 2015 and 2016 Series Revenue Bonds. Bonds Payable is reported net of the original issue premium and discount.

	Deferrals on Refunding	Original Issue Discount	Original Issue Premium
Total Deferrals, Discounts and Premiums	3,865,883	987,107	1,836,281
Amount Amortized Prior Years	328,462	195,832	
Balance of Deferrals, Discounts and Premiums	3,537,421	791,275	1,836,281
Current Amount Amortized	199,168	30,689	70,814
Current Amount Loss due to refunding		208,839	
Balance of Deferrals, Discounts and Premiums	3,338,253	551,747	1,765,467

The deferrals on refunding, original issue discounts and premiums will be amortized as follows:

Fiscal Year	Deferral on Refunding	Original Issue Discount	Original Issue Premium
2017	$ 244,410	$ 27,289	$ 110,172
2018	244,410	27,289	110,172
2019	244,410	27,289	110,172
2020	244,410	27,289	110,172
2021	244,410	27,289	110,172
2022-2026	986,618	136,448	550,862
2027-2031	868,319	130,787	550,862
2032-2036	261,266	98,711	112,883
2037-2041	-	49,356	-
	$ 3,338,253	$ 551,747	$ 1,765,467

A trustee holds deposits, including earnings on investments of these deposits. Revenue from student tuition and fees sufficient to pay the annual debt service are pledged to secure the bonds. Principal and interest maturity requirements on bond debt are as follows:

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2016-2017	3,340,000	2,780,528	6,120,528
2017-2018	3,445,000	2,675,461	6,120,461
2018-2019	3,555,000	2,561,075	6,116,075
2019-2020	3,685,000	2,438,058	6,123,058
2020-2021	3,055,000	2,324,754	5,379,754
2021-2022	3,160,000	2,220,925	5,380,925
2022-2023	3,275,000	2,112,278	5,387,278
2023-2024	2,230,000	2,019,561	4,249,561
2024-2025	2,300,000	1,941,659	4,241,659
2025-2026	2,390,000	1,855,489	4,245,489
2026-2027	2,490,000	1,762,874	4,252,874
2027-2028	2,580,000	1,666,179	4,246,179
2028-2029	2,675,000	1,567,768	4,242,768
2029-2030	2,780,000	1,469,042	4,249,042
2030-2031	2,875,000	1,365,615	4,240,615
2031-2032	2,990,000	1,251,535	4,241,535
2032-2033	3,115,000	1,130,737	4,245,737
2033-2034	3,240,000	1,003,637	4,243,637
2034-2035	3,385,000	863,403	4,248,403
2035-2036	3,555,000	696,872	4,251,872
2036-2037	3,740,000	509,937	4,249,937
2037-2038	3,935,000	313,266	4,248,266
2038-2039	4,145,000	106,215	4,251,215
	71,940,000	36,636,868	108,576,868

The Jacksonville State University Board pledged student tuition and fees to repay $61,665,000 in Tuition and Fee Revenue Bonds issued on April 1, 2009 at interest rates ranging from 1.0 to 5.125%. The funds were used to refund the University's outstanding Revenue Bonds Series 1999, then outstanding in the amount of $6,340,000 and also to construct, renovate, and equip a portion of certain capital improvements. Future revenues in the amount of $57,258,664 are pledged to repay principal and interest on the bonds at September 30, 2016. Pledged revenues in the amount of $45,009,792 were received during the fiscal year ended September 30, 2016, with $4,119,575, or 9.2% of pledged revenues, being used to pay principal and interest payments during this fiscal year. These bonds are scheduled to mature in fiscal year 2039.

A portion of the 2009 Revenue Bonds was advance refunded in December 2015 with the issuance of the Series 2015 Revenue Bonds and in March 2016 with the issuance of the Series 2016 Revenue Bonds. An escrow fund was established upon issuance of the Series 2015 Bonds that together with investment income will be used for the redemption and retirement of $8,000,000 of the outstanding principal of the 2009 Revenue Bonds plus accrued interest to an early redemption date of December 1, 2018. An escrow fund was also established upon issuance of the Series 2016 Bonds that together with investment income will be used for the redemption and retirement of an additional $8,000,000 of the 2009 Revenue Bonds plus accrued interest to an early redemption date of December 1, 2018. At September 30, 2016, the in substance defeased debt had an outstanding balance of $16,000,000. The amount of escrowed funds associated with the refunded Series 2009 balance together with investment income will equal the outstanding principal amount plus accrued interest needed through December 1, 2018, the early redemption date. At September 30, 2016, the outstanding principal balance of the unfunded bonds totaled $35,020,000.

At the issuance of the Series 2015 Revenue Bonds, the remaining cash flows required to service the Refunded Series 2009 Bonds totaled $14,015,863, while the remaining cash flows required to service the Series 2015 Bonds totaled $13,925,430. The savings associated with this reduced cash flow discounted back to 2015 was approximately $76,696.

At the issuance of the Series 2016 Revenue Bonds, the remaining cash flows required to service the Refunded Series 2009 Bonds totaled $15,339,256, while the remaining cash flows required to service the Series 2016 Bonds totaled $15,136,515. The savings associated with this reduced cash flow discounted back to 2016 was approximately $184,795.

The Jacksonville State University Board pledged student tuition and fees to repay $11,060,000 in Tuition and Fee Revenue Bonds issued on August 1, 2011 at interest rates ranging from 2.0 to 4.0%. The funds were used to advance refund the University's outstanding Revenue Bonds Series 2002, then outstanding in the amount of $10,385,000, and to pay issuance costs. Future revenues in the amount of $7,968,888 are pledged to repay principal and interest on the bonds at September 30, 2016. Pledged revenues in the amount of $45,009,792 were received during the fiscal year ended September 30, 2016 with $1,135,225, or 2.5% of pledged revenues, being used to pay principal and interest payments during this fiscal year. These bonds are scheduled to mature in fiscal year 2023.

The Jacksonville State University Board pledged student tuition and fees to repay $12,055,000 in Tuition and Fee Revenue Bonds issued on August 1, 2014 at interest rates ranging from 1.75 to 3.1%. The funds were used to advance refund the University's outstanding Revenue Bonds Series 2008, then outstanding in the amount of $10,000,000. Future revenues in the amount of $14,493,891 are pledged to repay principal and interest on the bonds at September 30, 2016. Pledged revenues in the amount of $45,009,792 were received during the fiscal year ended September 30, 2016 with $467,340 or 1.0% of pledged revenues, being used to pay principal and interest payments during this fiscal year. These bonds are scheduled to mature in fiscal year 2031.

The Jacksonville State University Board pledged student tuition and fees to repay $8,950,000 Tuition and Fee Revenue Bonds issued on December 14, 2015 at interest rates ranging from 1.85 to 4.0%. The funds were used to advance refund a portion of the University's outstanding Revenue Bonds Series 2009, then outstanding in the amount of $8,000,000. Future revenues in the amount of $13,772,715 are pledged to repay principal and interest on the bonds at September 30, 2016. Pledged revenues in the amount of $45,009,792 were received during the fiscal year ended September 30, 2016 with $152,715, or .3% of pledged revenues, being used to pay principal and interest payments during this fiscal year. These bonds are scheduled to mature in fiscal year 2033.

