

ALABAMA A&M UNIVERSITY

FINANCIAL STATEMENTS

September 30, 2018

With Independent Auditor's Report

ALABAMA A&M UNIVERSITY
Normal, Alabama

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	4-15
FINANCIAL STATEMENTS	
Statements of Net Position	16-17
Statements of Revenues, Expenses and Changes in Net Position	18
Statements of Cash Flows	19-21
Notes to the Financial Statements	22-53
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	54-55
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	56-57
Schedule of Expenditures of Federal Awards	58-62
Notes to the Schedule of Expenditures of Federal Awards	63
Schedule of Findings and Questioned Costs	64



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Alabama A&M University
Normal, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of Alabama A&M University (“the University”), a component unit of the State of Alabama, and its discretely presented component units as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University'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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 University’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 University’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.



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component units at September 30, 2018 and 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As explained in Note 18 to the financial statements, in 2018, the University adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15 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 an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.



To the Board of Trustees of
Alabama A&M University
Normal Alabama
Page 3

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2019, on our consideration of Alabama A&M University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alabama A&M University's internal control over financial reporting and compliance.

Birmingham, Alabama
March 30, 2019

Bank, Finley White Co.

ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018

INTRODUCTION

The following discussion presents an overview of the financial position and financial performance of the University during the fiscal year ended September 30, 2018, with comparative information for 2017. This discussion and analysis has been prepared by management along with the financial statements and related footnote disclosures. This discussion should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts. The financial statements, footnotes and this discussion are the responsibility of management.

The basic financial statements consist of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These financial statements focus on the financial position, results of operations, and cash flows of the University as a whole. The University reports the Alabama A&M University Foundation, Inc. and the Trust for Educational Excellence at Alabama A&M University as discretely presented component units. Complete financial statements of these component units can be obtained from their respective administrative offices on the University's campus.

FINANCIAL HIGHLIGHTS

At September 30, 2018 and 2017, the University has total assets of \$252,295,625 and \$243,517,525, respectively; total deferred out flows of resources of \$8,154,567 and \$11,075,440 respectively, total liabilities of \$277,498,267 and \$287,981,964, respectively; and total deferred inflows of resources of \$14,415,084 and \$2,549,495, respectively. The University's net position increased by \$4,475,335 during the year ended September 30, 2018.

An overview of each statement for the University is presented herein along with a financial analysis of the transactions impacting each statement. When appropriate, comparative financial information is presented in the understanding of this analysis.

ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

Statement of Net Position

The statement of net position is a point in time financial statement, and presents the assets, liabilities, and net position of the University at September 30, 2018. Net position is displayed in three parts: invested in capital assets, net of related debt, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and are those assets that are restricted by law or external donor. Unrestricted net position, while they are generally designated for specific purposes, are available for use by the University to meet current expenses for any purpose. The statement of net position, along with all of the University's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018

Assets included in the statement of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and accounts receivable. Noncurrent assets at September 30, 2018 and 2017, consist primarily of capital assets.

The condensed statements of net position at September 30, 2018 and 2017, follow:

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets	\$ 96,249,887	\$ 95,514,685
Capital assets	<u>156,045,738</u>	<u>148,002,840</u>
Total assets	<u>252,295,625</u>	<u>243,517,525</u>
Deferred outflows of resources	<u>8,154,567</u>	<u>11,075,440</u>
Total assets and deferred outflows of resources	<u>\$ 260,450,192</u>	<u>\$ 254,592,965</u>
LIABILITIES		
Current liabilities	\$ 76,916,368	\$ 74,871,687
Noncurrent liabilities	<u>200,581,899</u>	<u>213,110,277</u>
Total liabilities	<u>277,498,267</u>	<u>287,981,964</u>
Deferred inflows of resources	<u>14,415,084</u>	<u>2,549,495</u>
NET POSITION		
Net investment in capital assets	57,240,171	58,696,256
Restricted expendable	779,557	-
Restricted nonexpendable	-	1,363,036
Unrestricted	<u>(89,482,887)</u>	<u>(95,997,786)</u>
Total net position	<u>(31,463,159)</u>	<u>(35,938,494)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 260,450,192</u>	<u>\$ 254,592,965</u>

Changes in Assets, Liabilities and Net Position

University cash, cash equivalents, and investments decreased between September 30, 2018 and 2017 by \$2,861,195 or 6.4%, primarily attributable to capital cost associated with the completion of the new residence hall. Timing differences between incurring expenses and subsequent collections between September 30, 2018 and 2017, led to a net increase of \$2,061,216 or 5.5% in accounts and loans receivables. University aggregate long-term debt decreased by \$790,297. University net position increased between September 30, 2018 and 2017 by \$4,475,335, primarily due to decreases in institutional support cost and operation and maintenance of plant cost.

**ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018**

Statement of Revenues, Expenses and Changes in Net Position

Changes in total University net position are the results of activity presented in the statement of revenues, expenses, and changes in net position. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received.

The purpose of this statement is to present the change in net position resulting from revenues earned by the University, both operating and nonoperating, and the expenses incurred by the University, both operating and nonoperating, as well as any other revenues, expenses, gains, and losses earned or incurred by the University.

Generally, operating revenues have the characteristics of exchange transactions and are received or accrued for providing goods and services to the various customers of the University. These include tuition and fees (net of scholarship discounts and allowances), most noncapital grants and contracts and revenues from auxiliary activities and sales and services of educational activities (primarily athletic activities). Operating expenses are those expenses paid or incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the University.

Nonoperating revenues have the characteristics of nonexchange transactions and are revenues generally earned for which goods and services are not provided, such as investment income, capital appropriations, gifts and other contributions. State appropriations are required by the Governmental Accounting Standards Board to be classified as nonoperating revenues. Nonoperating expenses are those expenses required in the operating and administration of the University, but not directly incurred to acquire or produce the goods and services provided by operating revenues. Such nonoperating expenses include interest on the University's indebtedness and losses related to the disposition of capital assets.

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**ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018**

The condensed statements of revenues, expenses and changes in net position for the years ended September 30, 2018 and 2017, follow:

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Tuition and fees	\$ 63,826,575	\$ 64,659,869
Less: Scholarships and other allowances	(21,935,774)	(18,138,635)
Federal, state and private grants and contracts	46,760,235	46,614,810
Gifts and private support	2,214,839	2,040,600
Auxiliary enterprises and other	<u>24,359,097</u>	<u>23,341,006</u>
Total operating revenues	115,224,972	118,517,650
Operating expenses	<u>148,802,597</u>	<u>150,561,018</u>
Operating loss	(33,577,625)	(32,043,368)
Nonoperating revenues (expenses):		
State appropriations	41,017,090	41,017,090
Investment income, net	149,939	43,085
Interest expense on capital debt	(1,954,036)	(1,598,193)
Other nonoperating revenues (expenses)	<u>(1,160,033)</u>	<u>(921,536)</u>
Net nonoperating revenues	<u>38,052,960</u>	<u>38,540,446</u>
Increase in net position	4,475,335	6,497,078
Net position-beginning of the year	(35,938,494)	8,041,527
Adjustment for adoption of GASB 75		<u>(50,477,099)</u>
Net position-beginning of the year	<u>(35,938,494)</u>	<u>(42,435,572)</u>
Net position-end of the year	<u>\$ (31,463,159)</u>	<u>\$ (35,938,494)</u>

Changes in Revenues and Expenses

The University's operating revenues decreased by \$3,292,678 or 2.8% during the year ended September 30, 2018. The decrease was primarily the result of an increase in institutional scholarships and allowances.

Interest expense increased in 2018 by 22.3% due to the increase in outstanding long term debt.

Grants and Contracts

Grants and contracts include all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Nonexchange revenues are recorded when received, or when eligibility criteria have been met.

**ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018**

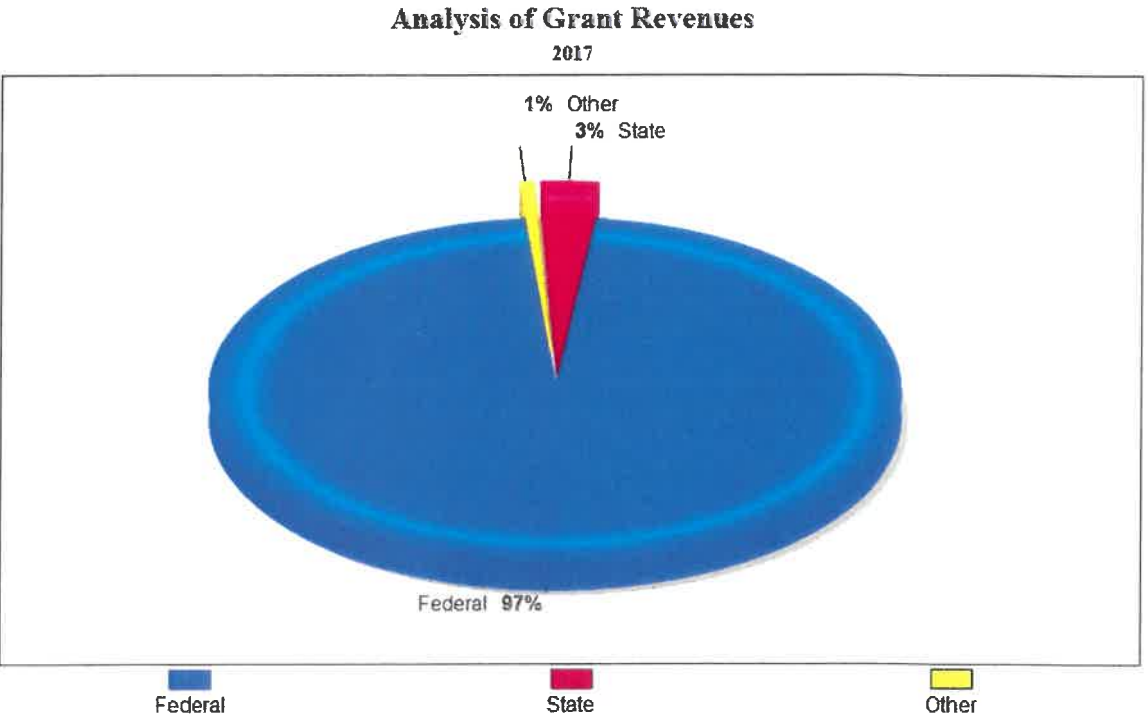
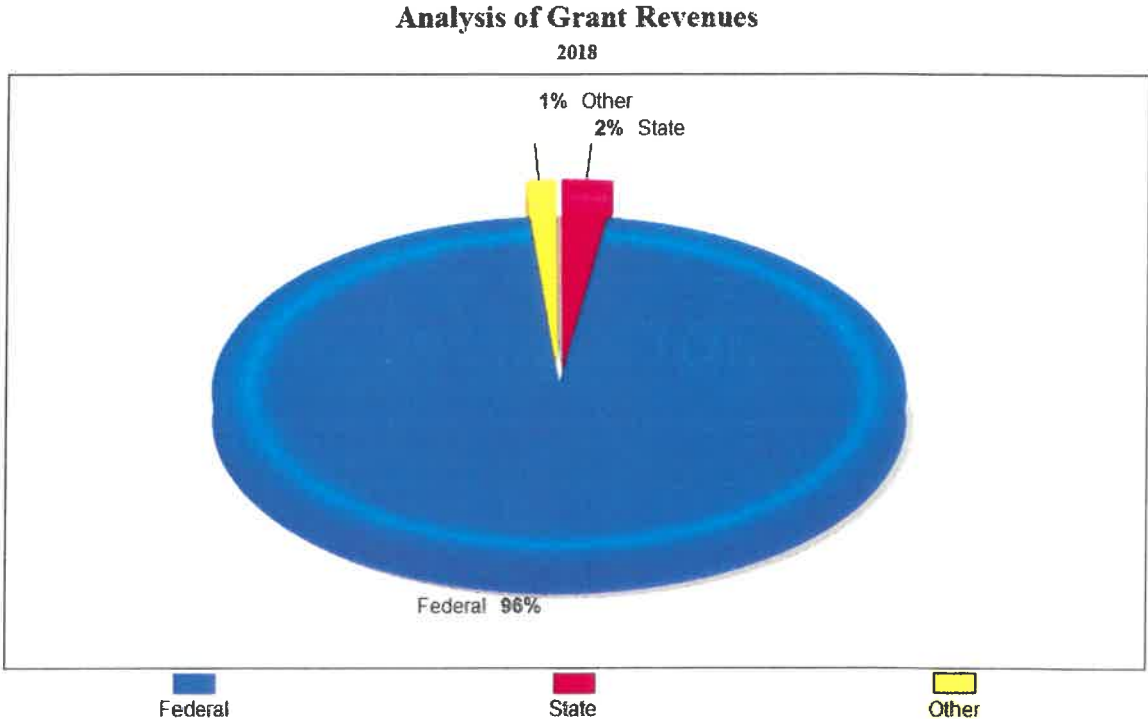
The following table details the University's grant and contract awards for the fiscal years ended September 30, 2018 and 2017, by source:

	<u>2018</u>	<u>2017</u>
Federal Sources		
Financial aid (excludes loan programs)	\$ 15,908,568	\$ 15,878,767
Department of Education	8,718,803	8,702,470
National Aeronautics and Space Administration	505,977	505,029
United States Department of Agriculture	5,757,452	5,746,667
Other federal agencies	<u>9,318,124</u>	<u>9,300,669</u>
Total federal sources	40,208,923	40,133,602
State sources		
Grants and contracts	987,773	1,136,846
Other sources	<u>530,934</u>	<u>241,140</u>
Total all sources	<u>\$ 41,727,630</u>	<u>\$ 41,511,588</u>

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**ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018**

The following is a graphic illustration of grant awards by source:



ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018

In addition to their natural classification, operating expenses are also reported by their functional classification as defined by the National Association of College and University Business Officers. The functional classification of an operating expense (Instruction, Research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. This method reflects, by function of the University, amounts expended in areas such as Instruction, Research and Student Services and is used most commonly for comparative reporting purposes among colleges and universities. Operating expenses by functional classification for the fiscal years ended September 30, 2018 and 2017, are listed below:

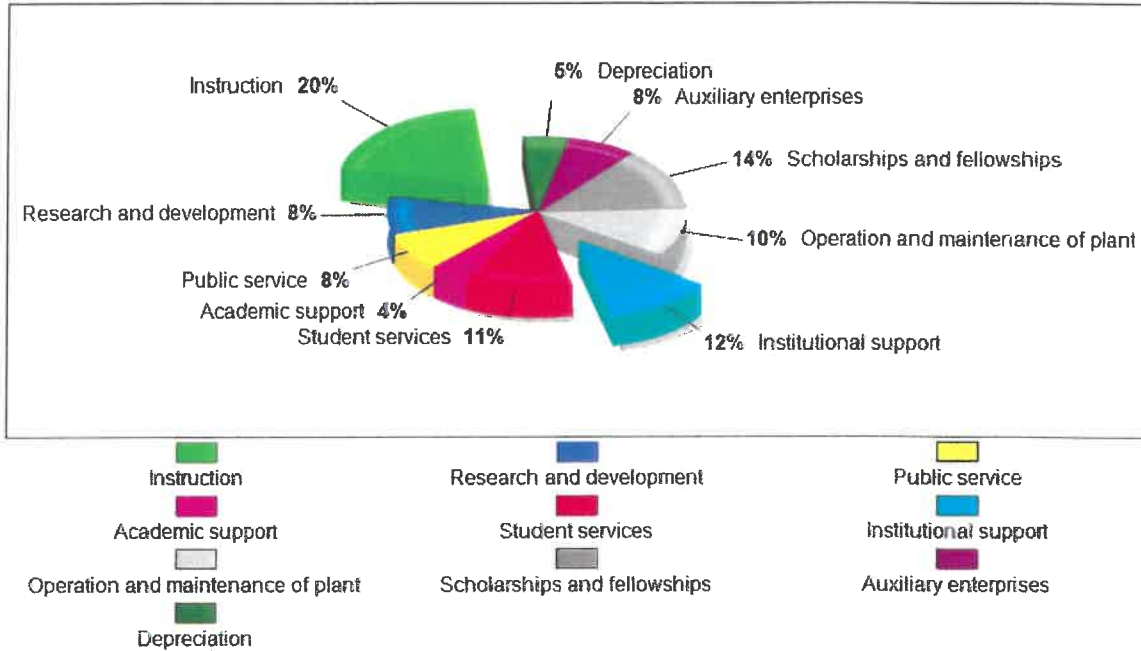
Expenses by Function

	<u>2018</u>	<u>2017</u>
Educational and General:		
Instruction	\$ 30,423,688	\$ 29,358,053
Research and development	12,219,233	8,098,262
Public service	12,078,711	12,904,910
Academic support	6,282,268	6,171,774
Student services	16,744,455	16,395,674
Institutional support	17,505,256	21,515,242
Operation and maintenance of plant	15,226,287	17,457,070
Scholarships and fellowships	<u>20,099,094</u>	<u>19,260,889</u>
	130,578,992	131,161,874
Auxiliary Enterprises	11,232,916	13,043,504
Depreciation and amortization	<u>6,990,689</u>	<u>6,355,640</u>
Total Operating Expenses	<u>\$ 148,802,597</u>	<u>\$ 150,561,018</u>

