

# Annual Financial Report Fiscal Year 2017



Jacksonville State University



Jacksonville State University  
(A Component Unit of the State of Alabama)  
Annual Financial Report  
Fiscal Year 2017

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### Acknowledgements

Kevin McFry, MBA, CPA  
Controller

Kimberly Presson, MPA  
Director of Institutional Research and Effectiveness



JSU  
NURSING

JSU  
NURSING



## LETTER OF TRANSMITTAL

April 16, 2018

Board of Trustees  
Jacksonville State University

Dear Trustees,

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 years ended September 30, 2016 and 2017.

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.

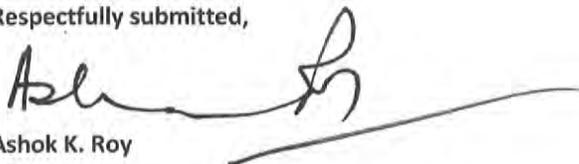
CDPA, PC, Certified Public Accountants, has performed the audit for the year ended September 30, 2017, and has issued an "unmodified" opinion, the most favorable outcome of the audit process. The audit opinion provides reasonable rather than absolute assurance that the financial statements are free of 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 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, 2016. The Foundation's Board of Directors has accepted these documents.

Respectfully submitted,



Ashok K. Roy





## Members of the Board of Trustees

	<b>District</b>
The Honorable Kay Ivey, Governor	President, Ex Officio
Senator Vivian Davis Figures	First
Ms. Gale Saxon Main	Second
Mr. William Ronald Smith (Chair)	Third
Mr. Greg Brown	Third
Mr. Clarence W. Daugette III	Fourth
Mr. Randall Jones	Fifth
Mr. Rusty Fuller	Sixth
Mr. Thomas W. Dedrick, Sr. (Vice Chair)	Seventh
Mr. Randy Owen	At Large
Mr. Tony Ingram	At Large

## University President

John M. Beehler, Ph.D., CPA





## Jacksonville State University **Financial Statements**



**Jacksonville State University**  
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**September 30, 2017 and 2016**

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**PART I**  
**FINANCIAL STATEMENTS**

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## Independent Auditor's Report

To the Board of Trustees  
Jacksonville State University

### 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 years ended September 30, 2017 and 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.

/ Huntsville

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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, 2017 and 2016, and the changes in its financial position and, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13, the schedule of Jacksonville State University's proportionate share of the net pension liability on page 64 and the schedule of Jacksonville State University's contributions on page 65 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 66 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 28, 2018 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on JSU's 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 28, 2018

**Jacksonville State University**  
**Management's Discussion and Analysis**  
**September 30, 2017 and 2016**

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**Introduction**

The following discussion and analysis provides an overview of the financial position and activities of Jacksonville State University (University) for the years ended September 30, 2017 and 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 Foundations 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.

**Jacksonville State University**  
**Management's Discussion and Analysis**  
**September 30, 2017 and 2016**

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**Condensed Statements of Net Position**  
**(\$ in thousands)**

	2017	2016
<b>Assets</b>		
Current Assets	\$ 84,657	\$ 81,886
Capital Assets, net	112,206	99,815
Other Assets	17,504	19,289
Total Assets	214,367	200,990
<b>Deferred Outflow of Resources</b>		
Deferral on Refunding	5,734	3,338
Deferred Outflows related to Pensions	13,878	10,979
Total Deferred Outflow of Resources	19,612	14,317
<b>Liabilities</b>		
Current Liabilities	49,874	45,073
Non-current Liabilities	164,240	148,903
Total Liabilities	214,114	193,976
<b>Deferred Inflow of Resources</b>		
Deferred Inflows related to Pensions	2,096	434
<b>Net Position</b>		
Invested in capital, net of debt	35,263	31,833
Restricted-expendable	11,414	14,318
Restricted-non-expendable	973	953
Unrestricted	(29,881)	(26,207)
	\$ 17,769	\$ 20,897

Total assets are categorized as either current assets, noncurrent assets, or capital assets on the Statement of Net Position.

Current assets for September 30, 2016 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 short term investments. Noncurrent assets include long term investments of \$18,997,000.

Current assets for September 30, 2017 includes \$18,457,000 in Accounts Receivable including \$2,340,000 due from the federal government that was collected in November 2017. Also included is an advance to JSU Foundation for \$4,300,000 that was collected in October and December 2017. Current assets also include \$3,643,000 short term investments. Noncurrent assets include long term investments of \$17,299,000.

**Jacksonville State University**  
**Management's Discussion and Analysis**  
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For fiscal year 2016, 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 accounting standard on pensions (GASB 68). This \$10,979,000 is due, in part, to employee pension cost that has not been considered when calculating our pension liability by the Retirement System of Alabama (RSA) actuarial consultant.

For fiscal year 2017, deferral on refunding reflects the difference between the reacquisition price and the net carrying amount of the refunded bonds in future fiscal years of \$5,734,000, which will be amortized as a component of interest expense in future periods. The remainder of deferred outflow of resources represents the accounting standard on pensions (GASB 68). This \$13,878,000 is due, in part, to 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 likely to 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. During fiscal year 2016, total liabilities increased \$12,259,000 to a total of \$193,976,000. During fiscal year 2017, total liabilities increased \$20,138,000 to a total of \$214,114,000.

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.

Total debt outstanding, which includes capital lease obligations, increased from \$73,347,000 at September 30, 2016 to \$84,607,000 at September 30, 2017, due to refunding the remaining balance of the 2009 Tuition and Fee Revenue Bond, as well as a loan for \$10,000,000 for renovations to Sparkman and Daugeette residence halls.

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

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

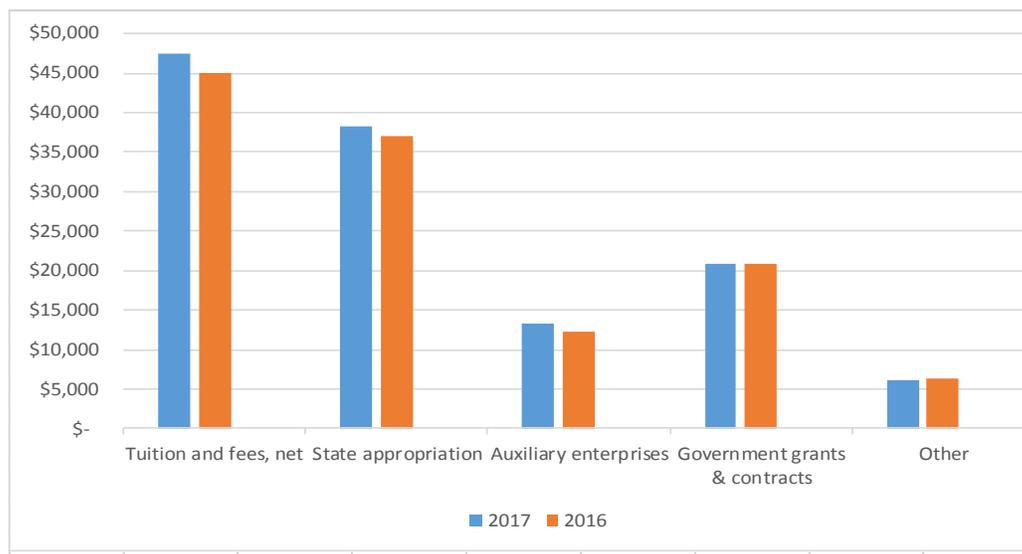
The Statement of Revenues, Expenses and Changes in Net Position presents the results of operations for the University as a whole. Revenues, expenses and other changes in net position are reported as either operating or non-operating. Significant recurring sources of University revenue, such as state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

**Jacksonville State University**  
**Management's Discussion and Analysis**  
**September 30, 2017 and 2016**

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

	2017	2016
Operating Revenues	\$ 73,869	\$ 70,668
Operating Expenses	(126,242)	(118,679)
Operating Loss	(52,373)	(48,011)
Net nonoperating revenues	49,245	47,301
Income before other revenue, expenses, gains or losses	(3,128)	(710)
Other revenues, expenses, gains or losses	-	188
Change in Net Position	(3,128)	(522)
Net position at beginning of year	20,897	21,419
Net position at end of year	\$ 17,769	\$ 20,897

**Operating and Nonoperating Revenues by Year (\$ in thousands)**



The Statement of Revenues, Expenses and Changes in Net Position for 2016 reflects an overall decrease in net position of 2%, or \$522,000. The Statement of Revenues, Expenses and Changes in Net Position for 2017 reflects an overall decrease in net position of 15%, or \$3,128,000. Major changes in revenues for 2017 are described below.

Gross student tuition and fee revenue totaled \$69,852,000 in 2017 as compared to \$65,790,000 in 2016, an increase of \$4,062,000.

Grant and contract revenue from government sponsors totaled \$20,789,000 for 2016, as compared to \$21,575,000 in 2015. This includes a decrease in Pell revenue of \$1,061,000 or 7.7%.

**Jacksonville State University**  
**Management's Discussion and Analysis**  
**September 30, 2017 and 2016**

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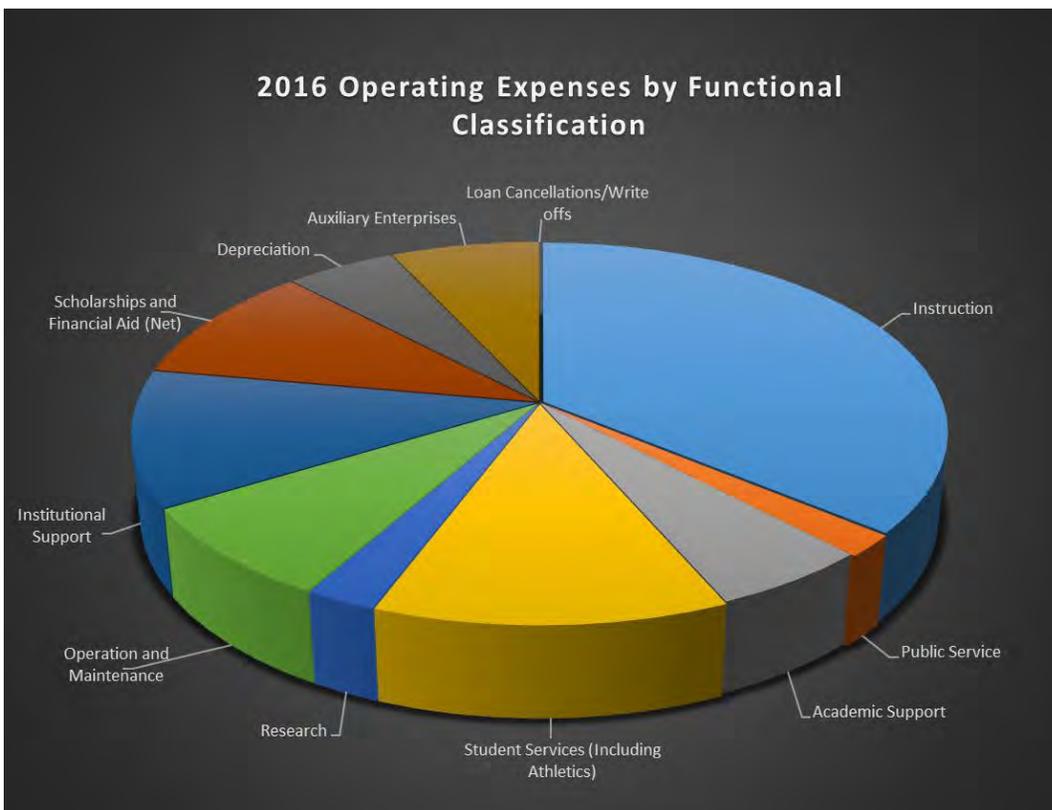
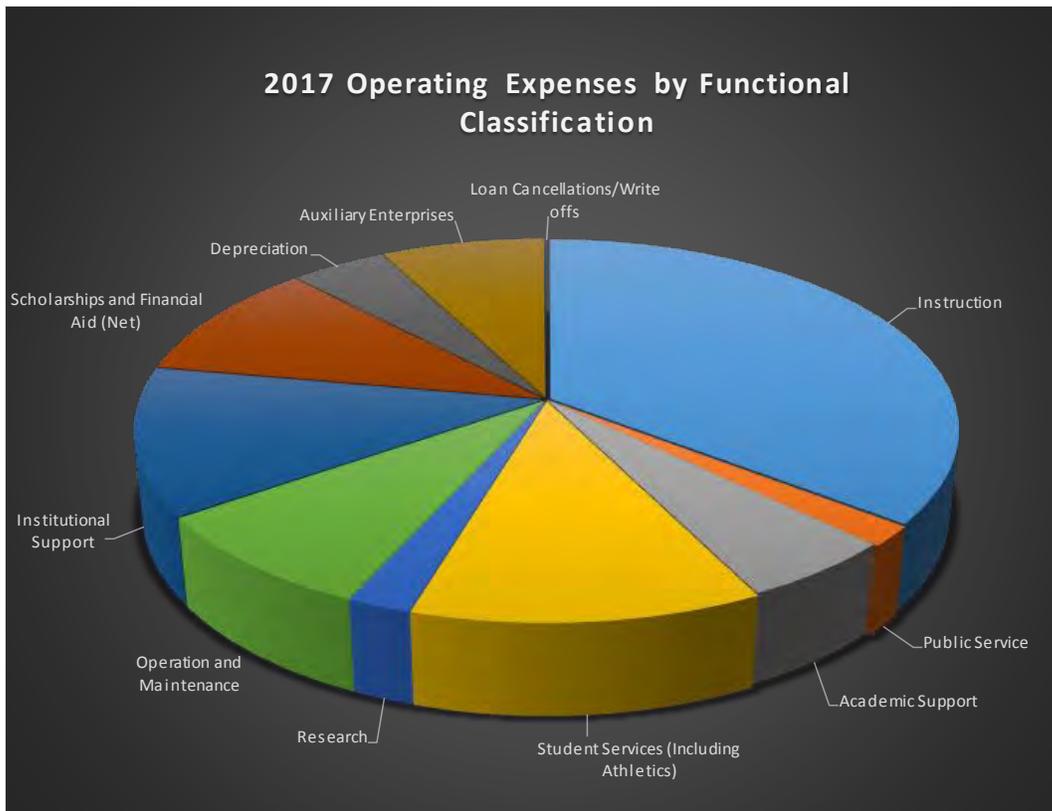
Grant and contract revenue from government sponsors totaled \$20,963,000 for 2017, as compared to \$20,789,000 in the prior year.