The Jacksonville State University Board pledged student tuition and fees to repay $9,160,000 in Tuition and Fee Revenue Bonds issued on March 17, 2016 at interest rates ranging from 1.3 to 4.0%. The funds were used to advance refund a portion of the University's outstanding Revenue Bonds Series 2009, then outstanding in the amount of $8,000,000. Future revenues in the amount of $15,082,710 are pledged to repay principal and interest on the bonds at September 30, 2016. Pledged revenues in the amount of $45,009,792 were received during the fiscal year ended September 30, 2016 with $53,805 or .1% of pledged revenues, being used to pay principal and interest payments during this fiscal year. These bonds are scheduled to mature in fiscal year 2035.

NOTE 13 – 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 $3.5 million per occurrence. The SIF purchases commercial insurance for claims in excess of $3.5 million. The University purchases commercial insurance for its automobile coverage, general liability and professional legal liability coverage. In addition, the University has a blanket fidelity bond that covers all employees.

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; 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 that 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 14 – ENDOWMENTS

If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board of Trustees is required to consider Jacksonville State University's "long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic condition." Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The President is authorized through the Board of Trustees to estimate revenue on endowments each year for expenditures. The current practice is to estimate revenue for most endowments at 1% of the assets. The remaining amount, if any, is retained to be used in future years when the amount computed exceeds the investment income. At September 30, 2016, net appreciation of $75,682 is available to be spent for endowed purposes.

NOTE 15 – COMPONENT UNITS

During the year ended September 30, 2016, Jacksonville State University Foundation, Inc., a discretely presented component unit distributed $1,373,074 to Jacksonville State University for both restricted and unrestricted purposes. At September 30, 2016, Jacksonville State University has recorded a receivable of $243,936 due from the Foundation for scholarships. Due to the difference in the fiscal year of the University and the Foundation, inconsistencies exist in the amounts reported as due to or due from and distributed to or received from. The complete audited financial statements of the Foundation can be obtained upon written request to JSUF.

NOTE 16 – RELATED PARTIES

Jacksonville State Alumni Association was created to promote scientific, literary, and educational purposes, advancement of Jacksonville State University, and for the encouragement and support of its students and faculty. This report contains no financial information related to the Jacksonville State Alumni Association.

NOTE 17 – JOINT OPERATION

On June 23, 2000, Jacksonville State University entered into a Joint Real Property Development and Cooperative Agreement with Gadsden State Community College for the purpose of constructing and equipping an Economic Development Center on the premises of Gadsden State Community College. Each school contributed $1,000,000 with an additional $1,000,000 provided by State of Alabama Building Commission Funds. Each party occupies and utilizes the facility on an equal basis. Each party contributes to the maintenance and operation costs for the use and operation of the facility on an equal basis.

Jacksonville State University and Gadsden State Community College also entered into an agreement to build classrooms and an administration building at McClellan. The building is known as the McClellan Higher Education Consortium. Jacksonville State University's one-half share of the building cost is $3,500,000.

NOTE 18 – PRIOR YEAR RESTATEMENT

The beginning net position has been restated for the net original issue discount related to the 2009 Tuition and Fee Revenue Bonds and for an error in depreciation expense, resulting in beginning Net Position restated as follows:

Beginning Net Position October 1, 2015	$20,574,998
Prior Period Adjustment	
To record net original issue discount related to the 2009 bond issue.	676,175
To correct a depreciation error	168,244
Net Position October 1, 2015, as Restated	$21,419,417

NOTE 19 - SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, which was the date the financial statements were available to be issued. Subsequent to year end, the University issued $34,880,000 in Tuition and Fee Revenue bonds to advance refund the remainder of the Series 2009 bonds. In addition, the University subsequently issued $10,000,000 in Tuition and Fee Revenue bonds to fund the renovation of Sparkman and Daugette residence halls.

NOTE 20 – JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC. NOTES TO THE FINANCIAL SATEMENTS

Nature of Organization

The overall mission of the Jacksonville State University Foundation, Inc. (the Foundation) is to maximize private gift support for Jacksonville State University while laying the groundwork for future fundraising success in order to aid the University in fulfilling its own mission of excellence in education, research, and service. The Foundation owns JSUF Real Estate Holding Company, LLC (the Holding Company) which held a hotel that was sold in 2013. The Holding Company's total assets were $41,017 at December 31, 2015 and are not included in the financial statements.

Financial statement presentation

For financial statement presentation, the Foundation uses the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Foundation reports information regarding its financial position and activities according to three classes of net assets, unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted net assets are amounts which are currently available at the discretion of the Foundation for use in their operations.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting which conforms to accounting principles generally accepted in the United States of America (GAAP).

Fund accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to objectives specified by donors, and/or restrictions imposed by external authorities.

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash held in trust accounts is considered to be an investment.

Investments

In accordance with FASB ASC 958-920, *Not-for-Profit Entities: Investments—Debt and Equity Securities*, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying statements of financial position. Investments in land, limited partnerships and alternative investments are stated at fair value where appropriate, or at cost if their fair value cannot be reliably measured due to the lack of active markets where they are traded.

The year to year increase or decrease in value of investments is reflected in the accompanying statements of activities and changes in net assets. Realized gains and losses on the sale of investments are calculated based on the specific identification method.

Pooled Investment Program

The Foundation places certain investments with investment managers who invest the funds in an investment pool (Pooled Investment Program). The Foundation is the only participant in the pool. Investment income and realized gains and losses on these pooled assets are allocated to the participating endowment funds. Each endowment fund is assigned a percentage of its prorated value to the market value of all assets at the time of entry into or liquidation from the pool.

Assets Held under Split-Interest Agreements

Charitable remainder trust agreements require periodic payment of either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate either at a specific time or upon the death of the designated individual. A liability for each remainder trust, where the Foundation is a trustee, is established and calculated as the present value of future payments to be made to the designated beneficiaries. Upon termination, the remaining assets of the remainder trust are then available for use by the Foundation to be used in accordance with the donor’s intent. The Foundation uses an actuarial approach to determine both the contribution and liability amounts to be recognized. For remainder trusts held by the Foundation the discount rate varied between 6% and 9.5% during the year ended December 31, 2015. There were no new trusts established in 2015.

Contributions and Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted amounts received, but not yet earned are reported as deferred restricted amounts.

Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable or pledge receivable.

Property and Equipment

Real property and equipment are capitalized at cost if purchased and fair value if donated if the asset is expected to provide a benefit for more than one year. Depreciation is computed for purchased operating equipment of the Foundation based on the straight-line method over the estimated useful lives of the related assets over a period of 3 to 39 years.

Realized gains and losses from the sale or disposal of real property, equipment, and other assets are computed based on the difference between the proceeds received and the net carrying value of the asset.

Impairment of Long-Lived Assets

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360-10-15, *Impairment or Disposal of Long-Lived Assets,* the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The Company evaluates its investment in long-lived assets used in operations for impairment annually. Long-lived asset disposals are required to be reported at the lower of carrying amount or fair value less selling costs. There was no impairment of long-lived assets at December 31, 2015.

In-Kind Gifts

In-kind gifts are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying consolidated financial statements as in-kind contributions are offset by like amounts included in expenses. Services received by the Foundation during the year ended December 31, 2015 include personnel salaries and office space paid by Jacksonville State University totaling $315,594.

A substantial number of volunteers have donated significant amounts of their time to the Foundation; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Income Tax

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Internal Revenue Service has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Code. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

The Foundation follows the provisions of FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. As of December 31, 2015, the Agency had no uncertain tax positions that qualify for disclosure in financial statements. The Foundation files an annual Form 990 with the Internal Revenue Service and its tax returns for previous open tax years may be subject to examination by taxing authorities.