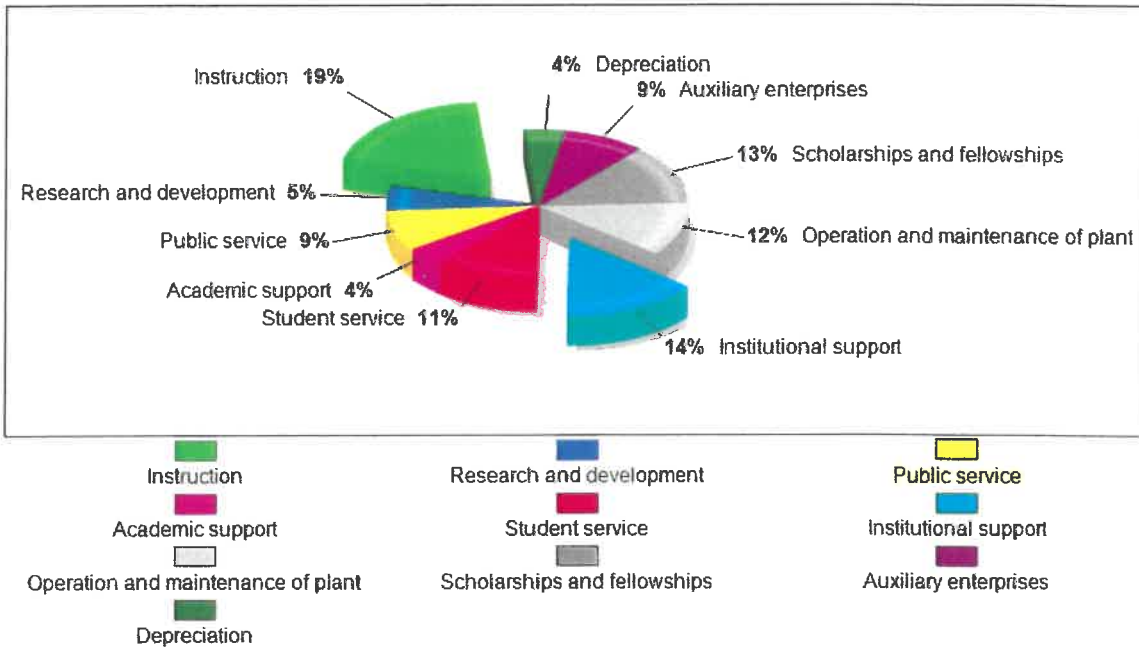
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**ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018**

**Analysis of Expenditures by Function
2018**



**Analysis of Expenditures by Function
2017**



ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018

Statement of Cash Flows

The statement of cash flows presents information related to cash flows of the University. This statement presents cash flows by category: operating activities, noncapital financing activities, capital and related financing activities and investing activities. The net cash provided to, or used by, the University is presented by category. The condensed statements of cash flows for the years ended September 30, 2018 and 2017, follows:

	2018	2017
Cash received from operating activities	\$ 118,827,843	\$ 112,498,970
Cash payments for operating activities	<u>(146,329,018)</u>	<u>(128,010,593)</u>
Net cash used in operating activities	(27,501,175)	(15,511,623)
Net cash provided by noncapital financing activities	39,857,057	40,095,554
Net cash used by capital and related financing activities	(15,407,370)	(16,024,129)
Net cash provided by investing activities	<u>161,232</u>	<u>30,482</u>
Net increase in cash and cash equivalents	(2,890,256)	8,590,284
Cash and cash equivalents, beginning of the year	<u>41,902,496</u>	<u>33,312,212</u>
Cash and cash equivalents, end of the year	<u>\$ 39,012,240</u>	<u>\$ 41,902,496</u>

ENROLLMENT

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 2014 through 2018 academic years. Also indicated are the full-time equivalent students and the total number of on-campus credit hours taken by the students attending the University.

Fall Headcount Enrollment and Full-Time Equivalent

Year ended September 30	Undergraduate	Graduate	Total	Full-Time Equivalent	Annual Total Credit Hours Taken
2018	5,038	963	6,001	5,606	146,030
2017	4,771	732	5,503	5,503	150,602
2016	4,503	1,124	5,627	4,591	133,758
2015	4,210	1,123	5,333	4,843	137,273
2014	4,055	969	5,024	4,564	127,959

**ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018**

Student Admissions

The table below shows the total of new freshman and transfer applications received, the number accepted, and the number who enrolled for the fall semesters of 2014 through 2018.

Fall Semester First-Year Student Admissions

<u>Year ended September 30</u>	<u>Number of Applicants</u>	<u>Percent Accepted</u>	<u>Number Accepted</u>	<u>Percent Enrolled</u>	<u>Number Enrolled</u>
2018	16,655	53.7%	8,661	17.8%	1542
2017	11,518	60.5%	7,772	21.0%	1678
2016	8,909	77.5%	7,043	23.2%	1636
2015	7,901	65.4%	5,166	28.6%	1475
2014	6,142	84.7%	5,204	23.3%	1214

Fall Semester Transfer Student Admissions

<u>Year ended September 30</u>	<u>Number of Applicants</u>	<u>Percent Accepted</u>	<u>Number Accepted</u>	<u>Percent Enrolled</u>	<u>Number Enrolled</u>
2018	768	42%	323	55%	178
2017	745	39%	288	77%	223
2016	789	51%	399	56%	224
2015	596	49%	290	64%	186
2014	700	36%	255	69%	176

Student Costs Per Credit Hour

Student fees are based on a student's classification; full or part-time, in-state or out-of-state. Tuition for graduate and part-time students is based on the number of credit hours taken. The fees for an on-campus student, for the academic years indicated, are set forth below.

Student Cost Per Credit Hour

<u>Student Classification</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Undergraduate, resident	\$274	\$271	\$259	\$250	\$233
Undergraduate, nonresident	548	542	518	500	466
Graduate, resident	418	413	393	380	354
Graduate, nonresident	826	826	786	760	708

ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018

Annual Full-Time Tuition

<u>Student Classification</u>	<u>2017-18</u>	<u>2016-17</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2013-14</u>
Undergraduate, resident	\$ 9,456	\$ 9,366	\$9,366	\$9,096	\$ 8,580
Undergraduate, nonresident	17,676	17,558	17,136	16,596	15,576
Graduate, resident	8,760	8,670	8,670	8,446	7,978
Graduate, nonresident	16,284	16,104	15,744	15,286	14,344

Room and Board and Estimated Total Cost

The annual cost of room and board and the estimated cost for two semesters for a resident undergraduate student for five academic years are set forth below:

Annual Room and Board and Estimated Total Costs

<u>Year ended September 30</u>	<u>Room and Board</u>	<u>Estimated Tuition, Fees, Books and Miscellaneous</u>	<u>Estimated Total Costs</u>
2018	\$9,020	\$23,128	\$32,148
2017	8,830	17,676	26,506
2016	8,140	17,676	25,816
2015	7,240	12,268	19,508
2014	7,208	11,662	18,870

Residence Hall Occupancy Analysis

<u>Fall Semester</u>	<u>Number of Occupants</u>	<u>Capacity</u>	<u>Percent of Occupancy</u>
2018	2,876	2,941	90%
2017	2,599	2,599	100%
2016	2,510	2,541	99%
2015	2,086	2,216	94%
2014	1,908	2,216	86%

CAPITAL ASSET AND DEBT ADMINISTRATION

Total capital asset additions for the University were approximately \$58,102,474 and \$38,556,329 for the years ended September 30, 2018 and 2017, respectively. During 2018, noncurrent liabilities decreased by \$12,528,378, primarily due repayments of bonds payable, decrease in the net pension liability and OPEB liability.