State appropriation increased by \$1,114,000 or 3% from \$37,095,000 in 2016 to \$38,209,000 in 2017.

Auxiliary revenues increased by \$980,000 or 8% from \$12,268,000 in 2016 to \$13,248,000 in 2017. This increase is primarily attributable to housing and meal plans.

A comparison of operating expenses by functional and natural classification for selected fiscal years follows:

	<b>Operating Expenses</b>			
	<b>Functional Classification (\$ in thousands)</b>			
	2017	%	2016	%
Instruction	\$ 44,779	35.5%	\$ 42,766	36.0%
Public Service	2,204	1.7%	2,250	1.9%
Academic Support	6,833	5.4%	6,606	5.6%
Student Services (Including Athletics)	15,128	12.0%	13,431	11.3%
Research	2,717	2.2%	2,917	2.5%
Operation and Maintenance	10,747	8.5%	9,589	8.1%
Institutional Support	15,846	12.5%	13,724	11.6%
Scholarships and Financial Aid (Net)	12,749	10.1%	11,988	10.1%
Depreciation	5,607	4.4%	6,108	5.1%
Auxiliary Enterprises	9,532	7.6%	9,295	7.8%
Loan Cancellations/Write offs	100	0.1%	5	0.0%
	<u>\$ 126,242</u>	<u>100.0%</u>	<u>\$ 118,679</u>	<u>100.0%</u>



**Jacksonville State University**  
**Management's Discussion and Analysis**  
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For fiscal year 2017, total operating expenses increased by \$7,563,000 or 6% primarily due to increased pension expense of \$2,474,000 and increased salaries and benefits of \$2,838,000 or 3.9%.

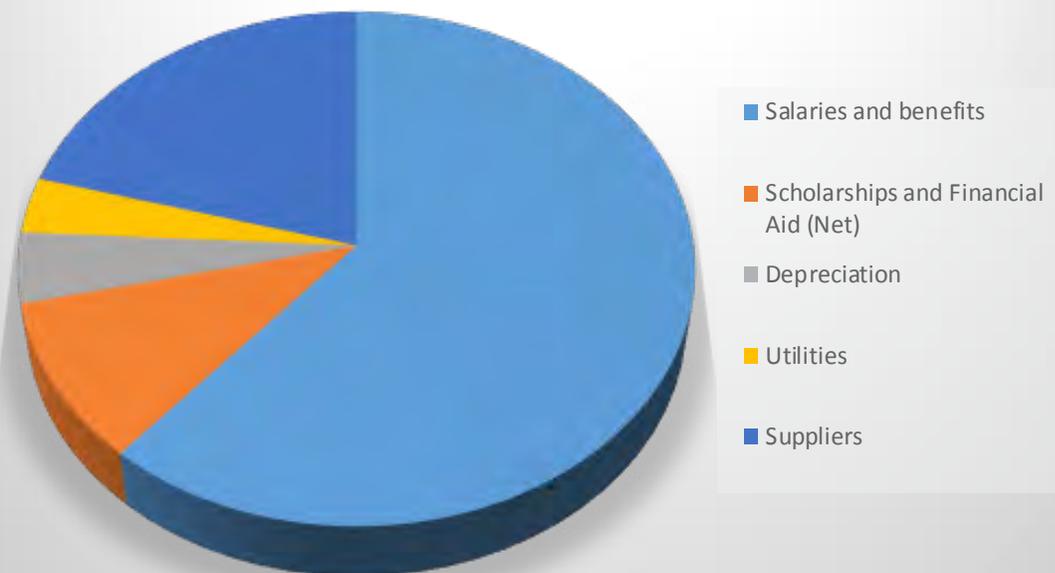
For fiscal year 2016, total operating expenses increased by \$2,179,000 or 2% primarily due to a one-time adjustment to allowance for doubtful accounts of \$946,000 and increased salaries and benefits of \$1,935,000 or 2.8%. These increases were partially offset by decreases in operations and maintenance, auxiliaries, and depreciation.

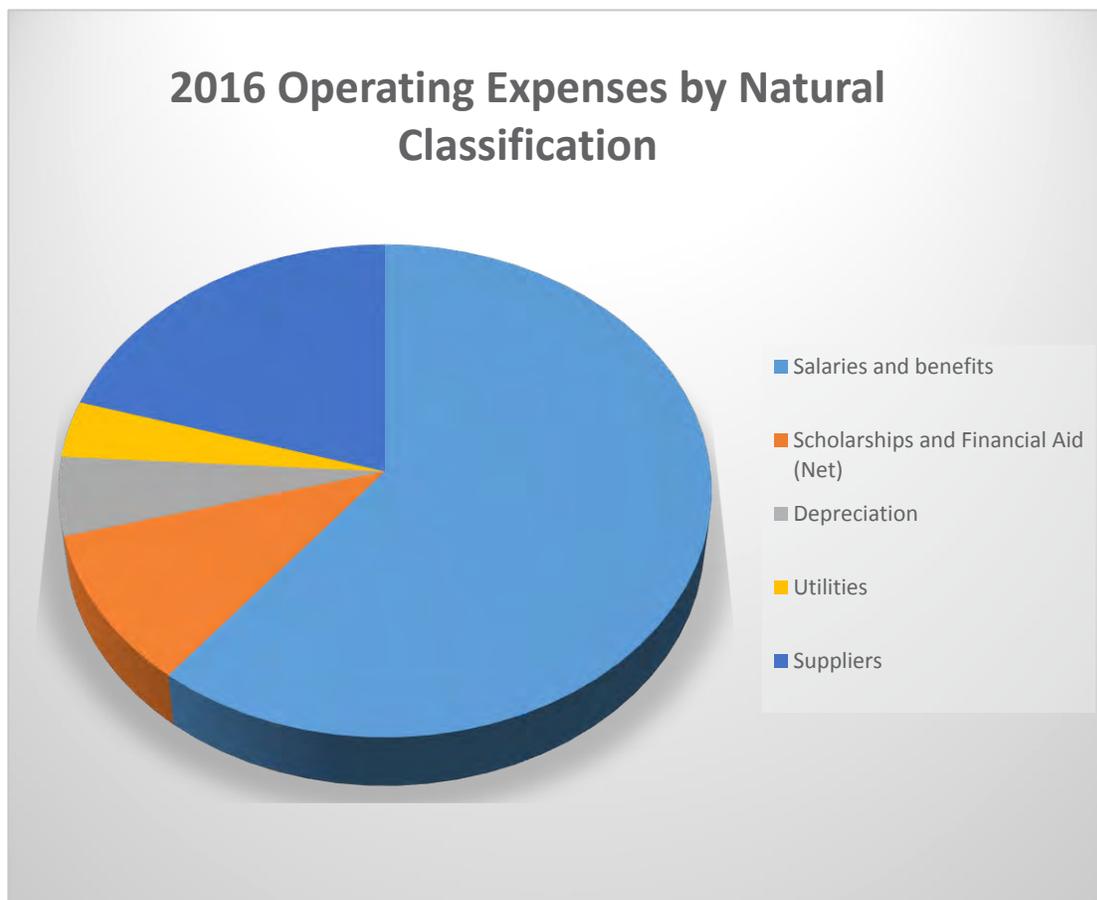
**Operating Expenses**

**Natural Classification (\$ in thousands)**

	2017	%	2016	%
Salaries and benefits	\$ 77,374	61.3%	\$ 72,062	60.7%
Scholarships and Financial Aid (Net)	12,749	10.1%	11,988	10.1%
Depreciation	5,607	4.4%	6,108	5.1%
Utilities	3,982	3.2%	4,001	3.4%
Suppliers	26,530	21.0%	24,520	20.7%
	<u>\$ 126,242</u>	<u>100.0%</u>	<u>\$ 118,679</u>	<u>100.0%</u>

**2017 Operating Expenses by Natural Classification**





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 \$22,283,000 in 2017. 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 \$39,323,000 in 2016 and 2017, respectively.

#### Condensed Statements of Cash Flows (\$ in thousands)

	2017	2016
<b>Cash provided (used) by:</b>		
Operating activities	\$ (44,845)	\$ (41,940)
Non-capital financing activities	48,379	52,670
Capital and related financing activities	(12,190)	(6,775)
Investing activities	7,675	(17,326)
Net change in cash	(981)	(13,371)
Cash, beginning of year	50,146	63,517
<b>Cash, end of year</b>	<b>\$ 49,165</b>	<b>\$ 50,146</b>

**Jacksonville State University**  
**Management's Discussion and Analysis**  
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During fiscal year 2016, the University's total cash balance decreased by \$13.3 million primarily due to the purchase of investments of \$22.3 million.

During fiscal year 2017, the University's total cash balance decreased by \$1 million.

**Capital and Debt Activities**

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

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

Construction in progress at September 30, 2017 totaled \$15,103,000 and includes the following major projects: Baseball complex, Band practice field, Sparkman and Daugeette residence hall renovations, Stone Center renovations, and Athletic scoreboards.

At September 30, 2017, \$1,930,765 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. At September 30, 2017, total debt outstanding, including capital leases, totaled \$84,607,000.

The University issued a \$10 million Tuition and Fee Revenue bond in February 2017, to fund renovations to Sparkman and Daugeette residence halls.

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

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.

The University has an "A" Stable credit rating from Standard and Poor's. This rating was affirmed on 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 broke ground on a new baseball stadium in April 2017. The facility is expected to cost \$10.5 million and be completed in April 2018.

Construction began on the JSU Fitness and Wellness Center in September 2017. It is scheduled to open in January 2019. This project, a P-3, is expected to cost \$45 million. There will be a student fee to pay the debt. While the JSU Foundation will own the Center and carry the debt, the debt will be reflected as "On Credit" for JSU's bond rating purposes.

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, 2017 and 2016**

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ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2017</u>	<u>2016</u>
Current Assets		
Cash and Cash Equivalents	\$ 49,165	\$ 50,146
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$1,088 and \$1,266	18,457	10,664
Prepaid Expenses and Unearned Scholarships	13,392	12,569
Investments	<u>3,643</u>	<u>8,507</u>
Total Current Assets	84,657	81,886
Noncurrent Assets		
Notes Receivable, Net of Allowance for Doubtful Accounts of \$141 and \$147	205	292
Deposit with Bond Trustee	1,163	4,934
Investments	16,081	14,008
Investment in Real Estate	55	55
Land	4,924	4,924
Depreciable Capital Assets	243,597	226,103
Less: Accumulated Depreciation	<u>(136,315)</u>	<u>(131,212)</u>
Total Noncurrent Assets	<u>129,710</u>	<u>119,104</u>
Total Assets	<u>\$ 214,367</u>	<u>\$ 200,990</u>
Deferred Outflow of Resources		
Deferred Outflows of Resources Related to Refunding of Debt	5,734	3,338
Deferred Outflows of Resources Related to Pensions	<u>13,878</u>	<u>10,979</u>
Total Deferred Outflows of Resources	<u>\$ 19,612</u>	<u>\$ 14,317</u>

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

**Jacksonville State University**  
**Statement of Net Position (in thousands)**  
**September 30, 2017 and 2016**

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LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>2017</u>	<u>2016</u>
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 5,118	\$ 4,104
Wages Payable	3,563	3,462
Student Deposits	16	16
Unearned Revenue	36,427	33,076
Compensated Absences	852	893
Bonds Payable	3,809	3,423
Capital Lease Payable	63	64
Tuition Paid in Advance	<u>26</u>	<u>35</u>
Total Current Liabilities	49,874	45,073
Noncurrent Liabilities		
Compensated Absences	1,082	966
Bonds Payable	80,669	69,731
Capital Lease Payable	66	129
Deposits Held in Custody	1,441	1,004
Net Pension Liability	<u>80,982</u>	<u>77,073</u>
Total Noncurrent Liabilities	<u>164,240</u>	<u>148,903</u>
Total Liabilities	<u>\$ 214,114</u>	<u>\$ 193,976</u>
Deferred Inflows of Resources		
Deferred Inflows of Resources Related to Pensions	<u>\$ 2,096</u>	<u>\$ 434</u>
Net Position		
Invested in Capital Assets, Net of Related Debt	35,263	31,833
Restricted		
Nonexpendable	973	953
Expendable		
Scholarships and Fellowships	7,650	6,794
Loans	2,591	2,569
Debt Service	1,173	4,955
Unrestricted	<u>(29,881)</u>	<u>(26,207)</u>
Total Net Position	<u>\$ 17,769</u>	<u>\$ 20,897</u>

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, 2016 and 2015**

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	<u>2016</u>	<u>2015</u>
Assets		
Cash and Cash Equivalents	\$ 1,949,462	\$ 1,740,386
Prepaid Insurance	5,336	12,424
Investments	32,693,799	31,398,799
Charitable Remainder Trusts, Restricted	1,136,929	1,075,434
Unconditional Promises to Give, Net	1,393,941	1,238,652
Note Receivable from JSUF Real Estate Holding Co., LLC	20,916	20,916
Property and Equipment, Net	<u>132,043</u>	<u>132,043</u>
 Total Assets	 <u>\$37,332,426</u>	 <u>\$35,618,654</u>
 Liabilities		
Accounts Payable	\$ 8,050	\$ 212,218
Charitable Trusts	241,085	252,143
Refundable Advances	<u>1,808,746</u>	<u>1,744,299</u>
 Total Liabilities	 <u>2,057,881</u>	 <u>2,208,660</u>
 Net Assets		
Unrestricted	343,709	459,440
Temporarily Restricted	23,460,870	21,694,458
Permanently Restricted	<u>11,469,966</u>	<u>11,256,096</u>
 Total Net Assets	 <u>35,274,545</u>	 <u>33,409,994</u>
 Total Liabilities and Net Assets	 <u>\$37,332,426</u>	 <u>\$ 35,618,654</u>