Subsequent Events

The Foundation has evaluated subsequent events and transactions that occurred between January 1, 2015 and April 21, 2016, which is the date the financial statements were available to be issued, for possible recognition and disclosure in the financial statements for the year ended December 31, 2015.

A. Promises

Promises to give consist of amounts that are both unconditional and conditional in nature. The Foundation's capital campaign to obtain funding for various scholarships and University departments raised funds that are generally classified as temporarily or permanently restricted. Any restrictions on promises to give are based on donor designations.

Unconditional promises to give at December 31, 2015 are as follows:

Receivable in less than one year	$ 271,080
Receivable in one to five years	620,016
Receivable in more than five years	1,609,666
Total unconditional promises to give	2,500,762
Less allowance for bad debt	(987,174)
Less discounts to net present value at 3.25%	(274,936)
Net unconditional promises to give	$1,238,652

B. Fair Value of Financial Instruments

ASC 825, *Financial Instruments* requires disclosures about the fair value for all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about fair value of financial instruments are based on pertinent information available to management as of December 31, 2015. Accordingly, the estimates presented in these statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments.

C. Investments

Investments which include charitable remainder trusts are reported primarily on the basis of quoted market prices and consist primarily of mutual funds, stocks, bonds, and alternative investments. The following are the Foundation's investments by type at December 31, 2015:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Mutual funds:			
Bond funds	$ 2,538,870	$ 2,491,252	$ (47,618)
Balanced funds	6,813,880	5,914,500	(899,380)
Equity funds	5,719,056	5,229,709	(489,347)
Index funds	5,082,783	5,631,421	548,638
Other	2,000,050	1,954,961	(45,089)
Money markets	1,688,405	1,688,405	-
Government obligations	1,291,289	1,336,656	45,367
Mortgage backed securities	418,740	408,805	(9,935)
Corporate obligations	3,532,610	3,486,446	(46,164)
Municipal bonds	2,178,525	2,206,324	27,799
Common stock:			
Financial	20,005	19,860	(145)
Consumer goods	18,251	18,885	634
Basic materials	4,380	3,898	(482)
Industrial goods	9,671	11,850	2,179
Services	32,924	32,924	-
Real estate investment trusts	262,500	303,061	40,561
Alternative investments	1,810,383	1,606,892	(203,491)
Total	$ 33,422,322	$ 32,345,849	$ (1,076,473)

Investments that are reported at cost are as follows at December 31, 2015:

	Cost
Limited Partnerships	$ 128,384
	$ 128,384

The estimated fair value of debt securities at December 31, 2015, by contractual maturities, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay with or without call or prepayment penalties.

	Estimated Market Value
Due in one year or less	$ 1,104,683
Due after one through five years	3,470,051
Due after five through ten years	2,863,497
	$ 7,438,231

Investment expenses were $395,789 for the years ended December 31, 2015.

Endowment Investment and Spending Policies

The Foundation follows the Uniform Prudent Management of Institutional Funds Act of 1972 (UPMIFA) and its own governing documents. UPMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UPMIFA. The Foundation's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

The Board of Directors, on the advice of legal counsel, has determined that the majority of the Foundation's contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the Foundation's governing documents, the Board of Directors has the ability to distribute the original principal of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute the original principal, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to exceed an absolute rate of return equal to the minimum payout obligation, plus all management fees, brokerage and custodial expenses, plus three percent (3.0%) in order to combat the economic impact of long-term inflation. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on U.S. Treasury securities and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The current spending policy is to distribute an amount equal to four percent (4.0%) of the average quarterly total balance for the previous twelve (12) quarters at year end (December 31). Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 2% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 8,705,322	$ 11,256,096	$ 19,961,418

Changes in endowment net assets as of December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 9,825,637	$ 10,862,174	$ 20,687,811
Contributions	-	-	393,922	393,922
Investment income	-	521,134	-	521,134
Net depreciation	-	(776,421)	-	(776,421)
Amounts appropriated for expenditure	-	(865,028)	-	(865,028)
Endowment net assets, end of year	$ -	$ 8,705,322	$ 11,256,096	$ 19,961,418

D. Refundable Advances

Refundable advances are amounts held on behalf of another organization.

E. Property and Equipment

Property and equipment consisted of the following at December 31, 2015:

Land	$ 132,043

F. Split Interest Agreement

Of the $1,075,434 held in trust, an investment in land with income from a ground lease was purchased in 2006 for $262,780. The ground lease has an initial term that commenced on March 1, 2003. Initial minimum payments on the 20 year lease were $1,750 per month from 2003 through 2013 increasing to $2,067 per month beginning in 2014. The present value of the estimated future payments is $134,927 at December 31, 2015.

The following is a schedule by years of future minimum rentals due under the ground lease at December 31, 2015:

2016	$ 24,804
2017	24,804
2018	24,804
2019	24,804
2020	24,804
2021 and thereafter	53,699
	$ 177,719

G. Restriction / Limitations on Net Assets

Temporarily restricted net assets were available for the following purposes at December 31, 2015:

Faculty awards and chairs	$ 4,361,094
Scholarships and grants	15,105,435
For other purposes	2,227,929
Total	$ 21,694,458

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from these assets can be used to fund scholarships.

H. Fair Value Measurements

The Foundation adopted ASC 820, *Fair Value Measurements and Disclosures*. In accordance with ASC 820, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. There were no changes in the valuations techniques during the current year.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques noted in the guidance. The three techniques are as follows:

> Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
>
> Cost approach: Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and
>
> Income approach: Techniques to convert future amounts to a single present amount based on market expectations utilizing present value techniques.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its calculation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level within the fair value hierarchy, the Foundation's assets that are measured at fair value on a recurring basis as of December 31, 2015:

	Fair Value	Quoted prices in active markets for identical Assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable Inputs (Level 3)
Mutual funds	$ 21,221,843	$ 21,221,843	$ -	$ -
Money markets	1,688,405	1,688,405	-	-
Government obligations	1,336,656	-	1,336,656	-
Mortgage backed securities	408,805	-	408,805	-
Corporate obligations	3,486,446	-	3,486,446	-
Municipal bonds	2,206,324	-	2,206,324	-
Common stock	87,417	87,417		-
Real estate investment trusts	303,061	-	303,061	-
Alternative investments	1,606,892	-	1,606,892	-
Total	$ 32,345,849	$ 22,997,665	$ 9,348,184	$ -

The following is a summary of significant valuation techniques for assets and liabilities measured at fair value on a recurring basis:

Level 1 measurements

Fixed income securities: Valuation is based on unadjusted quoted prices for identical assets in active markets that the Foundation can access.

Equity securities: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Foundation can access.

Level 2 measurements

Fixed income securities:

Government obligations: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Corporate obligations, including privately placed: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. Also included are privately placed securities valued using a discounted cash flow model that is widely accepted in the financial services industry and uses market observable inputs and inputs derived principally from, or corroborated by, observable market data. The primary inputs to the discounted cash flow model include an interest rate yield curve, as well as published credit spreads for similar assets in markets that are not active that incorporate the credit quality and industry sector of the issuer.

Real estate investment trusts: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, underlying stock prices and credit spreads.

Alternative investments: Comprise hedge funds and venture capital investments. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

I. Credit Risk and Concentrations

Financial instruments that are exposed to concentrations of credit risk consisted of cash, accounts receivable and investments. The cash and investments in common trust investments are in high quality institutions and companies with high credit ratings. Cash balances in the Foundation's bank accounts are insured up to the amount of $250,000 by the Federal Deposit Insurance Corporation (FDIC). At times cash balances may exceed FDIC insured limits.