ALABAMA A&M UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Fiscal Year Ended September 30, 2018

ECONOMIC OUTLOOK

In addition to potential variations in state appropriation funding, the University is subject to declines in general economic conditions in the United States and, specifically, the State of Alabama. The University has fortunately not faced decreases in its appropriation in recent years, but annual increases in mandatory costs such as health insurance and retirement contributions may sometimes outpace the growth of the appropriation. The University also continues to attract federal grant revenue, and this represents an important funding component for the University's research and outreach efforts. The outcome of the federal budget process has important ramifications for the University's research budget, particularly in the current environment where there is the potential for reductions in federal grants awarded nationally.

Weakening of the economy could have a potential negative impact on the University's enrollment, and extramural funding. However, management believes that the University will continue its high level of excellence in service to students, sponsors, the State of Alabama, and other constituents. Additionally, as previously discussed, we continue to focus on enhancing the University's residential offerings, and combined with our competitive tuition pricing, and quality academic offering and student experience, our anticipation is sustained upward pressure on enrollment.

The need to continue to repair, retrofit or replace inoperable and inefficient infrastructure across campus, while investing in new technology, is a large challenge facing the University in the years to come. During fiscal year 2018, and in future years, the University will continue to invest heavily in essential infrastructure such as roofs, paving of deteriorated roads and parking lots, life and safety, and mechanical and HVAC systems across the campus. As part of our strategic plan, we have created an action plan, and several projects have already been completed, but major ongoing investments will still be required in the future in order to realize all tenets of the plan.

Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during the fiscal year 2018, beyond those unknown variables having a global effect on virtually all types of business operations.

Clayton Gibson
Senior Vice President for Finance and Administration

ALABAMA A&M UNIVERSITY
STATEMENTS OF NET POSITION
September 30, 2018 and 2017

	2018		2017	
	Alabama A&M University	Component Units	Alabama A&M University	Component Units
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 29,369,897	\$ 2,241,605	\$ 33,889,953	\$ 2,849,897
Trusteed fund assets:				
Cash and cash equivalents	9,642,343	-	8,012,543	-
Investments	2,921,195	-	2,892,134	-
Student accounts receivable, net of allowances	15,192,344	-	14,663,152	-
Loans receivable, net	3,591,194	-	3,817,847	-
Accounts receivable-other, net	20,611,652	-	18,852,975	-
Prepaid expenses	14,921,262	-	13,386,081	-
Total current assets	<u>96,249,887</u>	<u>2,241,605</u>	<u>95,514,685</u>	<u>2,849,897</u>
Noncurrent assets:				
Investments	-	50,386,485	-	47,412,208
Capital assets, net	156,045,738	1,367,708	148,002,840	1,150,941
Total noncurrent assets	<u>156,045,738</u>	<u>51,754,193</u>	<u>148,002,840</u>	<u>48,563,149</u>
Total assets	<u>252,295,625</u>	<u>53,995,798</u>	<u>243,517,525</u>	<u>51,413,046</u>
Deferred outflows of resources:				
Loss on refunding on bonds	2,209,742	-	2,393,887	-
Deferred outflows - pension	4,437,767	-	6,929,000	-
Deferred outflows - OPEB	1,507,058	-	1,752,553	-
Total deferred outflows of resources	<u>8,154,567</u>	<u>-</u>	<u>11,075,440</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 260,450,192</u>	<u>\$ 53,995,798</u>	<u>\$ 254,592,965</u>	<u>\$ 51,413,046</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	\$ 15,123,124	\$ -	\$ 20,287,375	\$ -
Compensated absences	2,863,571	-	2,799,492	-
Student deposits	1,576,070	-	1,388,393	-
Deposits held in custody for others	-	1,182,472	-	990,042
Unearned revenue	52,332,279	-	46,229,898	-
Accrued interest on bonds payable	1,585,300	-	795,244	-
Bonds payable, current portion	3,436,024	43,236	3,371,285	76,196
Total current liabilities	<u>76,916,368</u>	<u>1,225,708</u>	<u>74,871,687</u>	<u>1,066,238</u>
Noncurrent liabilities:				
Bonds and mortgage payable, noncurrent portion	83,758,678	1,287,356	83,033,120	868,527
Pension liability	70,713,000	-	78,093,000	-
OPEB liability	46,110,221	-	51,984,157	-
Total noncurrent liabilities	<u>200,581,899</u>	<u>1,287,356</u>	<u>213,110,277</u>	<u>868,527</u>
Total liabilities	<u>277,498,267</u>	<u>2,513,064</u>	<u>287,981,964</u>	<u>1,934,765</u>
Deferred inflows of resources				
Deferred inflows - pension	7,603,000	-	2,304,000	-
Deferred inflows - OPEB	6,812,084	-	245,495	-
Total deferred inflows of resources	<u>14,415,084</u>	<u>-</u>	<u>2,549,495</u>	<u>-</u>

ALABAMA A&M UNIVERSITY
STATEMENTS OF NET POSITION (CONT'D)
September 30, 2018 and 2017

	<u>2018</u>		<u>2017</u>	
	<u>Alabama A&M University</u>	<u>Component Units</u>	<u>Alabama A&M University</u>	<u>Component Units</u>
NET POSITION				
Net investment in capital assets	57,240,171	-	58,696,256	-
Restricted expendable	779,557	7,414,300	-	7,191,934
Restricted nonexpendable	-	42,807,292	1,363,036	41,711,585
Unrestricted	<u>(89,482,887)</u>	<u>1,261,142</u>	<u>(95,997,786)</u>	<u>574,762</u>
Total net position	<u>(31,463,159)</u>	<u>51,482,734</u>	<u>(35,938,494)</u>	<u>49,478,281</u>
Total liabilities, deferred inflow of resources and net positions	<u>\$ 260,450,192</u>	<u>\$ 53,995,798</u>	<u>\$ 254,592,965</u>	<u>\$ 51,413,046</u>

ALABAMA A&M UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the years ended September 30, 2018 and 2017

	2018		2017	
	Alabama A&M University	Component Units	Alabama A&M University	Component Units
REVENUES				
Operating revenues:				
Student tuition and fees	\$ 63,826,575	\$ -	\$ 64,659,869	\$ -
Less: Scholarships and other allowances	<u>(21,935,774)</u>	<u>-</u>	<u>(18,138,635)</u>	<u>-</u>
Net tuition and fees	41,890,801	-	46,521,234	-
Federal appropriations	5,032,605	-	5,103,222	-
Federal grants and contracts	40,208,923	-	40,133,602	-
State and local grants and contracts	987,773	-	1,136,846	-
Nongovernmental grants and contracts	530,934	-	241,140	-
Gifts and privates support	2,214,839	-	2,040,600	-
Sales and services of educational departments	2,685,755	-	3,495,286	-
Auxiliary revenue	21,461,701	-	19,642,138	-
Interest earned on loans to students	24,579	-	34,412	-
Other operating revenues (expenditures)	<u>187,062</u>	<u>6,805,696</u>	<u>169,170</u>	<u>4,732,291</u>
Total operating revenues	<u>115,224,972</u>	<u>6,805,696</u>	<u>118,517,650</u>	<u>4,732,291</u>
EXPENSES				
Operating expenses:				
Salaries and wages	56,868,923	-	55,343,781	-
Fringe benefits	19,061,771	-	19,656,255	-
Scholarships and fellowships	20,099,094	-	19,260,889	-
Utilities	4,776,318	-	4,648,105	-
Supplies and other services	41,005,802	-	45,296,348	-
Depreciation and amortization	6,990,689	-	6,355,640	-
Other operating expenses	<u>-</u>	<u>4,801,243</u>	<u>-</u>	<u>4,935,940</u>
Total operating expenses	<u>148,802,597</u>	<u>4,801,243</u>	<u>150,561,018</u>	<u>4,935,940</u>
Operating income (loss)	<u>(33,577,625)</u>	<u>2,004,453</u>	<u>(32,043,368)</u>	<u>(203,649)</u>
NONOPERATING REVENUES (EXPENSES)				
State appropriations	41,017,090	-	41,017,090	-
Investment income	149,939	-	43,085	-
Interest expense	(1,954,036)	-	(1,598,193)	-
Other nonoperating revenues (expenses)	<u>(1,160,033)</u>	<u>-</u>	<u>(921,536)</u>	<u>-</u>
Net nonoperating revenues	<u>38,052,960</u>	<u>-</u>	<u>38,540,446</u>	<u>-</u>
Increase (decrease) in net position	4,475,335	2,004,453	6,497,078	(203,649)
Net position at beginning of the year	(35,938,494)	49,478,281	8,041,527	49,681,930
Adjustment for adoption of GASB 75	<u>-</u>	<u>-</u>	<u>(50,477,099)</u>	<u>-</u>
Net position at beginning of year (as restated)	<u>(35,938,494)</u>	<u>49,478,281</u>	<u>(42,435,572)</u>	<u>49,681,930</u>
Net position at end of the year	<u>\$ (31,463,159)</u>	<u>\$ 51,482,734</u>	<u>\$ (35,938,494)</u>	<u>\$ 49,478,281</u>