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 Years Ended September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>OPERATING REVENUES</b>		
Student Tuition and Fees, Net of Scholarship Allowances of \$22,283 and \$20,780	\$ 47,569	\$ 45,010
Federal Grants and Contracts	5,151	5,340
State and Local Grants and Contracts	3,211	2,788
Nongovernmental Grants and Contracts	1,831	1,962
Sales and Services of Educational Departments	72	104
Athletic Income	2,671	3,086
Other Operating Revenues	116	110
Auxiliary Enterprises:		
Residential Life	6,737	6,216
Sales and Service	6,472	6,005
Other	<u>39</u>	<u>47</u>
Total Operating Revenues	73,869	70,668
<b>OPERATING EXPENSES</b>		
Instruction	44,779	42,766
Public Service	2,204	2,250
Academic Support	6,833	6,606
Student Services, including Athletics	15,128	13,431
Research	2,717	2,917
Operation and Maintenance	10,747	9,589
Institutional Support	15,846	13,724
Scholarships and Financial Aid	12,749	11,988
Depreciation	5,607	6,108
Auxiliary Enterprises	9,532	9,295
Loan Cancellations and Writeoffs	<u>100</u>	<u>5</u>
Total Operating Expenses	<u>126,242</u>	<u>118,679</u>
Operating Income (Loss)	(52,373)	(48,011)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	38,209	37,095
Federal Grants	12,601	12,661
Investment Income	1,113	545
Bond Issuance Cost	(461)	(352)
Bond Fees	(17)	(13)
Rental of Facilities	229	248
Other Nonoperating Revenue	3	3
Interest on Debt	<u>(2,432)</u>	<u>(2,886)</u>
Net Nonoperating Revenues	<u>49,245</u>	<u>47,301</u>
Excess of Revenues over Expenses	(3,128)	(710)
Capital Contributions Received	<u>-</u>	<u>188</u>
Change In Net Position	(3,128)	(522)
Total Net Position - Beginning of Year	<u>20,897</u>	<u>21,419</u>
Total Net Position - End of Year	<u>\$ 17,769</u>	<u>\$ 20,897</u>

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, 2016**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenue and Support:				
Contributions	\$ 45,860	\$ 2,646,401	\$ 213,870	\$ 2,906,131
Investment Income	6,462	652,129	-	658,591
Realized Gain	4,067	496,297	-	500,364
Unrealized Gain	7,252	1,072,318	-	1,079,570
In-kind Gifts	330,243	54,362	-	384,605
Other Income	1,425	717,831	-	719,256
Management Fee Income	<u>304,354</u>	<u>-</u>	<u>-</u>	<u>304,354</u>
 Total Revenue and Support	 699,663	 5,639,338	 213,870	 6,552,871
 Net Assets Released from Restrictions	 <u>3,872,926</u>	 <u>(3,872,926)</u>	 <u>-</u>	 <u>-</u>
 Net Revenue and Support	 <u>4,572,589</u>	 <u>1,766,412</u>	 <u>213,870</u>	 <u>6,552,871</u>
 Expenses				
Program Services:				
JSU Supportive Services	<u>4,530,688</u>	<u>-</u>	<u>-</u>	<u>4,530,688</u>
Total Program Services	<u>4,530,688</u>	<u>-</u>	<u>-</u>	<u>4,530,688</u>
Fundraising	113,416	-	-	113,416
Management and General	<u>44,216</u>	<u>-</u>	<u>-</u>	<u>44,216</u>
 Total Expenses	 <u>4,688,320</u>	 <u>-</u>	 <u>-</u>	 <u>4,688,320</u>
 Change in Net Assets	 (115,731)	 1,766,412	 213,870	 1,864,551
 Net Assets - Beginning of Year	 <u>459,440</u>	 <u>21,694,458</u>	 <u>11,256,096</u>	 <u>33,409,994</u>
 Net Assets - End of Year	 <u>\$ 343,709</u>	 <u>\$23,460,870</u>	 <u>\$11,469,966</u>	 <u>\$35,274,545</u>

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**

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
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	<u>290,500</u>	<u>-</u>	<u>-</u>	<u>290,500</u>
 Total Revenue and Support	 618,485	 1,899,013	 393,922	 2,911,420
 Net Assets Released from Restrictions	 <u>3,293,208</u>	 <u>(3,293,208)</u>	 <u>-</u>	 <u>-</u>
 Net Revenue and Support	 <u>3,911,693</u>	 <u>(1,394,195)</u>	 <u>393,922</u>	 <u>2,911,420</u>
 Expenses				
Program Services:				
JSU Supportive Services	<u>3,866,060</u>	<u>-</u>	<u>-</u>	<u>3,866,060</u>
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	<u>17,000</u>	<u>-</u>	<u>-</u>	<u>17,000</u>
 Total Expenses	 <u>3,952,984</u>	 <u>-</u>	 <u>-</u>	 <u>3,952,984</u>
 Change in Net Assets	 (41,291)	 (1,394,195)	 393,922	 (1,041,564)
 Net Assets - Beginning of Year	 <u>500,731</u>	 <u>23,088,653</u>	 <u>10,862,174</u>	 <u>34,451,558</u>
 Net Assets - End of Year	 <u>\$ 459,440</u>	 <u>\$21,694,458</u>	 <u>\$11,256,096</u>	 <u>\$33,409,994</u>

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

**Jacksonville State University**  
**Statement of Cash Flows (in thousands)**  
**For the Years Ended September 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees	\$ 46,451	\$ 44,359
Federal Grants and Contracts	4,025	4,986
State and Local Grants and Contracts	5,214	4,972
Sales and Services of Educational Departments	72	104
Athletic Income	2,730	3,135
Auxiliary	13,480	12,636
Other Operating Revenues	116	110
Payments to Suppliers	(25,140)	(23,759)
Payments for Utilities	(3,982)	(4,001)
Payments for Employees	(53,958)	(52,318)
Payments for Benefits	(20,509)	(19,191)
Payments for Scholarships	<u>(13,344)</u>	<u>(12,973)</u>
Net Cash Used in Operating Activities	(44,845)	(41,940)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State and Local Appropriations	38,209	37,095
Federal Grants	13,235	13,209
Federal Direct Loan Receipts	39,323	42,085
Federal Direct Loan Disbursements	(38,730)	(39,742)
Advance to JSU Foundation	(4,307)	-
Deposit Held for Others	435	(214)
Other Nonoperating Revenues (Expenses)	<u>214</u>	<u>237</u>
Net Cash Provided by Noncapital Financing Activities	48,379	52,670
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Other Financing Source – Proceeds of Refunding Bonds	44,880	18,110
Other Financing Use – Payment to Refund Bond – Escrow Agent	(35,185)	(17,940)
Other Financing Source – Premium on Bond Issuance	2,415	1,836
Principal Paid on Capital Debt	(3,340)	(3,130)
Payments on Capital Leases	(64)	(54)
Purchases of Capital Assets and Construction	(17,856)	(2,446)
Bond Issuance Costs	(576)	(352)
Interest Paid on Capital Debt	<u>(2,464)</u>	<u>(2,799)</u>
Net Cash Used in Capital and Related Financing Activities	(12,190)	(6,775)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Income	245	252
Proceeds from Sale and Maturity of Investments	9,161	4,771
Purchase of Investments	<u>(1,731)</u>	<u>(22,349)</u>
Net Cash Provided by (Used in) Investing Activities	<u>7,675</u>	<u>(17,326)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(981)	(13,371)
Cash and Cash Equivalents - Beginning of Year	<u>50,146</u>	<u>63,517</u>
Cash and Cash Equivalents - End of Year	<u>\$ 49,165</u>	<u>\$ 50,146</u>

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

**Jacksonville State University**  
**Statement of Cash Flows (in thousands)**  
**For the Years Ended September 30, 2017 and 2016**

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	<u>2017</u>	<u>2016</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating Income (Loss)	(52,373)	(48,011)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities		
Provision for Doubtful Accounts	500	1,077
Depreciation Expense	5,607	6,108
Changes in Assets and Liabilities:		
Change in Accounts Receivable	(4,963)	(1,815)
Change in Prepaid Expenses and Unearned Scholarships	(708)	(934)
Change in Notes Receivable	87	167
Change in Compensated Absences	75	60
Change in Payables	1,164	(109)
Change in Other Liabilities	(8)	(2)
Change in Pension Related Deferrals and Liabilities	2,672	235
Change in Unearned Revenue	<u>3,102</u>	<u>1,284</u>
Net Cash Used in Operating Activities	<u>\$ (44,845)</u>	<u>\$ (41,940)</u>

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

The University held investments with a fair value of \$20,942 at September 30, 2017. During the year ended September 30, 2017, the net change in the fair value of these securities was \$577.

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 years ended September 30, 2017 and 2016, the University received noncash contributed assets of \$0 and \$188, respectively.

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

**Jacksonville State University**  
**Notes to the Financial Statements**  
**For the Years Ended September 30, 2017 and 2016**

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**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

**Jacksonville State University**  
**Notes to the Financial Statements**  
**For the Years Ended September 30, 2017 and 2016**

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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 appropriations.

**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 \$100,000 (\$250,000 in 2016) and an estimated useful life in excess of one year, land improvements with a unit cost over \$75,000 (\$100,000 in 2016) and an estimated useful life in excess of one year, and all library books,

**Jacksonville State University**  
**Notes to the Financial Statements**  
**For the Years Ended September 30, 2017 and 2016**

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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:

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

**Jacksonville State University**  
**Notes to the Financial Statements**  
**For the Years Ended September 30, 2017 and 2016**

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**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:

<u>Years of Employment</u>	<u>Number of Days Each Year</u>	<u>Maximum Days Accumulation</u>
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.

**Jacksonville State University**  
**Notes to the Financial Statements**  
**For the Years Ended September 30, 2017 and 2016**

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**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.

**Jacksonville State University**  
**Notes to the Financial Statements**  
**For the Years Ended September 30, 2017 and 2016**

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**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

**Jacksonville State University**  
**Notes to the Financial Statements**  
**For the Years Ended September 30, 2017 and 2016**

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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 adoption did not materially affect the University's financial statements.

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

In March 2017, the GASB issued GASB Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The provisions of this Statement are effective for periods beginning after June 15, 2017. The University is currently evaluating the impact of this pronouncement on their financial statements.

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

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extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University is currently evaluating the impact of this pronouncement on their financial statements.

**15. Reclassifications**

Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format. Net position and changes in net position are unchanged due to these reclassifications.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

The University's deposits in banks at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. At September 30, 2017 and 2016, JSU deposits held by financial institutions participating in the SAFE program totaled \$12,202,328 and \$57,267,603, respectively.

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.

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

Investments' fair value measurements are as follows at September 30, 2017:

<u>Investments</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</u>
Bonds	\$13,888,061	\$13,888,061	\$ -	\$ -
Mutual Funds	4,816,104	4,816,104	-	-
Stocks	174,962	174,962	-	-
Real Estate	54,637	-	-	54,637
	<u>\$18,933,764</u>	<u>\$18,879,127</u>	<u>\$ -</u>	<u>\$ 54,637</u>
<u>Investments Valued Using Cost-Based Measures</u>				
Certificates of Deposit	<u>2,007,810</u>			
Total Investments	<u>\$20,941,574</u>			

Investments' fair value measurements are as follows at September 30, 2016:

<u>Investments</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</u>
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
	<u>\$20,997,672</u>	<u>\$20,943,035</u>	<u>\$ -</u>	<u>\$ 54,637</u>
<u>Investments Valued Using Cost-Based Measures</u>				
Certificates of Deposit	<u>5,512,385</u>			
Commercial Paper	<u>993,472</u>			
Total Investments	<u>\$27,503,529</u>			

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, 2017, the University realized gains of \$14,789 from the disposal of investments. During the year ended September 30, 2016, the University realized losses

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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 years ended September 30, 2017 and 2016 of \$576,772 and \$401,772, respectively.

*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 September 30, 2017, the University had the following investments subject to interest rate risk:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1 Year</u>	<u>1-5</u>	<u>6-10</u>	<u>Thereafter</u>
Bonds	<u>\$13,888,061</u>	<u>\$3,145,000</u>	<u>\$10,743,061</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$13,888,061</u>	<u>\$3,145,000</u>	<u>\$10,743,061</u>	<u>\$ -</u>	<u>\$ -</u>

At September 30, 2016, the University had the following investments subject to interest rate risk:

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

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

<u>Investment Type</u>	<u>Rating</u>	<u>Percentage</u>
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.