Pledges receivable are principally with various individuals. Realization of these items is dependent on various individual economic conditions. Cash and investments are based on quoted market prices. Pledges receivable are carried at estimated net realizable values.

Required Supplementary Information

Jacksonville State University

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

	For the measurement period ended September 30, 2015	For the measurement period ended September 30, 2014
JSU's proportion of the net pension liability	0.736438%	0.732539%
JSU's proportionate share of the net pension liability	$77,073,000	$66,548,000
JSU's covered-employee payroll	$46,684,000	$46,482,000
JSU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	165.10%	143.17%
Plan fiduciary net position as a percentage of the total pension liability	67.51%	71.01%

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

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

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

	2016	2015
Contractually Required Contribution	$ 5,623,694	$ 5,266,235
Contributions in relation to the contractually required contribution	5,623,694	5,266,235
Contribution deficiency (excess)	-	-
System's covered-employee payroll	$ 47,766,382	$ 46,684,000
Contributions as a percentage of covered-employee payroll	11.77%	11.28%

Notes to the Schedule of University Contributions

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

Additional Information

Jacksonville State University
Listing of Board of Trustees and University Officials
September 30, 2016

Board Members		Term Expires
Hon. Kay Ivey	Governor	Ex-Officio
Hon. William Ronald Smith	Chair	2022
Senator Vivian Davis Figures		2023
Hon. Gale Saxon Main		2023
Hon. Gregory D. Brown		2021
Hon. Clarence W. Daugette, III		2023
Hon. Randall Earlie Jones		2021
Hon. Thomas W. Dedrick, Sr.	Vice Chair	2019
Hon. Randy Y. Owen		2024
Hon. Tony L. Ingram		2021
Hon. Rusty Fuller		2019

Officials

Dr. John M. Beehler	President
Dr. Ashok K. Roy	Vice President for Finance & Administration

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
Jacksonville State University

We have audited the financial statements of Jacksonville State University as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise Jacksonville State University's basic financial statements, and have issued our report thereon dated March 29, 2017. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Jacksonville State University Foundation, Inc., a discretely presented component unit of Jacksonville 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 Jacksonville State University Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jacksonville 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 Jacksonville State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Jacksonville 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2016-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jacksonville 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.*

Jacksonville State University's Response to Findings

Jacksonville State University's response to the findings identified in our audit is described in the accompanying "Management's View and Corrective Action Plan" on page 71. Jacksonville State University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

CDPA, PC

Athens, AL
March 29, 2017

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

To the Board of Trustees
Jacksonville State University

Report on Compliance for Each Major Federal Program

We have audited Jacksonville 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 Jacksonville State University's major federal programs for the year ended September 30, 2016. Jacksonville 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 Jacksonville State University Foundation, Inc. were not audited in accordance with the *OMB Compliance Supplement*, and, accordingly, this report does not extend to Jacksonville 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 Jacksonville 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 Jacksonville 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 Jacksonville State University's compliance.

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-002, 2016-003 and 2016-004. Our opinion on each major federal program is not modified with respect to these matters.

Jacksonville State University's response to the noncompliance findings identified in our audit are described in the accompanying "Management's View and Corrective Action Plan" on page 75. Jacksonville State University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Jacksonville 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 Jacksonville 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 Jacksonville State University's internal control over compliance.

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

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

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

CDPA, PC

Athens, AL
March 29, 2017

PART III

SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS


LAUGH WITH HUGH

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

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Assistance Period	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.	7/1/15-6/30/17	$ -	$ 12,532,912
Federal Direct Student Loans	84.268	N.A.	7/1/15-6/30/17	-	39,742,273
Federal Work-Study Program	84.033	N.A.	7/1/15-6/30/17	-	409,004
Federal Supplemental Education Opportunity Grants	84.007	N.A.	7/1/15-6/30/17	-	220,565
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N.A.	7/1/15-6/30/17	-	53,729
Total Student Financial Assistance Cluster				-	52,958,483
Research and Development Cluster					
U.S. Department of Defense Direct Programs					
Information Security Grant Program	12.902	N.A.	8/27/15-8/27/16	-	118,184
GenCyber Grants Program	12.903	N.A.	4/28/16-4/27/17	-	58,125
Total U.S. Department of Defense Direct Programs				-	176,309
U.S. Department of Education Direct Programs					
Investing in Innovation (i3) Fund	84.411	N.A.	1/1/14-12/31/18	29,391	2,100,890
Investing in Innovation (i3) Fund	84.411	N.A.	1/1/16-12/31/19	-	214,800
				29,391	2,315,690
Funds for the Improvement of Postsecondary Education	84.116	N.A.	10/1/14-9/30/18	-	792,413
Total U.S. Department of Education				29,391	3,108,103

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

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Assistance Period	Passed Through to Subrecipients	Total Federal Expenditures
National Science Foundation					
Biological Sciences	47.074	N.A.	6/1/12-5/31/17	-	7,671
Education and Human Resources	47.076	N.A.	9/1/15-8/31/18	-	72,071
Total National Science Foundation				-	79,742
U.S. Department of Interior, Fish and Wildlife Service					
Cooperative Endangered Species Conservation Fund	15.615	N.A.	8/1/15-9/30/16	13,900	49,089
Passed through Gulf States Marine Fisheries Commission					
Fish and Wildlife Management Assistance	15.608	F14AB00009	6/1/16-9/30/17	-	6,158
Total U.S. Department of Interior, Fish and Wildlife Service				13,900	55,247
Total Research and Development Cluster				43,291	3,419,401
Total Major Programs				$ 43,291	$ 56,377,884
NON-MAJOR PROGRAMS					
U.S. Department of Education Direct Programs					
Higher Education Institutional Aid	84.031	N.A.	10/1/14-9/30/19	-	317,550
Funds for the Improvement of Postsecondary Education	84.116	N.A.	10/1/15-9/30/18	-	53,279
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407	N.A.	10/1/15-9/30/20	-	48,424
Passed through Alabama State Department of Education					
Mathematics and Science Partnerships	84.366	U3600320	10/1/15-9/30/16	-	257,496
Title I Grants to Local Educational Agencies	84.010	N.A.	10/1/15-9/30/16	-	54,006
Passed through Alabama Commission on Higher Education					
Supporting Effective Instruction State Grant	84.367	N.A.	1/30/15-6/16/17	-	153,113

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

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Assistance Period	Passed Through to Subrecipients	Total Federal Expenditures
Passed through the University of California					
Supporting Effective Educator Development Grant	84.423	92-AL01-SEED2012	5/1/14-8/31/16	-	5,697
Passed through the California State University, Northridge					
Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	F-11-2963-3-JSU	10/1/13-9/30/16	-	91,817
Total U.S. Department of Education				-	981,382
U.S. Department of Health and Human Services					
Passed through Alabama Department of Public Health					
National Bioterrorism Hospital Preparedness Program	93.889	CEP-27-QW7-17/16	7/1/15-6/30/17	-	30,131
Passed through the University of Alabama					
Foster Care Title IV-E	93.658	UA16-011	10/1/15-9/30/16	-	46,666
Total U.S. Department of Health and Human Services				-	76,797
U.S. Small Business Administration					
Passed through the University of Alabama					
Small Business Development Centers	59.037	SBA-UA16-024	10/1/15-9/30/16	-	42,179
U.S. Department of Defense					
Passed through the University of Alabama					
Procurement Technical Assistance for Business Firms	12.002	UA15-051	8/1/15-7/31/17	-	20,764
U.S. Department of Justice					
Passed through the Alabama Department of Economic and Community Affairs					
Edward Byrne Memorial Justice Assistance Grant Programs	16.738	13-DJ-ST-010	6/1/15-12/31/15	-	32,559
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	15-CD-01-001	10/1/15-9/30/16	-	35,567
Total U.S. Department of Justice				-	68,126