ALABAMA A&M UNIVERSITY
STATEMENTS OF CASH FLOWS
For the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tuition and fees	\$ 41,361,609	\$ 42,446,993
Cash received from federal appropriations	5,032,605	5,103,222
Cash received from grants and contracts	46,071,334	39,770,731
Cash received from private gifts and support	2,214,839	2,040,600
Cash received from sales and services of educational departments	2,685,755	3,495,286
Cash received from auxiliary enterprises	21,461,701	19,642,138
Other receipts and payments (net)	187,062	169,170
Cash payments to suppliers	(47,517,557)	(37,137,597)
Payment for utility services	(4,776,318)	(4,648,105)
Cash payments to employees and related benefits	(74,374,343)	(72,478,805)
Cash payments for scholarships and fellowships	(20,099,094)	(19,260,889)
Cash receipts (payments) for loans to students	251,232	5,345,633
Net cash used by operating activities	<u>(27,501,175)</u>	<u>(15,511,623)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	41,017,090	41,017,090
Other nonoperating expenses	<u>(1,160,033)</u>	<u>(921,536)</u>
Net cash provided by noncapital financing activities	<u>39,857,057</u>	<u>40,095,554</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of capital assets	(15,033,587)	(38,704,427)
Proceeds from issuance of debt	4,161,582	27,031,415
Defeasance and principal paid on debt	(3,371,385)	(3,117,709)
Interest cost on capital debt and leases	<u>(1,163,980)</u>	<u>(1,233,408)</u>
Net cash used by capital financing activities	<u>(15,407,370)</u>	<u>(16,024,129)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of investments	4,000,151	2,879,531
Purchase of investments	(3,988,858)	(2,892,134)
Investment income	<u>149,939</u>	<u>43,085</u>
Net cash provided by investing activities	<u>161,232</u>	<u>30,482</u>
Net increase in cash and cash equivalents	(2,890,256)	8,590,284
Cash and cash equivalents, beginning of the year	41,902,496	33,312,212
Cash and cash equivalents, end of the year	<u>\$ 39,012,240</u>	<u>\$ 41,902,496</u>
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Decrease in operating income	\$ (33,577,625)	\$ (32,043,369)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation and amortization expense	6,990,689	6,355,640
Changes in assets and liabilities:		
Receivables, net	(2,061,216)	(206,524)
Prepaid expenses	(1,535,181)	(2,071,066)
Accounts payable and accrued expenses	(5,164,251)	8,634,215
Compensated absences	64,079	55,231
Student deposits	187,677	(1,979,387)
Deferred revenues	6,102,381	3,277,637
Pension liabilities	<u>1,492,272</u>	<u>2,466,000</u>
Net cash used by operating activities	<u>\$ (27,501,175)</u>	<u>\$ (15,511,623)</u>

ALABAMA A&M UNIVERSITY FOUNDATION, INC
(A Component Unit of Alabama A&M University)
STATEMENTS OF CASH FLOWS
For the years ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net position	\$ (412,320)	\$ (1,446,432)
Adjustments to reconcile changes in net position to net cash provided by operating activities:		
Depreciation and amortization	41,076	17,995
Realized and unrealized gains and losses	201,292	(580,835)
Change in accounts receivable	-	753,520
Change in funds held for other organizations	<u>192,428</u>	<u>(543,222)</u>
Net cash provided by operating activities	<u>22,476</u>	<u>(1,798,974)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	<u>88,849</u>	<u>(1,789,647)</u>
Net cash provided by investing activities	<u>88,849</u>	<u>(1,789,647)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of equipment	(257,843)	(1,107,005)
Payments on mortgage payable	(162,547)	-
Proceeds from long-term debt	<u>425,000</u>	<u>944,723</u>
Net cash used by financing activities	<u>4,610</u>	<u>(162,282)</u>
Increase (decrease) in cash and cash equivalents	<u>115,935</u>	<u>(171,609)</u>
Cash and cash equivalents - beginning of the year	<u>1,829,936</u>	<u>2,001,545</u>
Cash and cash equivalents - end of the year	<u>\$ 1,945,871</u>	<u>\$ 1,829,936</u>

**TRUST FOR EDUCATIONAL EXCELLENCE AT
ALABAMA A&M UNIVERSITY
(A Component Unit of Alabama A&M University)
STATEMENTS OF CASH FLOWS
For the years ended July 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net position	\$ 2,416,773	\$ 1,242,783
Net cash used by operating activities	<u>2,416,773</u>	<u>1,242,783</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	<u>(3,141,000)</u>	<u>(762,228)</u>
Net cash provided by investing activities	<u>(3,141,000)</u>	<u>(762,228)</u>
Net increase in cash and cash equivalents	(724,227)	480,555
Cash and cash equivalents, beginning of the year	<u>1,019,961</u>	<u>539,406</u>
Cash and cash equivalents, end of the year	<u>\$ 295,734</u>	<u>\$ 1,019,961</u>

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Alabama A&M University ("the University") is a land-grant educational institution, supported by the State of Alabama and federal funds from the Morrill Acts of 1862 and 1890. The Federal Land Grant Act of 1862, by which the University was established as a land grant university, donated public lands to several states and territories with the intent that the states would use these properties for the benefit of agriculture and the mechanical arts. The University was founded in 1875 and is located in Normal, Alabama.

The University has evolved from a small teaching school in 1875 to a modern university of approximately 6,000 students providing baccalaureate and graduate studies in technical, professional, vocational and liberal arts. The four (4) undergraduate colleges include the College of Agriculture, Life and Natural Sciences, the College of Business and Public Affairs, the College of Education, Humanities and Behavioral Sciences, and College of Engineering, Technology and Physical Sciences. The School of Graduate Studies coordinates graduate programs. The programs offered at the University are primarily accredited by the Southern Association of Colleges and Schools and other various accreditation associations.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by are described below to enhance the usefulness of the financial statements to the reader.

Reporting Entity

The 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. Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, 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, and 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 and the Governor appoints the University's Board of Trustees. 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, the University is considered for financial reporting purposes to be a component unit of the State of Alabama.

Furthermore, in accordance with GASB Statement No. 61, two discretely presented component units are reported in a separate column on the University's financial statements to emphasize that they are legally separate from the University. The Alabama A&M University Foundation, Inc. ("the Foundation") and the Trust for Educational Excellence at Alabama A&M University ("the Trust") are not-for-profit organizations supporting the University. The Foundation primarily

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION (CONT'D)

receives and holds gifts, grants, bequests, money, property and other things for the benefit of the University, its faculty and its students, and gives the University such resources for educational and research purposes. The Trust primarily receives public funds, gifts, grant income, interest, dividends, real estate and any and all property rights of every kind and character to be held, invested and reinvested for educational purposes at the University. Although the University does not control the timing or amount of receipts from the Foundation and Trust, the majority of resources, or income thereon, which they hold and invest are restricted to support the activities of the University. Because these restricted resources held by the Foundation and Trust can only be used by, or for the benefit of, the University, they are considered component units of the University. These component units are described in greater detail in **NOTE 19**.

The Trust presents its financial statements in accordance with standards issued by the Financial Accounting Standards Board (FASB). The Trust is reported in separate financial statements because of the difference in the financial reporting format. The Trust has a July 31 fiscal year end which differs from the University's September 30 fiscal year end. In accordance with GASB Statement No. 61, this discretely presented unit has been included for the most recent fiscal years.

The Foundation presents its financial statements in accordance with standards issued by the FASB.

Financial statements for the Trust and the Foundation may be obtained by writing to the applicable entity at 4900 Meridian Avenue, Normal, Alabama 35762.

The University is also affiliated with the North Alabama Center for Educational Excellence. This entity is not considered a component unit of the University under the provisions of GASB Statement No. 61.

The Alabama A&M University Research, Innovation, Science and Engineering Foundation (RISE) is a newly formed entity, and is a component unit of the University. The purpose of RISE is to enhance technology transfers, faculty research and contractual opportunities areas while providing educational opportunities for graduate and undergraduate students. Because RISE is still a relatively new entity, there was no significant activity to report during fiscal year 2018.