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*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, 2017, the University had \$3,680,742 in mutual funds issued by Ameriprise Financial, \$901,914 in a Large Cap Value Fund issued by Legg Mason Global Asset Management and \$12,699,837 in bonds with Regions Bank. 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, 2017 and 2016, the University had \$1,163,150 and \$4,934,148, respectively, 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:

<u>Accounts Receivable:</u>	<u>2017</u>	<u>2016</u>
Federal	\$ 3,372,860	\$ 3,259,169
State	5,311,656	3,290,613
Other	6,139,818	1,641,813
Student Accounts Receivable	4,719,890	3,737,906
Less: Allowance for Doubtful Accounts	<u>(1,087,660)</u>	<u>(1,265,745)</u>
Total Accounts Receivable, Net	<u>18,456,564</u>	<u>10,663,756</u>
<u>Notes Receivable:</u>		
Loans	345,745	438,960
Less: Allowance for Doubtful Accounts	<u>(141,020)</u>	<u>(146,920)</u>
Total Notes Receivable, Net	<u>204,725</u>	<u>292,040</u>
Total Receivables, Net	<u>\$ 18,661,289</u>	<u>\$ 10,955,796</u>

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**NOTE 4 - CAPITAL ASSETS**

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

	Balance October 1, 2016	Additions	Deductions	Transfers	Balance September 30, 2017
Land	\$ 4,923,579	\$ -	\$ -	\$ -	\$ 4,923,579
Buildings	175,324,390	920,089		54,972	176,299,451
Improvement Other than					
Buildings	12,073,743	186,084	-	11,461	12,271,288
Equipment	18,877,567	1,521,746	(120,150)	159,414	20,438,577
Library Holdings	19,483,557	385,223	(384,030)	-	19,484,750
Construction in Progress	343,855	14,984,847	-	(225,847)	15,102,855
<b>Total</b>	<b>231,026,691</b>	<b>17,997,989</b>	<b>(504,180)</b>	<b>-</b>	<b>248,520,500</b>
Less: Accumulated Depreciation					
Buildings	84,947,490	3,886,227	-	-	88,833,717
Improvements Other than					
Buildings	11,803,996	106,946	-	-	11,910,942
Equipment	16,608,521	1,184,845	(120,150)	-	17,673,216
Library Holdings	17,852,028	428,902	(384,030)	-	17,896,900
<b>Total Accumulated Depreciation</b>	<b>131,212,035</b>	<b>5,606,920</b>	<b>(504,180)</b>	<b>-</b>	<b>136,314,775</b>
<b>Total Capital Assets, Net</b>	<b>\$ 99,814,656</b>	<b>\$12,391,069</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 112,205,725</b>

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
<b>Total</b>	<b>228,761,963</b>	<b>2,634,254</b>	<b>(369,526)</b>	<b>-</b>	<b>231,026,691</b>
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
<b>Total Accumulated Depreciation</b>	<b>125,473,099</b>	<b>6,108,462</b>	<b>(369,526)</b>	<b>-</b>	<b>131,212,035</b>
<b>Total Capital Assets, Net</b>	<b>\$ 103,288,864</b>	<b>\$(3,474,208)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 99,814,656</b>

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Total interest incurred for the year ended September 30, 2017 was \$2,573,778. Of this amount, \$141,944 was capitalized and the remainder was charged to expense during the year ended September 30, 2017. Total interest incurred for the year ended September 30, 2016 was \$2,885,576, all of which was charged to expense.

**NOTE 5 - DEFINED BENEFIT PENSION PLAN**

**A. Plan Description**

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

**B. Benefits Provided**

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

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

**C. Contributions**

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members

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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 years ended September 30, 2017 and 2016 was 12.01% and 11.94%, respectively, of annual pay for Tier 1 members and 10.82% and 10.84%, respectively, 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 \$5,829,433 and \$5,623,694, respectively, for the years ended September 30, 2017 and 2016.

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

At September 30, 2017 and 2016, the University reported a liability of \$80,982,000 and \$77,073,000, respectively, for its proportionate share of the collective net pension liability. The 2017 collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015, rolled forward to September 30, 2016 using standard roll forward techniques. The 2016 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, rolled forward to September 30, 2015 using standard roll forward techniques. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016, the University's proportion was .748%, which was an increase of .012% from its proportion measured as of September 30, 2015. 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 years ended September 30, 2017 and 2016, the University recognized pension expense of \$8,501,000 and \$6,027,000, respectively. At September 30, 2017 and 2016, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 2,085,000	\$ -	\$ 418,000
Changes of assumptions	5,718,000		-	-
Net difference between projected and actual earnings on pension plan investments	1,170,000		5,046,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,161,000	11,000	309,000	16,000
Employer contributions subsequent to the measurement date	<u>5,829,433</u>	<u>-</u>	<u>5,623,694</u>	<u>-</u>
	<u>\$ 13,878,433</u>	<u>\$ 2,096,000</u>	<u>\$ 10,978,694</u>	<u>\$ 434,000</u>

\$5,829,433 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended September 30:**

2018	1,317,000
2019	1,317,000
2020	2,595,000
2021	384,000
2022	340,000

**E. Actuarial Assumptions**

The total pension liability was determined by actuarial valuations as of September 30, 2015 and September 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

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	2015	2014
Inflation	2.75%	3.00%
Investment rate of return*	7.75%	8.00%
Projected salary increases	3.25% - 5.00%	3.50% - 8.25%

\*Net of pension plan investment expense

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

For the 2015 valuation, post retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The 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.

For the 2014 valuation, 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:

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	2017		2016	
	Target Allocation	Long-Term Expected Rate of Return*	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%	25.00%	5.00%
U.S. Large Stocks	32.00%	8.00%	34.00%	9.00%
U.S. Mid Stocks	9.00%	10.00%	8.00%	12.00%
U.S. Small Stocks	4.00%	11.00%	3.00%	15.00%
International Developed Market Stocks	12.00%	9.50%	15.00%	11.00%
International Emerging Market Stocks	3.00%	11.00%	3.00%	16.00%
Alternatives	10.00%	10.10%	-	-
Real Estate	10.00%	7.50%	10.00%	7.50%
Cash	3.00%	1.50%	2.00%	1.50%
Total	<u>100.00%</u>		<u>100.00%</u>	

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

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.75% in 2017 and 8.00% in 2016. 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 as of September 30, 2017 calculated using the discount rate of 7.75%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

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	1% Decrease <u>(6.75%)</u>	Current Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
University's proportionate share of Collective net pension liability	107,886,000	80,982,000	58,205,000

The following table presents the University's proportionate share of the net pension liability as of September 30, 2016 calculated using the discount rate of 8%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease <u>(7.00%)</u>	Current Rate <u>(8.00%)</u>	1% Increase <u>(9.00%)</u>
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 years ended September 30, 2016 and 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2016, and in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditor's report as of September 30, 2016 dated August 1, 2017 and the auditor's report as of September 30, 2015 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 along with supporting schedules are also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://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 years ended September 30, 2017 and 2016 were \$1,802,461 and \$1,808,934, respectively. Jacksonville State University contributed \$1,433,579 under this plan for the year ended September 30, 2017 and \$1,408,389 for the year ended September 30, 2016. At September 30, 2017 and 2016, the University had payables of \$236,183 and \$240,647, respectively, due to TIAA-CREF, which were included in accounts payable and accrued liabilities on the Statement of Net Position.

**Jacksonville State University**  
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**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:

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	Fiscal Year <u>2017</u>	Fiscal Year <u>2016</u>
Individual Coverage - Non-Medicare Eligible	\$ 166	\$ 151
Individual Coverage - Medicare Eligible	\$ 25	\$ 10
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-spousal Dependent(s)	\$ 421	\$ 391
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents with Non-Medicare Eligible Spouse	\$ 521	\$ 416
Family Coverage - Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 280	\$ 250
Family Coverage - Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$ 310	\$ 260
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$ 280	\$ 250
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – with Non-Medicare Eligible Spouse	\$ 380	\$ 275
Family Coverage - Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 139	\$ 109
Family Coverage - Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$ 169	\$ 119
Tobacco Surcharge	\$ 50	\$ 50
Surviving Spouse - Non-Medicare Eligible	\$ 816	\$ 740
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$1,028	\$ 987
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	\$1,067	\$1,033
Surviving Spouse - Medicare Eligible	\$ 430	\$ 425
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	\$ 720	\$ 679
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	\$ 759	\$ 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:

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Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid by University	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2017	\$800	\$153	19.07%	\$1,670,460	100%
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. Effective October 1, 2016, the PEEHIP allocation increased from \$780 per month to \$800. Each JSU employee is required to pay an additional insurance deduction, based on the following sliding salary scale.

Salary Range	2017		2016	
	Staff and Escrow* Faculty	Non-Escrow** Faculty	Staff and Escrow* Faculty	Non-Escrow** Faculty
	<i>Additional Monthly Insurance Deduction</i>		<i>Additional Monthly Insurance Deduction</i>	
\$ 0 — \$ 34,999	\$ 16.00	\$ 21.33	\$ 46.00	\$ 61.33
\$ 35,000 — \$ 53,999	\$ 36.00	\$ 48.00	\$ 66.00	\$ 88.00
\$ 54,000 or more	\$ 56.00	\$ 74.67	\$ 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, 2016 through September 30, 2017, these payments totaled \$552,769. For the period October 1, 2015 through September 30, 2016, these payments totaled \$605,932.

**Jacksonville State University**  
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**NOTE 9 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

Jacksonville State University's construction project commitments as of September 30, 2017 are estimated at \$11,740,814 consisting primarily of the baseball stadium, practice field, scoreboards, student housing renovations, and various heating, ventilation and air conditioning projects. 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.

Jacksonville State University had been awarded approximately \$15,755,385, as of September 30, 2017, and \$13,921,031, as of September 30, 2016 respectively, 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.

On July 17, 2017, the University entered into a services agreement with its component unit, Jacksonville State University Foundation, whereby the Foundation is to provide continuation and development of fitness and wellness programs, continuation and development of intramural sports programs, coordination of fitness and wellness programs, advertisement and promotion of the fitness and wellness center including website development and maintenance, and management and staffing of the fitness and wellness center. In exchange for these services, the University has committed to annual fees to be paid to the Foundation through October 31, 2062. The initial fee of \$734,000 was partially accrued at September 30, 2017. The annual fee of \$734,000 for the first full calendar year is due in equal installments on March 1 and September 1. The annual fee for the second full calendar year and each subsequent year will be determined by proposal on or before May 15 of each year.

**NOTE 10 - ACCOUNTS PAYABLE**

Accounts payable and accrued liabilities represent amounts due at September 30, 2017 and 2016, for goods and services received prior to the end of the fiscal year.

	<u>2017</u>	<u>2016</u>
Salaries and Wages	3,562,568	3,462,385
Benefits	460,034	415,783
Payroll Taxes	1,249,730	1,233,999
Interest Payable	887,524	935,943
Other	<u>2,521,196</u>	<u>1,518,259</u>
Total	<u>\$ 8,681,052</u>	<u>\$ 7,566,369</u>

**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

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\$296,912, net of accumulated depreciation of \$222,684. 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
2017-2018	68,765
2018-2019	68,765
Minimum Lease Payments	137,530
Less: Amounts Representing Interest	8,143
Present Value of Net Minimum Lease Payments	<u>\$ 129,387</u>

**NOTE 12 - LONG-TERM LIABILITIES**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Lease Obligations	\$ 193,239	\$ -	\$ 63,852	\$ 129,387	\$ 62,781
Revenue Bonds	71,940,000	44,880,000	36,235,000	80,585,000	3,590,000
Bond Discounts	(551,747)	-	(451,743)	(100,004)	(7,547)
Bond Premiums	1,765,467	2,415,453	187,468	3,993,452	226,114
Total Bonds	73,153,720	47,295,453	35,970,725	84,478,448	3,808,567
Other Liabilities:					
Compensated Absences	1,858,852	926,885	851,901	1,933,836	851,901

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, 2016 and 2017. 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. The 2017 bonds were issued to defease the balance of the 2009 Revenue Bonds and finance construction costs.

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**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 2014 Series Revenue Bonds and an original issue premium in connection with the issuance of its 2015, 2016 and 2017 Series Revenue Bonds. Bonds Payable is reported net of the original issue premium and discount.

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

	Deferrals on <u>Refunding</u>	Original <u>Issue Discount</u>	Original <u>Issue Premium</u>
Total Deferrals, Discounts and Premiums	\$ 6,593,391	\$ 987,107	\$ 4,251,734
Amount Amortized Prior Years	<u>527,630</u>	<u>435,360</u>	<u>70,814</u>
Balance of Deferrals, Discounts and Premiums	6,065,761	551,747	4,180,920
Current Amount Amortized	331,690	14,128	187,468
Current Amount Loss due to refunding	<u>-</u>	<u>437,615</u>	<u>-</u>
Balance of Deferrals, Discounts and Premiums	<u>\$ 5,734,071</u>	<u>\$ 100,004</u>	<u>\$ 3,993,452</u>

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

	Deferrals on <u>Refunding</u>	Original <u>Issue Discount</u>	Original <u>Issue Premium</u>
Total Deferrals, Discounts and Premiums	3,865,883	987,107	1,836,281
Amount Amortized Prior Years	<u>328,462</u>	<u>195,832</u>	<u>-</u>
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	<u>-</u>	<u>208,839</u>	<u>-</u>
Balance of Deferrals, Discounts and Premiums	<u>3,338,253</u>	<u>551,747</u>	<u>1,765,467</u>

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

Fiscal Year	Deferral on <u>Refunding</u>	Original Issue <u>Discount</u>	Original Issue <u>Premium</u>
2018	\$ 375,330	\$ 7,547	\$ 226,114
2019	375,330	7,547	226,114
2020	375,330	7,547	226,114
2021	375,330	7,547	226,114
2022	375,330	7,547	226,114
2023-2027	1,579,806	37,735	1,130,570
2028-2032	1,460,727	24,534	1,078,143
2033-2037	795,069	-	634,846
2038-2042	<u>21,819</u>	<u>-</u>	<u>19,323</u>
	<u>\$ 5,734,071</u>	<u>\$ 100,004</u>	<u>\$ 3,993,452</u>

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:

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FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2017-2018	\$ 3,590,000	\$ 2,720,190	\$ 6,310,190
2018-2019	3,965,000	2,755,604	6,720,604
2019-2020	4,070,000	2,649,083	6,719,083
2020-2021	3,425,000	2,540,508	5,965,508
2021-2022	3,720,000	2,441,389	6,161,389
2022-2023	3,825,000	2,325,042	6,150,042
2023-2024	2,785,000	2,212,055	4,997,055
2024-2025	2,870,000	2,105,426	4,975,426
2025-2026	2,970,000	1,993,420	4,963,420
2026-2027	3,075,000	1,877,926	4,952,926
2027-2028	3,175,000	1,758,534	4,933,534
2028-2029	3,475,000	1,638,478	5,113,478
2029-2030	3,585,000	1,514,846	5,099,846
2030-2031	3,680,000	1,386,431	5,066,431
2031-2032	6,600,000	1,248,742	7,848,742
2032-2033	3,230,000	1,014,531	4,244,531
2033-2034	3,360,000	883,319	4,243,319
2034-2035	3,495,000	749,303	4,244,303
2035-2036	3,660,000	590,688	4,250,688
2036-2037	3,845,000	403,063	4,248,063
2037-2038	4,015,000	231,656	4,246,656
2038-2039	<u>4,170,000</u>	<u>78,188</u>	<u>4,248,188</u>
	<u>\$ 80,585,000</u>	<u>\$ 35,118,422</u>	<u>\$ 115,703,422</u>

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 were 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 the 2016 fiscal year.