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

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Assistance Period	Passed Through to Subrecipients	Total Federal Expenditures
General Services Administration					
Passed through the Alabama Department of Economic and Community Affairs					
Donation of Federal Surplus Personal Property	39.003	N.A	10/1/15-9/30/16	-	12,278
Total Non-Major Programs				-	1,201,526
Total Federal Awards				$ 43,291	$ 57,579,410

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Expenditures for federal awards that were awarded before December 26, 2014 are recognized following the cost principles contained in OMB Circular A-102 Common Rule, OMB Circular A-110 or the OMB Cost Principles Circulars, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for federal awards that were newly awarded or had incremental funding actions with changed terms and conditions on or after December 26, 2014 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 Cluster

Research and Development Cluster

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 POSITION

The following schedule is a reconciliation of total federal expenditures as shown on the Schedule of Expenditures of Federal Awards to the revenue items shown on the Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2016.

Federal Grants and Contracts– Operating Revenue	$ 5,339,658
Federal Grants – Nonoperating Revenue	12,661,418
Fall 2016 Deferred Federal Grant Revenue	4,692,602
Fall 2015 Deferred Federal Grant Revenue	(4,856,541)
Federal Direct Student Loans	39,742,273
Expenditures per Schedule of Expenditures of Federal Awards	$57,579,410

PART IV

SCHEDULES OF FINDINGS AND QUESTIONED COSTS


JACKSONVILLE
STATE
NCAA
OVC

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
Material weakness(es) identified?	____ yes	_x_ no
Significant deficiency(ies) identified?	_x_ yes	____ none reported
Noncompliance material to financial statements noted?	____ yes	_x_ no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ yes	_x_ no
Significant deficiency(ies) identified?	____ yes	_x_ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	_x_ yes	____ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	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)
	Research and Development Cluster
12.902	Information Security Grant Program
12.903	GenCyber Grants Program
84.411	Investing in Innovation (i3) Fund
84.116	Funds for the Improvement of Postsecondary Education
47.074	Biological Sciences
47.076	Education and Human Resources
15.615	Cooperative Endangered Species Conservation Fund
15.608	Fish and Wildlife Management Assistance

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

REFERENCE

2016-001

CONDITION
Management should employ an effective internal control system to ensure reliable financial reporting. During the audit, it was noted that the University had errors requiring significant audit adjustments to bring the reported financial statements into conformity with generally accepted accounting principles (GAAP).

CAUSE/EFFECT
Three of the more significant errors were the improper calculation of unearned revenue of approximately $964,000, the improper depreciation of a capital asset over only one year, which resulted in an error of approximately $408,000, and the improper expensing of an original issue discount of $676,000 in a previous year, requiring restatement of the beginning net position. These were the result of human errors in manual processes that were not detected by management's internal journal entry reviews as well as internal policies that did not align with GAAP. The errors were not detected by management.

RECOMMENDATION
We recommend that management implement policies and procedures to ensure more reliable financial reporting such as (a) reviewing all internal policies for alignment with GAAP and industry standards, (b) monthly reconciliation of accounts, including source document review when necessary, and (c) analytical review of financial statement accounts at a disaggregated level at least annually.

VIEWS OF RESPONSIBLE OFFICIALS

See letter from management on page 71.

OFFICE OF THE CONTROLLER
JACKSONVILLE STATE UNIVERSITY

MANAGEMENT'S VIEW & CORRECTIVE ACTION PLAN

REFERENCE 2016-001 **Journal Entries**

Management Response:

Management agrees with the audit finding regarding improper calculation of unearned revenue, improper depreciation of a capital asset, and the improper expensing of an original issue discount in a prior year. This was reported to the Finance Committee of the Board of Trustees in the January meeting by Vice President for Finance and Administration Dr. Ashok Roy. Management will implement policies and procedures, including more in-depth review controls, to ensure more reliable financial reporting as recommended.

Anticipated Completion Date: May 2017

Contact person responsible – Mr. Kevin McFry, Controller

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Section III – Federal Award Findings and Questioned Costs

REFERENCE	PROGRAM	QUESTIONED COSTS
2016-002	Student Financial Assistance	$ 1,856

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

CONDITION

The University is responsible for accurately calculating the annual award of Federal Pell Grant as well as the amount of Pell Grant to be disbursed each payment period depending on the student's enrollment status, expected family contribution (EFC) and cost of attendance (COA). During our review, we noted that 2 out of 40 students selected for testing were disbursed an inaccurate amount of Pell Grant due to an error in the calculation of Pell for the summer term.

REFERENCE

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

CAUSE/EFFECT

The University inaccurately calculated and failed to disburse the appropriate amounts during the summer term due to the complexity of the summer Pell Grant calculation combined with the numerous sessions offered within the summer term by JSU. The error was not detected by management.

RECOMMENDATION

We recommend the implementation of additional monitoring and review controls for the summer term Pell calculation. We recommend that a report is run to identify all students enrolled for the summer term with Pell Grant remaining. This report can be used as a detective control to ensure that all eligible students in the summer are appropriately disbursed their Pell award. Additionally, a more experienced member of the student financial aid staff should test at least a sample of Pell summer awards to ensure accurate calculations.

VIEWS OF RESPONSIBLE OFFICIALS

See letter from management on page 75.

REFERENCE	PROGRAM	QUESTIONED COSTS
2016-003	Student Financial Assistance	$ -

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

CONDITION

The University is responsible for ensuring that exit counseling is conducted with each Direct Subsidized Loan or Direct Unsubsidized Loan borrower and graduate or professional student Direct PLUS Loan borrower shortly before the student borrower ceases at least half-time study at the school. If a student borrower withdraws from school without the school's prior knowledge or fails to complete the exit counseling as required, exit counseling must, within 30 days after the school learns that the student borrower has withdrawn from school or failed to complete the exit counseling as required, be provided either through interactive electronic means, by mailing written counseling materials to the student borrower at the student borrower's last known address, or by sending written counseling materials to an email address provided by the student borrower that is not an email address associated with the school sending the counseling materials. During our review, we noted that 1 out of 40 students tested was not properly notified of and provided with exit counseling.

REFERENCE

34 CFR §685.304 – Counseling borrowers

CAUSE/EFFECT

The University failed to properly notify and provide exit counseling to a student because the report that was run to identify students in need of exit counseling failed to pull students who left the school without official notification between terms. The error was not detected by management.

RECOMMENDATION

We recommend that management revise the inaccurate report, notify and provide exit counseling to any students that were previously missed, and test the report for accuracy going forward.

VIEWS OF RESPONSIBLE OFFICIALS

See letter from management on page 75.

REFERENCE	PROGRAM	QUESTIONED COSTS
2016-004	Student Financial Assistance	$ 722

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

CONDITION

The University is responsible for recalculating a Federal Pell Grant award if the student's projected enrollment status changes during a payment period before the student begins attendance in all of his or her classes for that payment period. During our review, we noted that 1 out of 40 students selected for testing was disbursed an inaccurate amount of Pell Grant as the University did not recalculate upon the enrollment status change.