In an agreement with the University, RISE reimburses the University for expenses incurred on its behalf, and a portion of its indirect cost earned. As of September 30, 2018, approximately \$988,521 was owed to the University by RISE, consisting primarily of personnel costs processed on behalf of RISE by the University, and is included in the University's accounts receivable balance at year end.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis of accounting.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION (CONT'D)

In accordance with GASB Statement No. 62, the University is required to follow all applicable GASB pronouncements. In addition, the University applies all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions (APB) and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

Measurement Focus and Basis of Accounting and Financial Statement Presentation

For financial reporting purposes, the University is considered a special-purpose governmental agency engaged only in business-type activities as defined by GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and local Governments, and GASB Statement No. 35, Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities. It accounts for operations in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The term measurement focus is used to denote what is being measured and reported in the University's operating statement. The University is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the University is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the University's operating statement. The University uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The University prepares its basic financial statements in accordance with U.S. generally accepted accounting principles, as prescribed by GASB, including all applicable effective statements of the GASB and all statements of the FASB issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. The University has elected not to apply the provisions of any pronouncements of the FASB issued after November 30, 1989.

Revenue and Expense Recognition

The University classifies its revenues and expenses as operating or nonoperating in the accompanying statements of revenues, expenses and changes in net position. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the University's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as 1) student tuition and fees, 2) sales and services of auxiliary enterprises, 3) certain federal, state and local grants and contracts that are essentially contracts for services, and 4) interest earned on loans.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources such as State appropriations and investment income.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION (CONT'D)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the University considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash on hand and demand deposits.

Investments

State statutes authorize the University to invest in U.S. government obligations, or in bonds of the State of Alabama or in any county or municipality therein, or in certificates of deposit collaterally secured by a pledge of U.S. government obligations.

Investments in equity securities, mutual funds and debt securities are reported at fair value in the accompanying statements of net position, with all net realized and unrealized gains and losses reflected in the accompanying statements of revenues, expenses and changes in net position. Fair value of these investments is based on quoted market prices or dealer quotes, where available.

Fair Value Measurements

As required by governmental accounting standards, the University adopted and implemented *GASB Statement No. 72, Fair Value Measurement and Application*. With the adoption of this statement, the University expanded disclosures to present its investments across a hierarchy of valuation inputs.

Receivables

Student receivables are amounts due from students of the University for tuition and fees and are recorded at their estimated net realizable value. The University establishes reserves for balances determined to be impaired or otherwise uncollectible. Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible amounts is based on collection history. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

Grants receivable are comprised of amounts due to the University for expenditures relating to grant awards, principally from the United States government. The amount recorded represents the estimated net realizable value.

Student loans receivable include Perkins and other federal loans receivable for financial aid awarded to students primarily under Title IV federal programs. Federal contributions to the University's loan programs are considered refundable advances and are presented as a liability for U.S. government grants refundable on the statement of net position.

Deferred outflows of resources consist of, 1) employer contributions to the Teachers' Retirement System of Alabama and the Public Education Employees' Health Insurance Plan subsequent to the plans' measurement dates, changes in proportion and difference between

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION (CONT'D)

employer contributions and proportionate of contributions related to the OPEB plan, changes in actuarial and other assumptions related to the pension plan and, 2) the unamortized portion of the loss on the issuance of refunding bonds.

Deferred inflows of resources consist of the proportionate share of the differences between expected and actual experience related to the pension plan, net difference between projected and actual earnings on the pension and OPEB plan investments, changes of assumptions in OPEB plan, changes in proportion and differences between employer contribution and proportionate share of contributions in pension plan.

Restricted Assets

Restricted assets consist of monies and other resources which are restricted legally as described below:

Scholarships - These assets represent State government revenues restricted for student scholarships and are shown as current assets on the accompanying statements of net position.

Grants and Contracts - These assets represent federal, state and local government grants and contract revenues restricted for student aid, research and development and other educational programs.

Capital Projects and Debt Service - These assets represent capital debt proceeds that are restricted for designated capital projects and portions of bond proceeds deposited in the Debt Service Reserve Account or Capital Projects Account, pursuant to the terms of trust indentures.

Capital Assets

Capital assets, which include property, plant, equipment, software, and library holdings, are recorded in the statement of net position at historical cost or at fair value at the date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets' useful lives are not capitalized.

A capitalization threshold of \$100,000 is used for building, land improvement, and infrastructure. Equipment and software are capitalized when the unit acquisition cost is \$5,000 or greater and estimated useful life is five years or more. The capitalization threshold for additions to buildings, infrastructure and land improvements is also \$100,000.

Buildings	10-50 years
Infrastructure improvements	5-30 years
Machinery and equipment	5-15 years
Furniture and fixtures	5-15 years

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 50 years.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION (CONT'D)

Net Position

The University's net position is classified as follows:

Net investment in capital assets - This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred inflows and outflows of resources attributable to the acquisition, construction, or improvement of those assets or related debt would also be included in this component of net position. Unexpended related debt proceeds and the related debt attributable to the unspent amount, as well as deferred inflows of resources, if applicable, are not reported in net investment in capital assets, but in restricted or unrestricted net position.

Restricted-nonexpendable - This component of net position consists of Nonexpendable and Expendable elements, as follows:

Nonexpendable - Net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources subject to externally imposed stipulations that they be maintained permanently by the University. This element includes the University's permanent endowment funds.

Expendable - Net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources whose use by the University are 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. The University currently does not have any restricted-nonexpendable net position.

Unrestricted - This component of net position consists of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not subject to externally imposed stipulations or included in the determination of net investment in capital assets. Unrestricted net position may be designated for specific purposes by action of management or the Board. Substantially all unrestricted net position is designated for academic and research programs and initiatives, capital projects, and auxiliary units.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. When both restricted and unrestricted funds are available for expenditure, the decision for funding is transactional based within the departmental management system in place at the University. For projects funded by tax-exempt debt proceeds and other sources, the debt proceeds are always used first.

Bond Issue Costs and Deferred Loss on Bond Refunding

Original issue discount and deferred loss on refunding on long-term indebtedness are deferred and amortized using the effective interest method over the life of the debt to which it relates and is classified as deferred outflows of resources in accordance with GASB Statement No. 65.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION (CONT'D)

Unearned Revenue

Unearned revenues include funds received in advance of an event, such as tuition and fees and advance ticket sales for athletic events. Net student tuition and fee revenues and housing revenues for the fall semester are recognized in the fiscal year in which the related revenues are earned. Ticket sale revenues for athletic events are recognized as the related games are played. Unearned revenues also consist of amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreements.

Amounts received from grant sponsors for which the only unmet term of the agreement is timing are classified as deferred inflows of resources in accordance with GASB Statement No. 65. All other unearned revenue is classified as a current liability. Additionally, bond issue costs for the University are expensed when incurred but capitalized by its component units which are nonprofit organizations and amortized over the life of the debt.

Compensated Absences

The University's employees earn vacation leave at graduated rates based on their length of service (one day per month of service initially) and up to thirty days of unused leave may be carried over to the following year. Sick leave is earned at the rate of eight hours for each month of service and can accumulate up to 225 days. The University funds sick leave as taken.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

Income Taxes

The University, a public corporation and an instrument of the State of Alabama, is exempt from federal income taxes under Section 115 of the Internal Revenue Code. Contributions to the University are deductible by donors as provided under Section 170 of the Internal Revenue Code.

Scholarship Allowances and Student Financial Aid

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the accompanying statements of revenues, expenses and changes in net position. Scholarship allowances are the differences between the stated charge for goods and services provided by the University and the amount paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as PELL grants and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's basic financial statements based on their classification as either an exchange or nonexchange transaction.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION (CONT'D)

To the extent that revenues from such programs are used to satisfy tuition and fees and certain other student charges, the University has recorded a scholarship discount and allowance.

NOTE 2 - CONCENTRATION OF CREDIT AND MARKET RISK

The University maintains cash accounts with several large financial institutions. All accounts at each financial institution are guaranteed by the FDIC up to \$250,000 per bank, with the remaining amounts being secured by the SAFE program (See NOTE 3). The University also places its cash equivalents and short-term investments in investment grade, short-term debt instruments and limits the amount of credit exposure to any one commercial issuer. The University believes that no significant concentration of credit risk exists with respect to these cash investments.