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

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of the 2009 Revenue Bonds plus accrued interest to an early redemption date of December 1, 2018. On January 31, 2017, the remaining 2009 Revenue Bonds were advance refunded with the issuance of the Series 2017 Revenue Bonds. An escrow fund was also established upon issuance of the Series 2017 Bonds that together with investment income will be used for the redemption and retirement of an additional \$32,895,000 of the 2009 Revenue Bonds plus accrued interest to an early redemption date of December 1, 2018. 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, 2017 and 2016, the outstanding principal balance of the unfunded bonds totaled \$- and \$35,020,000, respectively.

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.

At the issuance of the Series 2017 Revenue Bonds, the remaining cash flows required to service the Refunded Series 2009 Bonds totaled \$54,326,831, while the remaining cash flows required to service the Series 2017 Bonds totaled \$53,973,347. The savings associated with this reduced cash flow discounted back to 2017 was approximately \$325,579.

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 \$6,828,281 are pledged to repay principal and interest on the bonds at September 30, 2017. Pledged revenues in the amount of \$47,569,273 were received during the fiscal year ended September 30, 2017 with \$1,140,606, or 2.4% of pledged revenues, being used to pay principal and interest payments during 2017. 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 2016. 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 \$14,024,091 at September 30, 2017 and \$14,493,891 at September 30, 2016 are pledged to repay principal and interest on the bonds. Pledged revenues in the amount of \$47,569,273 were received during the fiscal year ended September 30, 2017 with \$468,990 or 1.0% of pledged revenues, being

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used to pay principal and interest payments during this 2017. 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 2016. 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 \$13,372,495 at September 30, 2017 and \$13,772,715 at September 30, 2016 are pledged to repay principal and interest on the bonds. Pledged revenues in the amount of \$47,569,273 were received during the fiscal year ended September 30, 2017 with \$400,220, or .8% of pledged revenues, being used to pay principal and interest payments during 2017. 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 2016. 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 \$14,676,080 at September 30, 2017 and \$15,082,710 at September 30, 2016 are pledged to repay principal and interest on the bonds. Pledged revenues in the amount of \$47,569,273 were received during the fiscal year ended September 30, 2017 with \$406,630, or .9% of pledged revenues, being used to pay principal and interest payments during 2017. 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 2016. These bonds are scheduled to mature in fiscal year 2035.

The Jacksonville State University Board pledged student tuition and fees to repay \$34,880,000 in Series 2017 Tuition and Fee Revenue Bonds issued on January 31, 2017 at interest rates ranging from 2.0 to 5.0%. The funds were used to advance refund a portion of the University's outstanding Revenue Bonds Series 2009, then outstanding in the amount of \$32,895,000, to finance capital improvements and to pay the costs of issuance. Future revenues in the amount of \$53,510,028 are pledged to repay principal and interest on the bonds at September 30, 2017. Pledged revenues in the amount of \$47,569,273 were received during the fiscal year ended September 30, 2017 with \$462,243 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 2039.

The Jacksonville State University Board pledged student tuition and fees to repay \$10,000,000 in Series 2017-A Tuition and Fee Revenue Bonds issued on February 6, 2017 at an interest rate of 3.04%. The funds were used to finance the acquisition, construction and installation of capital improvements and to pay the expenses of issuing the Series 2017-A Bond. Future revenues in the amount of \$13,291,636 are pledged to repay principal and interest on the bonds at September 30, 2017. Pledged revenues in the amount of \$47,569,273 were received during the fiscal year ended

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September 30, 2017 with \$45,912 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 2032.

**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.

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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. The net appreciation available to be spent for endowed purposes at September 30, 2017 and 2016 is \$39,746 and \$75,682, respectively.

**NOTE 15 – COMPONENT UNITS**

During the year ended September 30, 2017 and 2016, Jacksonville State University Foundation, Inc., a discretely presented component unit distributed \$1,008,344 and \$1,373,074, respectively, to Jacksonville State University for both restricted and unrestricted purposes. At September 30, 2017, Jacksonville State University has recorded a receivable of \$4,336,227 due from the Foundation for scholarships and funding related to the construction of the Health and Wellness Center. At September 30, 2017, the University has also recorded a payable of \$388,105 due to the Foundation related to the service agreement more fully described in Note 9 and for other services. At September 30, 2016, Jacksonville State University had 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. Beginning in August 2017 through August 2019, the space allocated for use by JSU, with the exception of one office, will be used by Gadsden State Community College. During this term, JSU is relieved of all obligations to pay or contribute to the costs associated with the Economic Development Center.

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

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as the McClellan Higher Education Consortium. Jacksonville State University’s one-half share of the building cost is \$3,500,000.

**NOTE 18 – OCTOBER 1, 2015 RESTATEMENT**

During the year ended September 30, 2016, the October 1, 2015 beginning net position was 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
<u>Prior Period Adjustment</u>	
To record net original issue discount related to the 2009 bond issue.	676,175
To correct a depreciation error	<u>168,244</u>
Net Position October 1, 2015, as Restated	<u>\$21,419,417</u>

**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.

The University has incurred expenses for post-tornado cleanup costs and property damage in connection with an EF-3 tornado that touched down on JSU’s campus on March 19, 2018. The University does not yet have an estimate of total expenses to cleanup and repair the damage to campus property, but the University expects partial reimbursement from insurance and federal and state grants to aid in the recovery.

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

**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). The Holding Company’s total assets were \$24,017 at December 31, 2016 and 2015, and are not included in the financial statements.

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**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. These three classifications are defined as follows:

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. Changes in unrestricted net assets represent revenues and expenses related to the operation and management of the Foundation's primary programs and supporting services.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of the Foundation. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes.

**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 (U.S. 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 U.S. 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.

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**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 real estate, limited partnerships and alternative investments are stated at fair value.

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 was 6% during the year ended December 31, 2016. The rates used during the year ended December 31, 2015 were 6% and 9.5%. There were no new trusts established in 2016 or 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.

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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. 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 pledges 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 FASB ASC 360-10-15, *Impairment or Disposal of Long-Lived Assets*, the Foundation 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 Foundation 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, 2016.

### **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, 2016 and 2015 include personnel salaries and office space paid by Jacksonville State University totaling \$330,243 and \$315,594, 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.

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**Income Tax**

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). 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 (IRS) has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the IRC. 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, 2016, the Agency had no uncertain tax positions that qualify for disclosure in financial statements. The Foundation files an annual Form 990 with the IRS and its tax returns for previous open tax years may be subject to examination by taxing authorities.

**Subsequent Events**

Subsequent events have been evaluated through July 31, 2017, which is the date the 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.

**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 are as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 430,292	\$ 271,080
Receivable in one to five years	947,039	620,016
Receivable in more than five years	<u>1,711,186</u>	<u>1,609,666</u>
Total unconditional promises to give	3,088,517	2,500,762
Less allowance for bad debt	(1,352,861)	(987,174)
Less discounts to net present value	<u>(341,715)</u>	<u>(274,936)</u>
Net unconditional promises to give	<u>\$1,393,941</u>	<u>\$ 1,238,652</u>

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Discount rates used were 3.75% and 3.25% at December 31, 2016 and 2015, respectively

**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, 2016. 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, 2016:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds:			
Bond funds	\$ 2,933,850	\$ 2,909,185	\$ (24,665)
Balanced funds	6,823,920	6,133,809	(690,111)
Equity funds	5,308,507	4,969,084	(339,423)
Index funds	5,795,254	6,574,018	778,764
Other	2,346,311	2,254,860	(91,451)
Money markets	1,021,105	1,021,105	-
Government obligations	1,624,849	1,604,544	(20,305)
Mortgage backed securities	215,197	217,270	2,073
Corporate obligations	3,908,579	3,926,357	17,778
Municipal bonds	1,799,780	1,842,952	43,172
Common stock:			
Financial	914	2,210	1,296
Consumer goods	6,619	7,292	673
Basic materials	4,380	4,513	133
Industrial goods	4,052	6,320	2,268
Real estate investment trusts	262,500	303,061	40,561
Alternative investments	<u>1,893,441</u>	<u>2,054,148</u>	<u>160,707</u>
Total	<u>\$ 33,949,258</u>	<u>\$ 33,830,728</u>	<u>\$ (118,530)</u>

The estimated fair value of debt securities at December 31, 2016, 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.

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	Estimated Market Value
Due in one year or less	\$ 1,109,025
Due after one through five years	3,516,227
Due after five through ten years	<u>2,965,871</u>
	<u>\$ 7,591,123</u>

Investment expenses were \$413,449 and \$395,789 for the years ended December 31, 2016 and 2015, 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 3% 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 4% of the average quarterly total balance for the previous twelve quarters at year end (December 31). Accordingly, over the long term, the Foundation expects its

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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, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 8,938,405	\$ 11,469,966	\$ 20,408,371

Changes in endowment net assets as of December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 8,705,322	\$ 11,256,096	\$ 19,961,418
Contributions	-	-	213,870	213,870
Investment income	-	423,925	-	423,925
Net appreciation	-	691,034	-	691,034
Amounts appropriated for expenditure	-	(881,876)	-	(881,876)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 8,938,405</u>	<u>\$ 11,469,966</u>	<u>\$ 20,408,371</u>

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>\$ -</u>	<u>\$ 8,705,322</u>	<u>\$ 11,256,096</u>	<u>\$ 19,961,418</u>

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**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, 2016 and 2015:

Land	<u>\$ 132,043</u>
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**F. Split Interest Agreement**

Of the \$1,136,929 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 \$120,398 at December 31, 2016.

The following is a schedule by years of future minimum rentals due under the ground lease at December 31, 2016:

2017	24,804
2018	24,804
2019	24,804
2020	24,804
2021	24,804
2022 and thereafter	<u>28,901</u>
	<u>\$ 152,921</u>

**G. Restriction / Limitations on Net Assets**

Temporarily restricted net assets were available for the following purposes at December 31, 2016:

Faculty awards and chairs	\$ 4,258,211
Scholarships and grants	14,181,678
For other purposes	<u>5,020,981</u>
Total	<u>\$ 23,460,870</u>

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

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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.

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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, 2016 and 2015:

	<b>2016</b>	<b>Quoted prices in active markets for identical Assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable Inputs (Level 3)</b>
	<b>Fair Value</b>			
Mutual funds	\$ 22,840,956	\$ 22,840,956	\$ -	\$ -
Money markets	1,021,105	1,021,105	-	-
Government obligations	1,604,544	-	1,604,544	-
Mortgage backed securities	217,270	-	217,270	-
Corporate obligations	3,926,357	-	3,926,357	-
Municipal bonds	1,842,952	-	1,842,952	-
Common stock	20,335	20,335	-	-
Real estate investment trusts	303,061	-	303,061	-
Alternative investments	2,054,148	-	2,054,148	-
<b>Total</b>	<b>\$ 33,830,728</b>	<b>\$ 23,882,396</b>	<b>\$ 9,948,332</b>	<b>\$ -</b>

	<b>2015</b>	<b>Quoted prices in active markets for identical Assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable Inputs (Level 3)</b>
	<b>Fair Value</b>			
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	1,735,276	-	1,735,276	-
<b>Total</b>	<b>\$ 32,474,233</b>	<b>\$ 22,997,665</b>	<b>\$ 9,476,568</b>	<b>\$ -</b>

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

**Level 1 measurements**

Mutual Funds: Comprised of pools of funds managed by an investment company that brings together funds from many investors and invests in stocks, bond or other assets. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Foundation can access.

Common Stock: Comprised of 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*: Comprised of financial debt instruments backed by the U.S. Government including treasury bonds and bills. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active that the Foundation can access.

*Mortgage backed securities*: Comprised of U.S. Government agency securities including the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active that the Foundation can access.

*Corporate obligations and Municipal bonds*: Comprised of debt instruments issued by private corporations and municipalities which contain fixed interest rates and maturity dates. 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 that the Foundation can access.

Real Estate Investment Trust and Alternative investments: Comprised of private market investments. The primary inputs to the valuation of these investments include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, credit spreads and a discounted cash flow model that is widely accepted in the financial services industry which incorporates the credit quality and industry sector of the issuer.

**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

**Jacksonville State University**  
**Notes to the Financial Statements**  
**For the Years Ended September 30, 2017 and 2016**

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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.

## Evaluating Limits Tips:

(1) Usually, you can plug in the number below the limit UNLESS you are dividing by zero.

(2) Thm:  $\frac{0}{0}$

(3) Factor

(4) Limits To Infinity  $\left(\lim_{x \rightarrow \infty} \frac{p(x)}{q(x)}\right)$

(1) If  $\deg(p(x)) > \deg(q(x))$ , the limit = 0.