REFERENCE

34 CFR §690.80 – Recalculation of a Federal Pell Grant award

CAUSE/EFFECT

The University accurately calculated the original Pell Grant award based on the projected enrollment status but failed to perform the recalculation upon a change to the enrollment status before the student began attendance in all of his classes. The error was not detected by management.

RECOMMENDATION

We recommend that enrollment status changes that may impact the amount of aid awarded be communicated timely to the student financial aid department. When possible, we recommend that any system reports critical to compliance be automatically generated.

VIEWS OF RESPONSIBLE OFFICIALS

See letter from management on page 75.

MANAGEMENT'S VIEW & CORRECTIVE ACTION PLAN

REFERENCE 2016-002 **Student Financial Assistance**

Management Response:

Management agrees with the audit finding regarding the annual award of Federal Pell Grant for summer term. Management will implement policies and procedures, including additional monitoring and review controls around the calculation of summer Pell awards, to ensure proper Federal Pell Grant amounts are awarded in the future as recommended.

Anticipated Completion Date: May 2017

Contact person responsible – Ms. Alice Wudarczyk, Assistant Controller-Student Accounts

REFERENCE 2016-003 **Student Financial Assistance**

Management Response:

Management agrees with the audit finding regarding exit counseling for Direct Loans. Management will revise the inaccurate report so that all students in need of exit counseling are identified, will notify students that were previously missed, and will test the report going forward to ensure that ALL students who receive Direct Loans are properly counseled.

Anticipated Completion Date: April 2017

Contact person responsible – Ms. Alice Wudarczyk, Assistant Controller-Student Accounts

REFERENCE 2016-004 **Student Financial Assistance**

Management agrees with the audit finding regarding inaccurate amount of Pell Grant awarded due to enrollment status changes. Management will implement policies and procedures to ensure proper communication between departments and will utilize any automation available in this process to ensure that students who have a change in enrollment status will be awarded the correct amount of Pell Grant.

Anticipated Completion Date: May 2017

Contact person responsible – Ms. Alice Wudarczyk, Assistant Controller-Student Accounts

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

No matters were reported.

Jacksonville State University **Foundation, Inc**.

Audited Financial Statements
For the Years Ended
December 31, 2015 and 2014

The lobby of the JSU Canyon Center, Fort Payne, Alabama.

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Jacksonville State University Foundation, Inc.

We have audited the accompanying financial statements of the Jacksonville State University Foundation Inc. (the Foundation) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 the Foundation as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

DiPiazza LaRocca Heeter & Co., LLC

April 21, 2016

JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.

Statements of Financial Position
As of December 31, 2015 and 2014

ASSETS	2015	2014
Cash and cash equivalents	$ 1,740,386	$ 1,364,385
Prepaid insurance	12,424	6,942
Investments	31,398,799	32,621,785
Charitable remainder trusts, restricted	1,075,434	1,089,568
Unconditional promises to give, net	1,238,652	1,215,633
Note receivable from JSUF Real Estate Holding Co, LLC	20,916	20,916
Property and equipment, net	132,043	149,043
Total Assets	$ 35,618,654	$ 36,468,272
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 212,218	$ -
Charitable trusts	252,143	236,343
Refundable advances	1,744,299	1,780,371
Total Liabilities	2,208,660	2,016,714
NET ASSETS		
Unrestricted	459,440	500,731
Temporarily restricted	21,694,458	22,938,653
Permanently restricted	11,256,096	11,012,174
Total Net Assets	33,409,994	34,451,558
Total Liabilities and Net Assets	$ 35,618,654	$ 36,468,272

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

JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	$ 16,339	$ 1,683,622	$ 393,922	$ 2,093,883
Investment income	11,385	792,976	-	804,361
Realized loss	(2,261)	(141,074)	-	(143,335)
Unrealized loss	(14,475)	(1,061,998)	-	(1,076,473)
In-kind gifts	315,594	166,371	-	481,965
Other income	1,403	459,116	-	460,519
Management fee income	290,500	-	-	290,500
Total Revenue and Support	618,485	1,899,013	393,922	2,911,420
Net assets released from restrictions	3,293,208	(3,293,208)		-
Net Revenue and Support	3,911,693	(1,394,195)	393,922	2,911,420
EXPENSES				
Program services:				
JSU supportive services	3,866,060	-	-	3,866,060
Total program services	3,866,060	-	-	3,866,060
Fundraising	34,279	-	-	34,279
Management and general	35,645	-	-	35,645
Donation to JSUF Real Estate Holding Co, LLC	17,000	-	-	17,000
Total Expenses	3,952,984	-	-	3,952,984
Changes in Net Assets	(41,291)	(1,394,195)	393,922	(1,041,564)
Net assets - beginning of year	500,731	23,088,653	10,862,174	34,451,558
Net assets - end of year	$ 459,440	$ 21,694,458	$ 11,256,096	$ 33,409,994

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

JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.

Statement of Activities
For the Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions	$ -	$ 2,196,231	$ 151,424	$ 2,347,655
Investment income	-	706,343	-	706,343
Realized gain	-	341,055	-	341,055
Unrealized gain	-	45,410	-	45,410
In-kind gifts	310,854	53,553	-	364,407
Other income	-	440,613	-	440,613
Management fee income	285,500	-	-	285,500
Total Revenue and Support	596,354	3,783,205	151,424	4,530,983
Net assets released from restrictions	2,373,612	(2,373,612)	-	-
Net Revenue and Support	2,969,966	1,409,593	151,424	4,530,983
EXPENSES				
Program services:				
JSU supportive services	3,090,497	-	-	3,090,497
Total program services	3,090,497	-	-	3,090,497
Fundraising	43,113	-	-	43,113
Management and general	36,189	-	-	36,189
Total Expenses	3,169,799	-	-	3,169,799
Changes in Net Assets	(199,833)	1,409,593	151,424	1,361,184
Net assets - beginning of year	700,564	21,679,060	10,710,750	33,090,374
Net assets - end of year	$ 500,731	$ 23,088,653	$ 10,862,174	$ 34,451,558

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

JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.

Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,041,564)	$ 1,361,184
Adjustments to reconcile change in net assets to net cash from operating activities:		
Provision for loss on pledge and accounts receivable	385,894	1,159,349
Donation of land to JSUF Real Estate Holding Co, LLC	17,000	-
Realized loss (gain)	143,335	(341,055)
Unrealized loss (gain)	1,076,473	(45,410)
Contributions to permanent endowment	(393,922)	(150,544)
Change in operating assets and operating liabilities:		
Prepaid expenses	(5,482)	5,147
Unconditional promises to give	(408,913)	(1,004,643)
Accounts payable	212,218	(880)
Charitable remainder trusts	15,800	(11,479)
Refundable advances	(36,072)	283,901
Net cash (used in) provided by operating activities	(35,233)	1,255,570
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,005,198)	(9,488,612)
Proceeds from sale of investments	4,022,510	8,202,450
Net cash provided by (used in) investing activities	17,312	(1,286,162)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions to permanent endowment	393,922	151,424
Net cash provided by financing activities	393,922	151,424
Net increase in cash and cash equivalents	376,001	120,832
Cash and cash equivalents - beginning of the year	1,364,385	1,243,553
Cash and cash equivalents - end of the year	$ 1,740,386	$ 1,364,385

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

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The overall mission of the Jacksonville State University Foundation, Inc. (the Foundation) is to maximize private gift support for Jacksonville State University while laying the groundwork for future fundraising success in order to aid the University in fulfilling its own mission of excellence in education, research, and service. The Foundation owns JSUF Real Estate Holding Company, LLC (the Holding Company) which held a hotel that was sold in 2013. The Holding Company's total assets were $41,017 and $24,017 at December 31, 2015 and 2014, respectively and are not included in the financial statements.