Financial instruments that potentially subject the University to credit risk consist principally of student accounts receivable and student loans. Concentration of credit risk, however, is limited due to the large number of students comprising the University's enrollment base.

A substantial portion of the University's revenues are derived from federal grants and contracts and Student Financial Assistance Programs, which to a significant extent, provide resources for payment of student accounts receivable.

The maximum loss the University would incur is the value of student accounts and loans receivable, which at September 30, 2018 and 2017, totaled \$18,783,538 and \$18,480,999.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less, held in the name of the University. The University's Board of Trustees approves all banks or other institutions as depositories for University funds. Custodial risk for deposits is defined as "the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party."

Pursuant to the Security for Alabama Funds Enhancement Act (SAFE), funds on deposit may be placed in an institution designated as a qualified public depository (QPD) by the State of Alabama. QPD institutions pledge securities to a statewide collateral pool administered by the State Treasurer's office. Such financial institutions contribute to this collateral pool in amounts proportionate to the total amount of public fund deposits at their respective institutions. The securities are held at the Federal Reserve Bank and are designated for the State of Alabama.

Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2018 and 2017, the net average public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$11.4 billion and \$11.7 billion, respectively.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - CASH AND CASH EQUIVALENTS (CONT'D)

The University had cash and cash equivalents totaling \$39,012,240 and \$41,902,496 at September 30, 2018 and 2017, respectively. In the unlikely event a public entity should suffer a loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss. As a result, the University believes its custodial risk related to cash and cash equivalents is remote.

NOTE 4 - INVESTMENTS

The University is authorized to invest all available cash and is responsible for the management of the investments.

GASB Statement No. 3, *Deposits with Financial Institutions, Investments, (including Repurchase Agreements), and Reverse Repurchase Agreements*, as amended by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, and GASB Statement No. 59, *Financial Instruments Omnibus* requires certain disclosures related to interest rate and credit risk.

The University has not formally adopted deposit and investment policies that limit its allowable deposits or investments and address the specific types of risk to which the University is exposed.

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy for custodial credit risk. All of the University's investments are collateralized with securities held by the pledging financial institution's trust department.

Interest rate risk - Interest rate risk is the risk the University may face should interest rate variances affect the fair value of investments. The University does not have a formal policy that addresses interest rate risk.

Credit risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations as they become due. The University does not have a formal policy that addresses credit risk.

Foreign currency risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk. At September 30, 2018 and 2017, there were no investments held that are directly impacted by fluctuations in foreign currency exchange rates.

The University manages its exposure to declines in fair values of investments due to market interest rate changes by limiting the maturity of their directly-held investments to less than one year, or by only purchasing obligations that it intends to hold to maturity. Any investments in mutual funds are limited to those which the underlying obligations have a weighted-average maturity of 90 days or less.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS (CONT'D)

The following table provides information as of September 30, 2018 and 2017, concerning the fair value of investments and interest rate risk:

Type of Investments	2018			Cost
	Maturity in Years at Fair Value		Total Fair Value	
	Less Than 1 Year	1-5 Years		
Fixed maturity:				
U.S. Treasury Obligations	\$ 2,921,195	\$ -	\$ 2,921,195	\$ 2,890,375
Total fixed maturity	<u>2,921,195</u>	<u>-</u>	<u>2,921,195</u>	<u>2,890,375</u>
Total investments			<u>\$ 2,921,195</u>	<u>\$ 2,890,375</u>

Type of Investments	2017			Cost
	Maturity in Years at Fair Value		Total Fair Value	
	Less Than 1 Year	1-5 Years		
Fixed maturity:				
U.S. Treasury Obligations	\$ 2,892,134	\$ -	\$ 2,892,134	\$ 2,890,375
Total fixed maturity	<u>2,892,134</u>	<u>-</u>	<u>2,892,134</u>	<u>2,890,375</u>
Total investments			<u>\$ 2,892,134</u>	<u>\$ 2,890,375</u>

Credit Risk

The following tables provide information as of September 30, 2018 and 2017, respectively, concerning credit risk and concentration of credit risk:

Moody's Rating	2018		Fair Value as a % of Total Fixed Maturity Fair Value
	Fair Value	Cost	
U.S. Treasury Obligations	\$ 2,921,195	\$ 2,890,375	100.00%
	<u>\$ 2,921,195</u>	<u>\$ 2,890,375</u>	

Moody's Rating	2017		Fair Value as a % of Total Fixed Maturity Fair Value
	Fair Value	Cost	
U.S. Treasury Obligations	\$ 2,892,134	\$ 2,890,375	100.00%
	<u>\$ 2,892,134</u>	<u>\$ 2,890,375</u>	

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS (CONT'D)

At September 30, 2018 and 2017, the University owned debt securities at the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association, which represented various percentages of the total fair value of investments.

Trust for Educational Excellence at Alabama A&M University

Investments in debt and equity securities are carried at fair value determined as of the last business day of the year, as reported by the financial institution holding the security, at the quoted market price. The cost of marketable securities represents amounts paid for purchased securities or average market values as of the date the security was donated to the Trust for contributed securities.

Realized gains and losses from the sales of securities are primarily determined by the specific identification method. Net unrealized appreciation (depreciation) of marketable securities represents the change in the difference between the Trust's cost and current market value of securities as determined at the end of each year and includes the effect of amortization expense on securities.

For the years ended July 31, 2018 and 2017, the Trust generated investment income of \$4,382,824 and \$3,494,358, respectively, which includes the following:

	2018	2017
Realized and unrealized appreciation in market value	\$ 3,421,282	\$ 2,645,330
Dividends, interest and other income	961,542	849,028
	\$ 4,382,824	\$ 3,494,358

At July 31, 2018 and 2017, the Trust's major investments are classified as follows:

	2018	2017
U.S. Government Obligations	\$ 8,588,250	\$10,827,647
Equity mutual funds	32,618,442	26,338,794
Other	2,003,389	2,902,640
	\$43,210,081	\$40,069,081

NOTE 5 - RECEIVABLES

Accounts receivable include certain federal grants and contracts, local grants and contracts, uncollected student tuition, fees, room and board charges.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - RECEIVABLES (CONT'D)

The following is a schedule of total accounts receivable as of September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Accounts receivable:		
Student accounts receivable	\$ 34,000,684	\$ 28,150,086
Grants receivable	14,090,399	17,763,476
Other receivables	<u>6,521,253</u>	<u>1,089,499</u>
	54,612,336	47,003,061
Allowance for doubtful accounts	<u>(18,808,340)</u>	<u>(13,486,934)</u>
Accounts receivable, net	<u>\$ 35,803,996</u>	<u>\$ 33,516,127</u>

The University changed the method used for recording bad debt expense as it relates to student and other accounts receivable in fiscal year 2018. The previous method expensed the amount allocated for bad debt as an operating expense. The new method netted the amount calculated for bad debt against applicable tuition and fees.

Loans receivable:		
Perkins loans advances	\$ 16,499,657	\$ 16,499,657
Less:		
Loans assigned to U.S. Government	(870,884)	(870,884)
Principal collected	(10,815,444)	(10,588,712)
Principal cancellations	<u>(1,222,135)</u>	<u>(1,222,214)</u>
	<u>(12,908,463)</u>	<u>(12,681,810)</u>
Loans receivable, net	<u>\$ 3,591,194</u>	<u>\$ 3,817,847</u>

NOTE 6 - CHANGE IN CAPITAL ASSETS

A summary of the changes in physical plant for the years ended September 30, 2018 and 2017, respectively, is as follows:

	<u>Balance 10/01/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/18</u>
Capital assets not being depreciated				
Land	\$ 5,033,507	\$ 9,868	\$ -	\$ 5,043,375
Construction in progress	38,929,898	10,190,743	(43,099,825)	6,020,816
Historical treasures	<u>3,744,667</u>	<u>-</u>	<u>-</u>	<u>3,744,667</u>
	<u>47,708,072</u>	<u>10,200,611</u>	<u>(43,099,825)</u>	<u>14,808,858</u>
Capital assets being depreciated				
Land improvements	451,194	103,623	-	554,817
Buildings	184,558,523	46,828,443	(11,471)	231,375,495
Equipment	20,002,434	931,191	(374,627)	20,558,998
Library holdings	12,851,152	38,606	(18,287)	12,871,471
Information technology	<u>4,957,652</u>	<u>-</u>	<u>-</u>	<u>4,957,652</u>
	222,820,955	47,901,863	(404,385)	270,318,433
Less: accumulated depreciation				
Land improvements	(71,440)	(25,151)	-	(96,591)
Buildings	(97,456,734)	(5,493,690)	-	(102,950,424)
Equipment	(11,431,819)	(973,681)	232,891	(12,172,609)
Library holdings	(8,814,932)	(232,826)	18,287	(9,029,471)
Information technology	<u>(4,751,262)</u>	<u>(81,196)</u>	<u>-</u>	<u>(4,832,458)</u>
	<u>(122,526,187)</u>	<u>(6,806,544)</u>	<u>251,178</u>	<u>(129,081,553)</u>
Capital assets being depreciated, net	<u>100,294,768</u>	<u>41,095,319</u>	<u>(153,207)</u>	<u>141,236,880</u>
Capital assets, net	<u>\$ 148,002,840</u>	<u>\$ 51,295,930</u>	<u>\$ (43,253,032)</u>	<u>\$ 156,045,738</u>