(2) If  $\deg(p(x)) < \deg(q(x))$ , the limit = 0.

(3) If  $\deg(p(x)) = \deg(q(x))$ , the limit =  $\frac{\text{leading coefficient of } p(x)}{\text{leading coefficient of } q(x)}$

$$\lim_{x \rightarrow \infty} \frac{x^2}{3x^2 + 45x^2 - 19x} = \lim_{x \rightarrow \infty} \frac{\frac{x^2}{x^2}}{3 + \frac{45x^2}{x^2} - \frac{19x}{x^2}} = \frac{1}{3 + 45 - 0} = \frac{1}{48}$$

$$= \lim_{x \rightarrow \infty} \frac{\frac{x}{x^2}}{\frac{3x^2}{x^2} + \frac{45x^2}{x^2} - \frac{19x}{x^2}} = \frac{0}{3 + 45 - 0} = 0$$

$$\lim_{x \rightarrow \infty} \frac{1}{x^2} = 0$$

## **Required Supplementary Information**



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

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	For the measurement period ended September 30, <u>2016</u>	For the measurement period ended September 30, <u>2015</u>	For the measurement period ended September 30, <u>2014</u>
JSU's proportion of the net pension liability	0.748031%	0.736438%	0.732539%
JSU's proportionate share of the net pension liability	\$80,982,000	\$77,073,000	\$66,548,000
JSU's covered-employee payroll	\$47,766,000	\$46,684,000	\$46,482,000
JSU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.54%	165.10%	143.17%
Plan fiduciary net position as a percentage of the total pension liability	67.93%	67.51%	71.01%

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

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

Changes of Assumptions - In 2016, rates of retirement, disability, withdrawal and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

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

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	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 5,829,433	\$ 5,623,694	\$ 5,266,235
Contributions in relation to the contractually required contribution	<u>5,829,433</u>	<u>5,623,694</u>	<u>5,266,235</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>
System's covered-employee payroll	\$ 49,517,000	\$ 47,766,000	\$ 46,684,000
Contributions as a percentage of covered-employee payroll	11.77%	11.77%	11.28%

**Notes to the Schedule of University Contributions**

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

Changes of Assumptions - In 2016, rates of retirement, disability, withdrawal and mortality were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

## **Additional Information**



**Jacksonville State University**  
**Listing of Board of Trustees and University Officials**  
**September 30, 2017**

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<u>Board Members</u>		<u>Term Expires</u>
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
<u>Officials</u>		
Dr. John M. Beehler	President	
Dr. Ashok K. Roy	Vice President for Finance & Administration	



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**PART II**

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

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JACKSONVILLE

STATE

UNIVERSITY

**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, 2017, 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 28, 2018. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

## **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 28, 2018



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

To the Board of Trustees  
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, 2017. 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, 2017.

## 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; 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 over compliance that we consider to be material weaknesses. We did identify certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies (2017.001 through 2017.009).

Jacksonville State University's response to the internal control over compliance findings identified in our audit are described in the accompanying "Management's View and Corrective Action Plan" beginning on page 90. 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.

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 28, 2018



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**PART III**

**SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS**

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**Jacksonville State University**  
**Schedule of Expenditures of Federal Awards**  
**For the Year ended September 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Assistance Period</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>MAJOR PROGRAMS</b>					
<b><u>Student Financial Assistance Cluster</u></b>					
<b><u>U.S. Department of Education Direct Programs</u></b>					
Federal Pell Grant Program	84.063	N.A.	7/1/16-6/30/18	\$ -	\$ 12,865,444
Federal Direct Student Loans	84.268	N.A.	7/1/16-6/30/18	-	38,731,279
Federal Work-Study Program	84.033	N.A.	7/1/16-6/30/18	-	367,513
Federal Supplemental Education Opportunity Grants	84.007	N.A.	7/1/16-6/30/18	-	303,735
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N.A.	7/1/16-6/30/18	-	<u>56,974</u>
Total Student Financial Assistance Cluster				-	52,324,945
<b><u>Research and Development Cluster</u></b>					
<b><u>U.S. Department of Defense Direct Programs</u></b>					
GenCyber Grants Program	12.903	H98230-16-1-0168	4/28/16-4/27/17	-	39,830
GenCyber Grants Program	12.903	H98230-17-1-0164	3/30/17-3/29/18	-	<u>71,273</u>
Total U.S. Department of Defense Direct Programs				-	111,103
<b><u>U.S. Department of Education Direct Programs</u></b>					
Investing in Innovation (i3) Fund	84.411	U411B130037	1/1/14-12/31/18	77,756	1,521,490
Investing in Innovation (i3) Fund	84.411	U411B150025- 15A	1/1/16-12/31/20	200,000	1,233,977
Funds for the Improvement of Postsecondary Education	84.116	P116F140299	10/1/14-9/30/18	-	<u>125,988</u>
Total U.S. Department of Education				277,756	2,881,455

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

**Jacksonville State University**  
**Schedule of Expenditures of Federal Awards**  
**For the Year ended September 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Assistance Period</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<b><u>National Science Foundation</u></b>					
Biological Sciences	47.074	N.A.	6/1/12-5/31/17	-	15,825
Education and Human Resources	47.076	1515636	9/1/15-8/31/18	-	84,610
Total National Science Foundation				-	100,435
<b><u>U.S. Department of Interior, Fish and Wildlife Service</u></b>					
Cooperative Endangered Species Conservation Fund	15.615	N.A.	8/1/16-9/30/18	-	20,269
<b><u>Passed through Gulf States Marine Fisheries Commission</u></b>					
Fish and Wildlife Management Assistance	15.608	F14AB00009	6/1/16-9/30/17	6,697	18,830
Total U.S. Department of Interior, Fish and Wildlife Service				6,697	39,099
Total Research and Development Cluster				284,453	3,132,092
<b>Total Major Programs</b>				\$ 284,453	\$ 55,457,037
<b><u>NON-MAJOR PROGRAMS</u></b>					
<b><u>National Security Agency</u></b>					
Information Security Grant Program	12.902	H98230-17-1-0326	8/28/17-8/27/18	-	447
<b><u>Appalachian Regional Commission</u></b>					
Appalachian Area Development	23.002	AL-18393-16	5/1/16-9/30/17	-	52,500
<b><u>U.S. Department of Education Direct Programs</u></b>					
Higher Education Institutional Aid	84.031	P031A140199	10/1/14-9/30/19	-	271,446
Funds for the Improvement of Postsecondary Education	84.116	P116G150112	10/1/15-9/30/18	-	104,893

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

**Jacksonville State University**  
**Schedule of Expenditures of Federal Awards**  
**For the Year ended September 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Assistance Period</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407	P407A150066	10/1/15-9/30/20	-	90,800
<u>Passed through Alabama State Department of Education</u> Mathematics and Science Partnerships	84.366	U3600320	10/1/15-9/30/16	-	149,615
AMSTI MSP	84.366	U700190	10/1/16-9/30/18	-	146,003
<u>Passed through Alabama Commission on Higher Education</u> Supporting Effective Instruction State Grant	84.367	N.A.	1/22/16-6/16/17	-	82,616
IMPACTSEED Improving Physics & Chemistry Teaching in Secondary Education	84.367	N.A.	1/20/17-6/19/18	-	57,950
<u>Passed through the National Writing Project</u> Jacksonville State University Writing Project	84.367	U367D150004	5/1/17-8/31/18	-	3,770
<u>Passed through the California State University, Northridge</u> Special Education – Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	F-11-2963-3-JSU	10/1/13-9/30/17	-	29,196
Total U.S. Department of Education				-	936,289
<u>U.S. Department of Health and Human Services</u> <u>Passed through Alabama Department of Public Health</u> National Bioterrorism Hospital Preparedness Program	93.889	CEP-27-QW7-17/16	7/1/16-6/30/17	-	24,539
<u>Passed through the University of Alabama</u> Foster Care Title IV-E	93.658	UA17-011	10/1/16-9/30/17	-	53,646
Total U.S. Department of Health and Human Services				-	78,185

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

**Jacksonville State University**  
**Schedule of Expenditures of Federal Awards**  
**For the Year ended September 30, 2017**

<u>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Assistance Period</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
<u>U.S. Small Business Administration</u> <u>Passed through the University of Alabama</u> Small Business Development Centers	59.037	UA17-001	10/1/16-9/30/17	-	81,490
<u>U.S. Department of Defense</u> <u>Passed through the University of Alabama</u> Procurement Technical Assistance for Business Firms	12.002	UA16-0444	8/1/16-7/31/17	-	39,409
<u>U.S. Department of Justice</u> <u>Passed through the Alabama Department of Economic and Community Affairs</u> Edward Byrne Memorial JAG Program	16.738	14-DJ-ST-004	9/1/16-3/31/17	-	15,615
Edward Byrne Memorial JAG Program	16.738	16-DJ-ST-003	1/1/17-12/31/17	-	27,982
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	16-CD-01-002	10/1/16-9/30/17	-	22,131
Total U.S. Department of Justice				-	65,728
<u>General Services Administration</u> <u>Passed through the Alabama Department of Economic and Community Affairs</u> Donation of Federal Surplus Personal Property (N)	39.003	N.A.	10/1/15-9/30/16	-	2,339
<b>Total Non-Major Programs</b>				-	<u>1,256,387</u>
<b>Total Federal Awards</b>				\$ 284,453	\$ <u>56,713,424</u>

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

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

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**NOTE 1 - BASIS OF PRESENTATION**

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

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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. 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.

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

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**NOTE 3 – RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET 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, 2017.

Federal Grants and Contracts– Operating Revenue	\$ 5,151,274
Federal Grants – Nonoperating Revenue	12,600,914
Fall 2017 Unearned Federal Grant Revenue	4,922,559
Fall 2016 Unearned Federal Grant Revenue	(4,692,602)
Federal Direct Student Loans	<u>38,731,279</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$56,713,424</u>

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**PART IV**

**SCHEDULES OF FINDINGS AND QUESTIONED COSTS**

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

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

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified?  yes  no

Significant deficiency(ies) identified?  yes  none reported

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	<u>Student Financial Assistance Cluster</u>
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.033	Federal Work-Study Program
84.007	Federal Supplemental Educational Opportunity Grants
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)
	<u>Research and Development Cluster</u>
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?  yes  no

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

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**Section II – Financial Statement Findings**

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

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

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

REFERENCE	PROGRAM	QUESTIONED COSTS
2017.001	Student Financial Assistance	\$ -

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

**CRITERIA**

34 CFR §668.164 – Disbursing funds

In each payment period, the University must disburse the amount of title IV funds that a student is eligible to receive for that payment period.

**CONDITION/CONTEXT**

During our review, we noted that 3 out of 60 students selected for testing did not timely receive their Pell disbursements during the applicable payment period. The appropriate Pell funds were disbursed late. The sample was statistically valid.

**QUESTIONED COSTS**

While known questioned costs for the 3 students noted above were \$-, likely questioned costs associated with this error are estimated at \$37,635.

**CAUSE/EFFECT**

The University failed to disburse during the payment period due to inadequate staffing, which led to a breakdown in internal controls. The errors were detected by management and corrected by late disbursement.

**REPEAT**

n/a

**RECOMMENDATION**

Management engaged financial aid consultants to manage the student financial services department, to identify and resolve non-compliance that occurred as a result of the breakdown in controls, and to supplement the staffing needs of the student financial services department. We recommend that management continue to adequately staff the department to allow for internal control processes to function as designed.

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

See letter from management on page 90.

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

---

REFERENCE	PROGRAM	QUESTIONED COSTS
2017.002	Student Financial Assistance	\$ -

U.S. Department of Education  
 Federal Pell Grant Program – CFDA 84.063, Federal Direct Student Loans – CFDA 84.268  
 Award Year – July 1, 2016 through June 30, 2017

**CRITERIA**

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

The University is responsible for returning the amount of unearned title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of determination that the student withdrew.

**CONDITION/CONTEXT**

During our review, we noted that 25 out of 60 students selected for testing were returned late. The sample was statistically valid.

**QUESTIONED COSTS**

n/a

**CAUSE/EFFECT**

The University failed to timely calculate and return unearned title IV funds for which it was responsible. The error occurred due to inadequate staffing which led to a breakdown in internal controls.

**REPEAT**

n/a

**RECOMMENDATION**

Management engaged financial aid consultants to manage the student financial services department, to identify and resolve non-compliance that occurred as a result of the breakdown in controls, and to supplement the staffing needs of the student financial services department. We recommend that management continue to adequately staff the department to allow for internal control processes to function as designed.

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

See letter from management on page 90.

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

---

REFERENCE	PROGRAM	QUESTIONED COSTS
2017.003	Student Financial Assistance	\$ -

U.S. Department of Education  
 Federal Pell Grant Program – CFDA 84.063, Federal Direct Student Loans – CFDA 84.268,  
 Federal Work-Study Program – CFDA 84.033, Federal Supplemental Educational Opportunity  
 Grants – CFDA 84.007, Teacher Education Assistance for College and Higher Education  
 Grants – CFDA 84.379  
 Award Year – July 1, 2016 through June 30, 2017

**CRITERIA**

34 CFR § 668.162 – Requesting funds

The University's request may not exceed the amount of funds the institution needs immediately for disbursements the institution has made or will make to eligible students and parents.

34 CFR § 668.166 – Excess cash

The University must monitor for excess cash, which is defined to be any amount of title IV, HEA program funds, other than Federal Perkins Loan program funds, that an institution does not disburse to students by the end of the third business day following the date the institution received those funds.

34 CFR § 675.19 and 34 CFR § 676.19 – Fiscal procedures and records

The University must establish and maintain program and fiscal records that are reconciled monthly.

**CONDITION/CONTEXT**

During our review, we noted that 2 drawdowns out of 2 selected for testing did not employ appropriate controls to ensure that the amounts of funds requested were appropriate and that the institution did not receive and maintain excess cash. Supervisor reviews were not documented and reconciliations to document the amount of cash requested compared with cash disbursements were not maintained. The sample was statistically valid for the small population.