Financial statement presentation

For financial statement presentation, the Foundation uses the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Foundation reports information regarding its financial position and activities according to three classes of net assets, unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Unrestricted net assets are amounts which are currently available at the discretion of the Foundation for use in their operations.

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting which conforms to accounting principles generally accepted in the United States of America (GAAP).

Fund accounting

To ensure observance of limitations and restrictions placed on the use of resources available to the Foundation, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to objectives specified by donors, and/or restrictions imposed by external authorities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash held in trust accounts is considered to be an investment.

Investments

In accordance with FASB ASC 958-920, *Not-for-Profit Entities: Investments—Debt and Equity Securities*, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying statements of financial position. Investments in land, limited partnerships and alternative investments are stated at fair value where appropriate, or at cost if their fair value cannot be reliably measured due to the lack of active markets where they are traded.

The year to year increase or decrease in value of investments is reflected in the accompanying statements of activities and changes in net assets. Realized gains and losses on the sale of investments are calculated based on the specific identification method.

Pooled Investment Program

The Foundation places certain investments with investment managers who invest the funds in an investment pool (Pooled Investment Program). The Foundation is the only participant in the pool. Investment income and realized gains and losses on these pooled assets are allocated to the participating endowment funds. Each endowment fund is assigned a percentage of its prorated value to the market value of all assets at the time of entry into or liquidation from the pool.

Assets Held under Split-Interest Agreements

Charitable remainder trust agreements require periodic payment of either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate either at a specific time or upon the death of the designated individual. A liability for each remainder trust, where the Foundation is a trustee,

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

is established and calculated as the present value of future payments to be made to the designated beneficiaries. Upon termination, the remaining assets of the remainder trust are then available for use by the Foundation to be used in accordance with the donor's intent. The Foundation uses an actuarial approach to determine both the contribution and liability amounts to be recognized. For remainder trusts held by the Foundation the discount rate varied between 6% and 9.5% during the year ended December 31, 2015 and 4.4% and 10% during the year ended December 31, 2014. There were no new trusts established in 2015 or 2014.

Contributions and Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Restricted amounts received, but not yet earned are reported as deferred restricted amounts.

Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable or pledge receivable.

Property and Equipment

Real property and equipment are capitalized at cost if purchased and fair value if donated if the asset is expected to provide a benefit for more than one year. Depreciation is computed for purchased operating equipment of the Foundation based on the straight-line method over the estimated useful lives of the related assets over a period of 3 to 39 years.

Realized gains and losses from the sale or disposal of real property, equipment, and other assets are computed based on the difference between the proceeds received and the net carrying value of the asset.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Impairment of Long-Lived Assets

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 360-10-15, *Impairment or Disposal of Long-Lived Assets*, the Company records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The Company evaluates its investment in long-lived assets used in operations for impairment annually. Long-lived asset disposals are required to be reported at the lower of carrying amount or fair value less selling costs. There was no impairment of long-lived assets at December 31, 2015.

In-Kind Gifts

In-kind gifts are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying consolidated financial statements as in-kind contributions are offset by like amounts included in expenses. Services received by the Foundation during the years ended December 31, 2015 and 2014 include personnel salaries and office space paid by Jacksonville State University totaling $315,594 and $310,771, respectively.

A substantial number of volunteers have donated significant amounts of their time to the Foundation; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Income Tax

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Internal Revenue Service has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the Code. However, the Foundation is subject to income taxes on any net income that is derived from a trade or business, regularly carried on, and not in furtherance of the purposes for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business, in the opinion of management, is not material to the basic financial statements taken as a whole.

The Foundation follows the provisions of FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. As of December 31, 2015, the Agency had no uncertain tax positions that qualify for disclosure in financial statements. The Foundation files an annual Form 990 with the Internal Revenue Service and its tax returns for previous open tax years may be subject to examination by taxing authorities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Subsequent events

Subsequent events have been evaluated through April 21, 2016, which is the date the consolidated financial statements were available to be issued

Reclassifications

Certain reclassifications have been made in the previously reported financial statements to make prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net assets or changes in net assets.

NOTE 2 – PROMISES TO GIVE

Promises to give consist of amounts that are both unconditional and conditional in nature. The Foundation's capital campaign to obtain funding for various scholarships and University departments raised funds that are generally classified as temporarily or permanently restricted. Any restrictions on promises to give are based on donor designations.

Unconditional promises to give at December 31 are as follows:

	2015	2014
Receivable in less than one year	$ 271,080	$ 183,110
Receivable in one to five years	620,016	371,391
Receivable in more than five years	1,609,666	1,550,896
Total unconditional promises to give	2,500,762	2,105,397
Less allowance for bad debt	(987,174)	(640,000)
Less discounts to net present value at 3.25%	(274,936)	(249,764)
Net unconditional promises to give	$ 1,238,652	$ 1,215,633

NOTE 3 – FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 825, *Financial Instruments* requires disclosures about the fair value for all financial instruments, whether or not recognized, for financial statement purposes. Disclosures about fair value of financial instruments are based on pertinent information available to management as of December 31, 2015. Accordingly, the estimates presented in these statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments.

NOTE 4 – INVESTMENTS

Investments which include charitable remainder trusts are reported primarily on the basis of quoted market prices and consist primarily of mutual funds, stocks, bonds, and alternative investments. The following are the Foundation's investments by type at December 31, 2015:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Mutual funds:			
Bond funds	$ 2,538,870	$ 2,491,252	$ (47,618)
Balanced funds	6,813,880	5,914,500	(899,380)
Equity funds	5,719,056	5,229,709	(489,347)
Index funds	5,082,783	5,631,421	548,638
Other	2,000,050	1,954,961	(45,089)
Money markets	1,688,405	1,688,405	-
Government obligations	1,291,289	1,336,656	45,367
Mortgage backed securities	418,740	408,805	(9,935)
Corporate obligations	3,532,610	3,486,446	(46,164)
Municipal bonds	2,178,525	2,206,324	27,799
Common stock:			
Financial	20,005	19,860	(145)
Consumer goods	18,251	18,885	634
Basic materials	4,380	3,898	(482)
Industrial goods	9,671	11,850	2,179
Services	32,924	32,924	-
Real estate investment trusts	262,500	303,061	40,561
Alternative investments	1,810,383	1,606,892	(203,491)
Total	$ 33,422,322	$ 32,345,849	$ (1,076,473)

Investments that are reported at cost are as follows at December 31, 2015:

	Cost
Limited Partnerships	$ 128,384
	$ 128,384

NOTE 4 – INVESTMENTS – Continued

The estimated fair value of debt securities at December 31, 2015, by contractual maturities, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay with or without call or prepayment penalties.

	Estimated Market Value
Due in one year or less	$ 1,104,683
Due after one through five years	3,470,051
Due after five through ten years	2,863,497
	$ 7,438,231

Investment expenses were $395,789 and $383,209 for the years ended December 31, 2015 and 2014, respectively.