**QUESTIONED COSTS**

n/a

**CAUSE/EFFECT**

The University failed to maintain evidence to document their control activities as they relate to cash management. The absence of these control activities could lead to noncompliance.

**REPEAT**

n/a

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

---

**RECOMMENDATION**

We recommend that management implement policies to require not only that certain control activities are performed but that they are also documented and maintained as evidence.

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

See letter from management on page 90.

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

---

REFERENCE	PROGRAM	QUESTIONED COSTS
2017.004	Student Financial Assistance	\$ -

U.S. Department of Education  
 Federal Direct Student Loans – CFDA 84.268  
 Award Year – July 1, 2016 through June 30, 2017

**CRITERIA**

34 CFR § 685.300 – Agreements between an eligible school and the Secretary of Education for participation in the Direct Loan Program

The University must reconcile institutional records with Direct Loan funds received from the Secretary of Education and Direct Loan disbursement records submitted to and accepted by the Secretary of Education.

**CONDITION/CONTEXT**

During our review, we noted that 1 reconciliation out of 2 selected for testing was not performed. The sample was statistically valid for the small population.

**QUESTIONED COSTS**

n/a

**CAUSE/EFFECT**

The University failed to perform a monthly loan reconciliation due to inadequate staffing, which led to a breakdown in internal controls. The errors were detected by management and reconciliation was performed as soon as was administratively feasible.

**REPEAT**

n/a

**RECOMMENDATION**

Management engaged financial aid consultants to manage the student financial services department, to identify and resolve non-compliance that occurred as a result of the breakdown in controls, and to supplement the staffing needs of the student financial services department. We recommend that management continue to adequately staff the department to allow for internal control processes to function as designed.

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

See letter from management on page 90.

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

---

REFERENCE	PROGRAM	QUESTIONED COSTS
2017.005	Student Financial Assistance	\$ -

U.S. Department of Education  
 Federal Work-Study Program – CFDA 84.033, Federal Supplemental Educational Opportunity  
 Grants – CFDA 84.007  
 Award Year – July 1, 2016 through June 30, 2017

**CRITERIA**

34 CFR § 673.5 – Overaward

An institution may only award or disburse an FSEOG to a student if that FSEOG, combined with the other estimated financial assistance the student receives, does not exceed the student's financial need. An institution may only award FWS employment to a student if the award, combined with the other estimated financial assistance the student receives, does not exceed the student's financial need.

**CONDITION/CONTEXT**

During our review, we noted that a manual control process performed on a weekly basis by student financial aid personnel to review student accounts for overawards is not documented.

**QUESTIONED COSTS**

n/a

**CAUSE/EFFECT**

The University failed to maintain evidence to document their control activities as they relate to the detection of overawards. The absence of these control activities could lead to noncompliance.

**REPEAT**

n/a

**RECOMMENDATION**

We recommend that management implement policies to require not only that certain control activities are performed but that they are also documented and maintained as evidence.

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

See letter from management on page 90.

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

---

REFERENCE	PROGRAM	QUESTIONED COSTS
2017.006	Research & Development	\$ -

U.S. Department of Education  
Investing in Innovation Fund (i3) – CFDA 84.411  
Award Period – January 1, 2014 through December 31, 2018

**CRITERIA**

34 CFR § 75.118 - Requirements for a continuation award

A recipient that wants to receive a continuation award shall submit a performance report that provides the most current performance and financial expenditure information. Specifically, the institution is required to submit an annual Grant Performance Report.

**CONDITION/CONTEXT**

During our testing, we noted that the annual Grant Performance Report was submitted timely but did not include accurate data. The sample was statistically valid.

**QUESTIONED COSTS**

n/a

**CAUSE/EFFECT**

The reporting of inaccurate data was due to the manual nature of the process and a lack of management oversight to ensure accuracy. The error was not detected by management.

**REPEAT**

n/a

**RECOMMENDATION**

We recommend that management implement an additional layer of review over processes that are manual in nature.

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

See letter from management on page 90.

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

---

REFERENCE	PROGRAM	QUESTIONED COSTS
2017.007	Research & Development	\$ -

U.S. Department of Education  
Investing in Innovation Fund (i3) – CFDA 84.411  
Award Period – January 1, 2014 through December 31, 2018

**CRITERIA**

2 CFR § 200.331 – Requirements for pass-through entities

All pass-through entities should evaluate each subrecipient’s risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring.

**CONDITION/CONTEXT**

During our review, we noted that JSU failed to maintain documentation to evidence their evaluation and monitoring of subrecipients.

**QUESTIONED COSTS**

n/a

**CAUSE/EFFECT**

JSU’s lack of policies and procedures combined with staff turnover led to inadequate subrecipient monitoring.

**REPEAT**

n/a

**RECOMMENDATION**

We recommend that management implement written policies and checklists to require not only that certain control activities are performed related to subrecipient monitoring but that they are also documented and maintained as evidence.

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

See letter from management on page 90.

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

---

<b>REFERENCE</b>	<b>PROGRAM</b>	<b>QUESTIONED COSTS</b>
2017.008	Research & Development	\$ -

U.S. Department of Education  
Investing in Innovation Fund (i3) – CFDA 84.411  
Award Period – January 1, 2014 through December 31, 2018

**CRITERIA**

2 CFR § 200.430 – Compensation – personal services

Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed, and those records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.

**CONDITION/CONTEXT**

During our review, we noted that JSU improperly charged a grant for 9 months of salary for one employee.

**QUESTIONED COSTS**

n/a

**CAUSE/EFFECT**

Management’s system of internal control around time and effort analysis was not comprehensive enough to timely identify this unallowable charge. Management identified the error and subsequently refunded the granting agency.

**REPEAT**

n/a

**RECOMMENDATION**

We recommend that management analyze time and effort on a monthly basis for all employees with partial or full salaries charged to grants.

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

See letter from management on page 90.

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

---

REFERENCE	PROGRAM	QUESTIONED COSTS
2017.009	Research & Development	\$ -

U.S. Department of Education  
Investing in Innovation Fund (i3) – CFDA 84.411  
Award Period – January 1, 2014 through December 31, 2018  
Award Period – January 1, 2016 through December 31, 2020

Funds for the Improvement of Postsecondary Education – CFDA 84.116  
Award Period – October 1, 2014 through September 30, 2018

**CRITERIA**

2 CFR § 200.303 – Internal controls

An institution must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the institution is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

**CONDITION/CONTEXT**

During our review, we noted that the internal control design lacked appropriate segregation of duties around procurement and cash management.

**QUESTIONED COSTS**

n/a

**CAUSE/EFFECT**

Reconciliation, authorization and performance of cash drawdowns was performed by one person. Additionally, the majority of purchasing was performed, reviewed for allowability under the grant and approved by one person. The lack of segregation of duties in the areas of cash management and procurement could lead to noncompliance with the grant and Federal regulations.

**REPEAT**

n/a

**RECOMMENDATION**

Management has hired additional personnel to address the segregation of duties noted above. We recommend that management design its internal controls such that the performance, review and recordkeeping of a task are segregated.

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

See letter from management on page 90.



## MANAGEMENT'S VIEW & CORRECTIVE ACTION PLAN

### REFERENCE 2017.001

### Student Financial Assistance

#### Management Response:

Management agrees with the audit finding regarding disbursement of title IV funds made during an applicable payment period. Management is pleased to report that it has already addressed this finding. Management has employed a third party servicer, FA Solutions, to gain adequate staffing to ensure internal controls are in place and disbursements of title IV funds are made in the correct payment period.

Completed: May 2017

Contact person responsible – Alice Wudarczyk, Associate Director-Student Financial Services

### REFERENCE 2017.002

### Student Financial Assistance

#### Management Response:

Management agrees with the audit finding regarding the returning of title IV funds as soon as possible and no later than the required 45 days of the determined withdrawal date for a student. Management is pleased to report that it has already addressed this finding. Management has employed a third party servicer, FA Solutions, to gain adequate staffing to ensure internal controls are in place and that title IV funds are returned timely and in the required time frame.

Completed: May 2017

Contact person responsible – Alice Wudarczyk, Associate Director-Student Financial Services

### REFERENCE 2017.003

### Student Financial Assistance

#### Management Response:

Management agrees with the audit finding regarding the requesting of federal funds. Management is pleased to report that it has already addressed this finding. Management has increased staffing by adding 2 accountants and has revised procedures for draw downs, so that there is separation of duties between reconciliations, drawdowns, and deposits. Also, activities are now documented and maintained as evidence.

Completed: October 2017



Contact person responsible – Robin Yarbrough-Director of University Budgets, Scholarships, Grants and Contracts

**REFERENCE 2017.004**

**Student Financial Assistance**

**Management Response:**

Management agrees with the audit finding regarding agreements between an eligible school and the Secretary of Education for participation in the Direct Loan Program in regards to the required reconciliation of institutional records with Direct Loan funds. Management is pleased to report that it has already addressed this finding. Management has employed a third party servicer, FA Solutions, to gain adequate staffing to ensure internal controls are in place and the required monthly loan reconciliations are being completed.

Completed: May 2017

Contact person responsible – Alice Wudarczyk, Associate Director-Student Financial Services

**REFERENCE 2017.005**

**Student Financial Assistance**

**Management Response:**

Management agrees with the audit finding regarding Federal Work-Study Program and Federal Supplemental Educational Opportunity Grants, in regards to over awards. Management is pleased to report that it has already addressed this finding. Management has employed a third party servicer, FA Solutions, that is using Banner reports along with an additional report that was written by the JSU Information Technology staff to ensure that we are not over awarding students. Management has put policies and procedures in place with the third party servicer, FA Solutions, to ensure that control activities are adequate related to monitoring for over awarding of funds, and that the control activities are documented.

Completed: May 2017

Contact person responsible – Alice Wudarczyk, Associate Director-Student Financial Services



## **MANAGEMENT'S VIEW & CORRECTIVE ACTION PLAN**

### **REFERENCE 2017.006**

### **Research and Development**

#### **Management Response:**

Management agrees with the audit finding regarding the annual Grant Performance Report that was submitted timely but did not include accurate data. The reporting of inaccurate data was due to the manual nature of the process and a lack of management oversight to ensure accuracy. Management is in the process of restructuring the Office of Sponsored Programs to provide the required level of oversight for Grant Performance Reports.

Anticipated Completion Date: May 2018

Contact person responsible – Lisa Williams, Associate Vice Provost

### **REFERENCE 2017.007**

### **Research and Development**

#### **Management Response:**

Management agrees with the audit finding that JSU failed to maintain documentation to evidence their evaluation and monitoring of subrecipients. Management is pleased to report that it has already addressed this finding. Management has increased staffing by adding two accountants and revised procedures for monitoring subrecipients and documenting the process adequately.

Completed: October 2017

Contact person responsible – Robin Yarbrough, Director Budget Administration, Grants & Contracts Accounting.

### **REFERENCE 2017.008**

### **Research and Development**

#### **Management Response:**

Management agrees with the audit finding that JSU improperly charged a grant for 9 months of salary for one employee. Management is pleased to report that it has already addressed this finding. Management has revised and expanded its policy and procedures for Effort Reporting and feels that additional review and documentation will preclude this from happening again.

Completed: October 2017

Contact person responsible – Robin Yarbrough-Director of University Budgets, Grants and Contracts



**REFERENCE 2017.009**

**Research and Development**

**Management Response:**

Management agrees with the audit finding regarding the internal control design lacked appropriate segregation of duties around procurement and cash management. Management is pleased to report that it has already addressed this finding. Management has increased staffing by two accountants and revised procurement procedures to add another approval by the Sponsored Programs Accountant, and adequate segregation of duties in cash management reconciliations, billing/drawdowns, and deposits.

Completed: October 2017

Contact person responsible – Robin Yarbrough, Director of Budget Administration, Grants & Contracts



## SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COST

### 2016.001

During the prior year 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). 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. We have implemented procedures to help alleviate errors from manual processes. The Vice President for Financial & Administration now reviews year end journal entries. Also, journal entries are more closely scrutinized for accuracy and backup documentation. Any questions on GAAP reporting for special circumstances are vetted thoroughly, with outside assistance if needed. Depreciation policies have been revised as a result of the prior year finding.

Person Responsible: Mr. Kevin McFry, Controller

Status: Resolved.

### 2016.002

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. We employed a third party servicer who uses Banner reports to review any student who may be eligible, awarded and paid the appropriate amounts per enrollment, attendance verification and Pell Grant Schedule. For the 2016-2017 academic year, each person was checked manually. For 2017-2018, each person has been checked through Fall 2017 and Spring 2018 and summer 2018 will be checked as well.



Person Responsible: Ms. Alice Wudarczyk, Assistant Controller-Student Accounts

Status: Resolved

2016.003

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. Management now utilizes inside Banner reporting and outside Banner reporting (Argos) to identify students who are less than half time, withdrawn, have not returned and have graduated.

Person Responsible: Ms. Alice Wudarczyk, Assistant Controller-Student Accounts

Status: Resolved

2016.004

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. We employed a third party servicer who uses Banner reports to review any student who may be eligible, awarded and paid the appropriate amounts per enrollment, attendance verification and Pell Grant Schedule. For the 2016-2017 academic year, each person was checked manually. For 2017-2018, each person has been checked through Fall 2017 and Spring 2018 and summer 2018 will be checked as well.

Person Responsible: Ms. Alice Wudarczyk, Assistant Controller-Student Accounts

Status: Resolved

Jacksonville State University **Foundation, Inc.**

Audited Financial Statements  
For the Years Ended  
December 31, 2016 and 2015





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## INDEPENDENT AUDITOR'S 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, 2016 and 2015, 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, 2016 and 2015, 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.