Endowment Investment and Spending Policies

The Foundation follows the Uniform Prudent Management of Institutional Funds Act of 1972 (UPMIFA) and its own governing documents. UPMIFA requires the historical dollar amount of a donor-restricted endowment fund to be preserved. In the absence of donor restrictions, the net appreciation on a donor-restricted endowment fund is spendable under UPMIFA. The Foundation's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

The Board of Directors, on the advice of legal counsel, has determined that the majority of the Foundation's contributions are subject to the terms of its governing documents. Certain contributions are received subject to other gift instruments, or are subject to specific agreements with the Foundation. Under the terms of the Foundation's governing documents, the Board of Directors has the ability to distribute the original principal of any trust or separate gift, devise, bequest, or fund as the Board in its sole discretion shall determine. As a result of the ability to distribute the original principal, all contributions not classified as temporarily restricted or permanently restricted are classified as unrestricted net assets for financial statement purposes.

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to exceed an absolute rate of return equal to the minimum payout obligation, plus all management fees, brokerage and custodial expenses, plus three percent (3.0%) in

NOTE 4 – INVESTMENTS – Continued

order to combat the economic impact of long-term inflation. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on U.S. Treasury securities and equity-based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The current spending policy is to distribute an amount equal to four percent (4.0%) of the average quarterly total balance for the previous twelve (12) quarters at year end (December 31). Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 2% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of fund as of December 31, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 8,705,322	$ 11,256,096	$ 19,961,418

Changes in endowment net assets as of December 31, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 9,825,637	$ 10,862,174	$ 20,687,811
Contributions			393,922	393,922
Investment income	-	521,134	-	521,134
Net depreciation	-	(776,421)	-	(776,421)
Amounts appropriated for expenditure	-	(865,028)	-	(865,028)
Endowment net assets, end of year	$ -	$ 8,705,322	$ 11,256,096	$ 19,961,418

NOTE 4 – INVESTMENTS – Continued

Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 9,825,637	$ 10,862,174	$ 20,687,811

Changes in endowment net assets as of December 31, 2014 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 9,825,313	$ 10,710,750	$ 20,536,063
Contributions	-	-	151,424	301,424
Investment income	-	458,824	-	458,824
Net appreciation	-	327,722	-	327,722
Amounts appropriated for expenditure	-	(786,222)	-	(786,222)
Endowment net assets, end of year	$ -	$ 9,825,637	$ 10,862,174	$ 20,687,811

NOTE 5 – REFUNDABLE ADVANCES

Refundable advances are amounts held on behalf of another organization.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2015	2014
Land	$ 132,043	$ 149,043

NOTE 7 – SPLIT INTEREST AGREEMENT

Of the $1,075,434 held in trust, an investment in land with income from a ground lease was purchased in 2006 for $262,780. The ground lease has an initial term that commenced on March 1, 2003. Initial minimum payments on the 20 year lease were $1,750 per month from 2003 through 2013 increasing to $2,067 per month beginning in 2014. The present value of the estimated future payments is $134,927 at December 31, 2015.

NOTE 7 – SPLIT INTEREST AGREEMENT – Continued

The following is a schedule by years of future minimum rentals due under the ground lease at December 31, 2015:

2016	$ 24,804
2017	24,804
2018	24,804
2019	24,804
2020	24,804
2021 and beyond	53,699
	$ 177,719

NOTE 8 – RESTRICTION/LIMITATIONS ON NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31, 2015:

Faculty awards and chairs	$ 4,361,094
Scholarships and grants	15,105,435
For other purposes	2,227,929
Total	$ 21,694,458

Permanently restricted net assets consist of endowment fund assets to be held indefinitely. The income from these assets can be used to fund scholarships.

NOTE 9 – FAIR VALUE MEASUREMENTS

The Foundation adopted ASC 820, *Fair Value Measurements and Disclosures*. In accordance with ASC 820, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASC 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

NOTE 9 – FAIR VALUE MEASUREMENTS – Continued

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Fair values for assets in Level 2 are calculated using quoted market prices for similar assets in markets that are not active. There were no changes in the valuations techniques during the current year.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques noted in the guidance. The three techniques are as follows:

> <u>Market approach:</u> Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
>
> <u>Cost approach:</u> Amount that would be required to replace the service capacity of an asset (i.e. replacement cost); and
>
> <u>Income approach:</u> Techniques to convert future amounts to a single present amount based on market expectations utilizing present value techniques.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its calculation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

NOTE 9 – FAIR VALUE MEASUREMENTS – Continued

The following tables set forth by level within the fair value hierarchy, the Foundation's assets that are measured at fair value on a recurring basis as of December 31, 2015 and 2014:

	December 31, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mutual funds	$ 21,221,843	$ 21,221,843	$ -	$ -
Money markets	1,688,405	1,688,405	-	-
Government obligations	1,336,656	-	1,336,656	-
Mortgage backed securities	408,805	-	408,805	-
Corporate obligations	3,486,446	-	3,486,446	-
Municipal bonds	2,206,324	-	2,206,324	-
Common stock	87,417	87,417	-	-
Real estate investment trusts	303,061	-	303,061	-
Alternative investments	1,606,892	-	1,606,892	-
Total investments	$ 32,345,849	$ 22,997,665	$ 9,348,184	$ -

	December 31, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Mutual funds	$ 22,356,590	$ 22,356,590	$ -	$ -
Money markets	1,715,294	1,715,294	-	-
Government obligations	1,056,859	-	1,056,859	-
Mortgage backed securities	625,757	-	625,757	-
Corporate obligations	3,482,727	-	3,482,727	-
Municipal bonds	2,124,056	-	2,124,056	-
Common stock	23,764	23,764	-	-
Real estate investment trusts	303,061	-	303,061	-
Alternative investments	1,701,096	-	1,701,096	-
Total investments	$ 33,389,204	$ 24,095,648	$ 9,293,556	$ -

NOTE 9 – FAIR VALUE MEASUREMENTS – Continued

The following is a summary of significant valuation techniques for assets and liabilities measured at fair value on a recurring basis:

Level 1 measurements

Fixed income securities: Valuation is based on unadjusted quoted prices for identical assets in active markets that the Foundation can access.

Equity securities: Comprise actively traded, exchange-listed U.S. and international equity securities. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Foundation can access.

Level 2 measurements

Fixed income securities:

Government obligations: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

Corporate obligations, including privately placed: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads. Also included are privately placed securities valued using a discounted cash flow model that is widely accepted in the financial services industry and uses market observable inputs and inputs derived principally from, or corroborated by, observable market data. The primary inputs to the discounted cash flow model include an interest rate yield curve, as well as published credit spreads for similar assets in markets that are not active that incorporate the credit quality and industry sector of the issuer.

Real estate investment trusts: The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, underlying stock prices and credit spreads.

Alternative investments: Comprise hedge funds and venture capital investments. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads.

NOTE 10 – CREDIT RISK AND CONCENTRATIONS

Financial instruments that are exposed to concentrations of credit risk consisted of cash, accounts receivable and investments. The cash and investments in common trust investments are in high quality institutions and companies with high credit ratings. Cash balances in the Foundation's bank accounts are insured up to the amount of $250,000 by the Federal Deposit Insurance Corporation (FDIC). At times cash balances may exceed FDIC insured limits.

Pledges receivable are principally with various individuals. Realization of these items is dependent on various individual economic conditions. Cash and investments are based on quoted market prices. Pledges receivable are carried at estimated net realizable values

The Alabama Room in the Houston Cole Library.

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