*D. DiPiazza La Rocca Heeter & Co., LLC*

July 31, 2017

CERTIFIED PUBLIC ACCOUNTANTS / BUSINESS CONSULTANTS

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**  
**Statements of Financial Position**  
**As of December 31, 2016 and 2015**

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 1,949,462	\$ 1,740,386
Prepaid insurance	5,336	12,424
Investments	32,693,799	31,398,799
Charitable remainder trusts, restricted	1,136,929	1,075,434
Unconditional promises to give, net	1,393,941	1,238,652
Note receivable from JSUF Real Estate Holding Co, LLC	20,916	20,916
Property and equipment, net	<u>132,043</u>	<u>132,043</u>
<b>Total Assets</b>	<b><u>\$ 37,332,426</u></b>	<b><u>\$ 35,618,654</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 8,050	\$ 212,218
Charitable trusts	241,085	252,143
Refundable advances	<u>1,808,746</u>	<u>1,744,299</u>
<b>Total Liabilities</b>	<b><u>2,057,881</u></b>	<b><u>2,208,660</u></b>
<b>NET ASSETS</b>		
Unrestricted	343,709	459,440
Temporarily restricted	23,460,870	21,694,458
Permanently restricted	<u>11,469,966</u>	<u>11,256,096</u>
<b>Total Net Assets</b>	<b><u>35,274,545</u></b>	<b><u>33,409,994</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 37,332,426</u></b>	<b><u>\$ 35,618,654</u></b>

*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, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
Contributions	\$ 45,860	\$ 2,646,401	\$ 213,870	\$ 2,906,131
Investment income	6,462	652,129	-	658,591
Realized gain	4,067	496,297	-	500,364
Unrealized gain	7,252	1,072,318	-	1,079,570
In-kind gifts	330,243	54,362	-	384,605
Other income	1,425	717,831	-	719,256
Management fee income	304,354	-	-	304,354
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenue and Support	699,663	5,639,338	213,870	6,552,871
Net assets released from restrictions	3,872,926	(3,872,926)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Revenue and Support</b>	<b>4,572,589</b>	<b>1,766,412</b>	<b>213,870</b>	<b>6,552,871</b>
<b>EXPENSES</b>				
Program services:				
JSU supportive services	4,530,688	-	-	4,530,688
Total program services	4,530,688	-	-	4,530,688
	<hr/>	<hr/>	<hr/>	<hr/>
Fundraising	113,416	-	-	113,416
Management and general	44,216	-	-	44,216
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Expenses</b>	<b>4,688,320</b>	<b>-</b>	<b>-</b>	<b>4,688,320</b>
Changes in Net Assets	(115,731)	1,766,412	213,870	1,864,551
Net assets - beginning of year	459,440	21,694,458	11,256,096	33,409,994
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets - end of year	\$ 343,709	\$ 23,460,870	\$ 11,469,966	\$ 35,274,545
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

*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**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>REVENUE AND SUPPORT</b>				
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
	<hr/>	<hr/>	<hr/>	<hr/>
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)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Revenue and Support</b>	<b>3,911,693</b>	<b>(1,394,195)</b>	<b>393,922</b>	<b>2,911,420</b>
<b>EXPENSES</b>				
Program services:				
JSU supportive services	3,866,060	-	-	3,866,060
Total program services	3,866,060	-	-	3,866,060
	<hr/>	<hr/>	<hr/>	<hr/>
Fundraising	34,279	-	-	34,279
Management and general	35,645	-	-	35,645
Donation to JSUF Real Estate Holding Co, LLC	17,000	-	-	17,000
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Expenses</b>	<b>3,952,984</b>	<b>-</b>	<b>-</b>	<b>3,952,984</b>
	<hr/>	<hr/>	<hr/>	<hr/>
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
	<hr/>	<hr/>	<hr/>	<hr/>
Net assets - end of year	\$ 459,440	\$ 21,694,458	\$ 11,256,096	\$ 33,409,994
	<hr/>	<hr/>	<hr/>	<hr/>

*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, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,864,551	\$ (1,041,564)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Provision for loss on pledge and accounts receivable	403,629	385,894
Donation of land to JSUF Real Estate Holding Co, LLC	-	17,000
Realized (gain) loss	(500,364)	143,335
Unrealized (gain) loss	(1,079,570)	1,076,473
Contributions to permanent endowment	(213,870)	(393,922)
Change in operating assets and operating liabilities:		
Prepaid expenses	7,088	(5,482)
Unconditional promises to give	(558,918)	(408,913)
Accounts payable	(204,168)	212,218
Charitable remainder trusts	(11,058)	15,800
Refundable advances	64,447	(36,072)
<b>Net cash used in operating activities</b>	<b>(228,233)</b>	<b>(35,233)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(5,754,075)	(4,005,198)
Proceeds from sales of investments	5,977,514	4,022,510
<b>Net cash provided by investing activities</b>	<b>223,439</b>	<b>17,312</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions to permanent endowment	213,870	393,922
<b>Net cash provided by financing activities</b>	<b>213,870</b>	<b>393,922</b>
Net increase in cash and cash equivalents	209,076	376,001
Cash and cash equivalents - beginning of the year	1,740,386	1,364,385
Cash and cash equivalents - end of the year	\$ 1,949,462	\$ 1,740,386

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

# JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

December 31, 2016 and 2015

### 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). The Holding Company's total assets were \$24,017 at December 31, 2016 and 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. These three classifications are defined as follows:

- Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired. Changes in unrestricted net assets represent revenues and expenses related to the operation and management of the Foundation's primary programs and supporting services
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Foundation to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of the Foundation. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
- Permanently restricted net assets contain donor-imposed restrictions that stipulate that resources be maintained permanently but permit the Foundation to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes.

#### 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 (U.S.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.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Use of Estimates**

The preparation of financial statements in conformity with U.S. 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 real estate, limited partnerships and alternative investments are stated at fair value.

The year to year increase or decrease in the 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 was 6% during the year ended December 31, 2016. The rates used during the year ended December 31, 2015 were 6% and 9.5%. There were no new trusts established in 2016 or 2015.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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. 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 pledges 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 FASB ASC 360-10-15, *Impairment or Disposal of Long-Lived Assets*, the Foundation 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 Foundation 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, 2016.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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 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, 2016 and 2015 include personnel salaries and office space paid by Jacksonville State University totaling \$330,243 and \$315,594, 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 (IRC). 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 (IRS) has determined that the Foundation is exempt from federal income tax under Section 501(c)(3) of the IRC. 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, 2016, the Agency had no uncertain tax positions that qualify for disclosure in financial statements. The Foundation files an annual Form 990 with the IRS and its tax returns for previous open tax years may be subject to examination by taxing authorities.

**Subsequent events**

Subsequent events have been evaluated through July 31, 2017, which is the date the 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.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**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:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 430,292	\$ 271,080
Receivable in one to five years	947,039	620,016
Receivable in more than five years	<u>1,711,186</u>	<u>1,609,666</u>
Total unconditional promises to give	3,088,517	2,500,762
Less allowance for bad debt	(1,352,861)	(987,174)
Less discounts to net present value	<u>(341,715)</u>	<u>(274,936)</u>
Net unconditional promises to give	<u>\$ 1,393,941</u>	<u>\$ 1,238,652</u>

Discount rates used were 3.75% and 3.25% at December 31, 2016 and 2015, respectively.

**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, 2016. Accordingly, the estimates presented in these statements are not necessarily indicative of the amounts that could be realized on disposition of the financial instruments.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**NOTE 4 – INVESTMENTS**

Investments which include charitable remainder trusts are reported at fair value based on quoted market prices or quoted prices for similar or identical assets and consist primarily of mutual funds, stocks, bonds, and alternative investments. The following are the Foundation's investments by type at December 31, 2016:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Mutual funds:			
Bond funds	\$ 2,933,850	\$ 2,909,185	\$ (24,665)
Balanced funds	6,823,920	6,133,809	(690,111)
Equity funds	5,308,507	4,969,084	(339,423)
Index funds	5,795,254	6,574,018	778,764
Other	2,346,311	2,254,860	(91,451)
Money markets	1,021,105	1,021,105	-
Government obligations	1,624,849	1,604,544	(20,305)
Mortgage backed securities	215,197	217,270	2,073
Corporate obligations	3,908,579	3,926,357	17,778
Municipal bonds	1,799,780	1,842,952	43,172
Common stock:			
Financial	914	2,210	1,296
Consumer goods	6,619	7,292	673
Basic materials	4,380	4,513	133
Industrial goods	4,052	6,320	2,268
Real estate investment trusts	262,500	303,061	40,561
Alternative investments	<u>1,893,441</u>	<u>2,054,148</u>	<u>160,707</u>
 Total	 <u>\$ 33,949,258</u>	 <u>\$ 33,830,728</u>	 <u>\$ (118,530)</u>

The estimated fair value of debt securities at December 31, 2016, 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.

	<u>Estimated Market Value</u>
Due in one year or less	\$ 1,109,025
Due after one through five years	3,516,227
Due after five through ten years	<u>2,965,871</u>
	<u>\$ 7,591,123</u>

Investment expenses were \$413,449 and \$395,789 for the years ended December 31, 2016 and 2015, respectively.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**NOTE 4 – INVESTMENTS – Continued**

**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 3% 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 4% of the average quarterly total balance for the previous twelve 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, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ _____ -	\$ <u>8,938,405</u>	\$ <u>11,469,966</u>	\$ <u>20,408,371</u>

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**  
**Notes to Financial Statements**  
**December 31, 2016 and 2015**

**NOTE 4 – INVESTMENTS – Continued**

Changes in endowment net assets as of December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 8,705,322	\$ 11,256,096	\$ 19,961,418
Contributions			213,870	213,870
Investment income	-	423,925	-	423,925
Net appreciation	-	691,034	-	691,034
Amounts appropriated for expenditure	<u>-</u>	<u>(881,876)</u>	<u>-</u>	<u>(881,876)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 8,938,405</u>	<u>\$ 11,469,966</u>	<u>\$ 20,408,371</u>

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

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

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
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	<u>-</u>	<u>(865,028)</u>	<u>-</u>	<u>(865,028)</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 8,705,322</u>	<u>\$ 11,256,096</u>	<u>\$ 19,961,418</u>

**NOTE 5 – REFUNDABLE ADVANCES**

Refundable advances are amounts held on behalf of another organization.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**NOTE 6 – PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at December 31:

	<u>2016</u>	<u>2015</u>
Land	\$ <u>132,043</u>	\$ <u>132,043</u>

**NOTE 7 – SPLIT INTEREST AGREEMENT**

Of the \$1,136,929 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 \$120,398 at December 31, 2016.

The following is a schedule by years of future minimum rentals due under the ground lease at December 31, 2016:

2017	\$ 24,804
2018	24,804
2019	24,804
2020	24,804
2021	24,804
2022 and beyond	<u>28,901</u>
	<u>\$ 152,921</u>

**NOTE 8 – RESTRICTION/LIMITATIONS ON NET ASSETS**

Temporarily restricted net assets were available for the following purposes at December 31, 2016:

Faculty awards and chairs	\$ 4,258,211
Scholarships and grants	14,181,678
For other purposes	<u>5,020,981</u>
Total	<u>\$ 23,460,870</u>

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.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**NOTE 9 – FAIR VALUE MEASUREMENTS – Continued**

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.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

**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, 2016 and 2015:

	<b>December 31, 2016</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
Mutual funds	\$ 22,840,956	\$ 22,840,956	\$ -	\$ -
Money markets	1,021,105	1,021,105	-	-
Government obligations	1,604,544	-	1,604,544	-
Mortgage backed securities	217,270	-	217,270	-
Corporate obligations	3,926,357	-	3,926,357	-
Municipal bonds	1,842,952	-	1,842,952	-
Common stock	20,335	20,335	-	-
Real estate investment trusts	303,061	-	303,061	-
Alternative investments	<u>2,054,148</u>	<u>-</u>	<u>2,054,148</u>	<u>-</u>
<b>Total investments</b>	<b><u>\$ 33,830,728</u></b>	<b><u>\$ 23,882,396</u></b>	<b><u>\$ 9,948,332</u></b>	<b><u>\$ -</u></b>

	<b>December 31, 2015</b>	<b>Quoted prices in active markets for identical assets (Level 1)</b>	<b>Significant other observable inputs (Level 2)</b>	<b>Significant unobservable inputs (Level 3)</b>
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	<u>1,735,276</u>	<u>-</u>	<u>1,735,276</u>	<u>-</u>
<b>Total investments</b>	<b><u>\$ 32,474,233</u></b>	<b><u>\$ 22,997,665</u></b>	<b><u>\$ 9,476,568</u></b>	<b><u>\$ -</u></b>

# JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.

## Notes to Financial Statements

December 31, 2016 and 2015

### 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

Mutual Funds: Comprised of pools of funds managed by an investment company that brings together funds from many investors and invests in stocks, bond or other assets. Valuation is based on unadjusted quoted prices for identical assets in active markets that the Foundation can access.

Common Stock: Comprised of 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*: Comprised of financial debt instruments backed by the U.S Government including treasury bonds and bills. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active that the Foundation can access.

*Mortgage backed securities*: Comprised of U.S. Government agency securities including the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active that the Foundation can access.

*Corporate obligations and Municipal bonds*: Comprised of debt instruments issued by private corporations and municipalities which contain fixed interest rates and maturity dates. 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 that the Foundation can access.

Real Estate Investment Trust and Alternative investments: Comprised of private market investments. The primary inputs to the valuation of these investments include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields, credit spreads and a discounted cash flow model that is widely accepted in the financial services industry which incorporates the credit quality and industry sector of the issuer.

**JACKSONVILLE STATE UNIVERSITY FOUNDATION, INC.**

**Notes to Financial Statements**

**December 31, 2016 and 2015**

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



## Annual Financial Report Prepared By:

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