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - CHANGE IN CAPITAL ASSETS (CONT'D)

	<u>Balance 10/01/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/17</u>
Capital assets not being depreciated				
Land	\$ 5,033,507	\$ -	\$ -	\$ 5,033,507
Construction in progress	3,958,266	34,991,990	(20,358)	38,929,898
Historical treasures	3,744,667	-	-	3,744,667
	<u>12,736,440</u>	<u>34,991,990</u>	<u>(20,358)</u>	<u>47,708,072</u>
Capital assets being depreciated				
Land improvements	451,194	-	-	451,194
Buildings	184,187,362	371,161	-	184,558,523
Equipment	17,458,129	2,711,202	(166,897)	20,002,434
Library holdings	12,391,440	481,976	(22,264)	12,851,152
Information technology	4,957,652	-	-	4,957,652
	<u>219,445,777</u>	<u>3,564,339</u>	<u>(189,161)</u>	<u>222,820,955</u>
Less: accumulated depreciation				
Land Improvements	(48,880)	(22,560)	-	(71,440)
Buildings	(92,998,696)	(4,458,038)	-	(97,456,734)
Equipment	(10,729,036)	(876,255)	173,472	(11,431,819)
Library holdings	(8,081,486)	(81,196)	-	(8,162,682)
Information technology	(4,670,066)	(733,446)	-	(5,403,512)
	<u>(116,528,164)</u>	<u>(6,171,495)</u>	<u>173,472</u>	<u>(122,526,187)</u>
Capital assets being depreciated, net	<u>102,917,613</u>	<u>(2,607,156)</u>	<u>(15,689)</u>	<u>100,294,768</u>
Capital assets, net	<u>\$ 115,654,053</u>	<u>\$ 32,384,834</u>	<u>\$ (36,047)</u>	<u>\$ 148,002,840</u>

Depreciation expense (including amortization expense on capital lease assets) for the years ended September 30, 2018 and 2017, was \$6,990,689 and \$6,355,640, respectively.

NOTE 7 - COMPENSATED ABSENCES

Regular University employees accumulate vacation and sick leave, subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon termination of employment, employees are paid all unused accrued vacation at their rate of pay up to 240 hours. As of September 30, 2018 and 2017, accrued annual and sick leave was \$2,863,571 and \$2,799,492, respectively.

NOTE 8 - BONDS PAYABLE

Issuance of 2015 Bonds

On September 25, 2015, the University entered into a Capital Project Loan Agreement with Rice Capital Access Program, LLC, to borrow the aggregate principal amount of \$96,000,000 (Series A 2015 Bonds), through the execution of three (3) promissory notes (the Notes) as follows:

<u>Bonds Series</u>	<u>Purpose</u>	<u>Face Value</u>
Series A 2015-5 Bond	Refund Series 2000A Bonds	\$ 14,482,000
Series A 2015-6 Bond	Refund Series 2007A Bonds	47,353,000
Series A 2015-7 Bond	Funding of Capital Projects	<u>34,165,000</u>
Total		<u>\$ 96,000,000</u>

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - BONDS PAYABLE (CONT'D)

The Series A 2015 Bonds were issued in accordance with the Historically Black College and University (HBCU) Capital Financing Loan Program (“Program”). The goal of the Program is to provide low-cost capital to finance improvements to the infrastructure of the nation's HBCUs, and on September 25, 2015, the Program funded a total of \$61,804,355 to the University.

The Series A 2015 Bonds were issued to: 1) refund the Public Educational Building Authority of the City of Huntsville – Alabama A&M University Student Housing Revenue Bonds, Series 2000, 2) refund the Alabama A&M University Revenue Refunding and Capital Improvements Bonds, Series 2007, and 3) to finance the acquisition, renovation and rehabilitation of certain student apartments, residence halls, and the McCalep Vocational Building.

As security for the Bonds, the University has pledged all tuition, general fees and student housing revenues.

Series A 2015-5 Bonds - Acquisition of Normal Hills Apartments and Refunding of Series 2000 Student Housing Revenue Bonds

On September 25, 2015 the University acquired from Alabama A&M University Foundation, Inc. and its wholly owned limited liability company, Alabama A&M University Foundation, LLC, the real estate assets and related debt for the Normal Hills Apartments.

Normal Hills Apartments is a student housing complex occupied primarily for the benefit of students at the University.

The Normal Hills Apartments were originally financed through the issuance of the Series 2000A and 2000B Bonds by the Public Educational Building Authority of the City of Huntsville - Alabama A&M in the aggregate amounts of \$18,205,000 and \$32,500,000, respectively. These 2000B bonds were fully retired in June of 2006 and the 2000A bonds will be retired June 2030.

From the issuance of the Series A 2015-5 Bonds, \$14,330,237 was related to the redemption of the Series 2000A bonds, and the funds were borrowed at a fixed interest rate of 2.032%. The Series 2000A bonds were not callable for redemption until October 2, 2015, therefore, the University executed an in-substance debt defeasance transaction on September 25, 2015.

The Program charges an escrow fee that is equal to 5.263% of the outstanding principal of the loan being financed. This escrow was funded from loan proceeds, and totaled to \$716,511 on the Series A 2015-5 Bonds. The escrow is available to the Program to pay principal and interest on the bonds in the event of any Program borrower's delinquency in bond repayment. All remaining escrow funds are returned to the University upon repayment of the Bonds. The uses of the Series A 2015-5 Bond proceeds are summarized as follows:

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - BONDS PAYABLE (CONT'D)

Uses of Proceeds - Series A 2015-5 Bonds	Amount
Funding of Defeasance Escrow to Refund - Series 2000A Bonds	\$ 13,370,930
Issuance Costs, and Funding of Escrow	959,304
Total Series 2015-5 Proceeds	<u>\$ 14,330,237</u>

The Series A 2015-5 Bonds of \$14,330,237 will be repaid using various pledged revenues, which includes but is not limited to proceeds from tuition, fees, and auxiliary operations. Principal and interest payments are remitted to the Program on a monthly basis.

The advanced refunding and reduction in the interest rate paid on outstanding debt resulted in a savings and reduction in annual debt service of approximately \$6,135,379, and an economic gain of approximately \$4,295,980 over the remaining life of the refunded Series 2000A bond.

Series 2007 Revenue Refunding and Capital Improvement Bonds

On September 25, 2015, the University issued the Series A 2015-6 Bonds, receiving proceeds of \$46,996,236, with interest payable semi-annual at an interest rate of 2.116%. The proceeds of the Series A 2015-6 Bonds were used primarily to refund the outstanding Series 2007 Bonds. Because the Series 2007 Bonds were not eligible to be redeemed before November 1, 2017, the University executed an advance refunding, to defease the Series 2007 bond debt.

Similar to the refunding of the Series 2000A Bonds, proceeds from the Series A 2015-6 Bonds were used to advance refund the Series 2007 Bonds (Refunded Bonds). Bond proceeds of \$44,012,820, along with \$3,602,969 from certain Series 2007 debt service reserve accounts that were liquidated, were used to purchase risk free government securities, and placed in the defeasance escrow account controlled by a trust company.

The funds in the defeasance escrow and related investment earnings are irrevocably pledged to be used to pay (a) the principal and interest requirements on the Refunded Bonds from, and including, November 1, 2015 through November 1, 2017, and (b) the redemption price (principal, premium, and accrued interest) of Refunded Bonds maturing on or after November 1, 2018, which was called for redemption on May 1, 2017.

The Program requires the University to fund an escrow that is equal to 5.263% of the outstanding principal of the loan being financed. This escrow was funded from Bond proceeds, and totaled \$2,349,808. The escrow is available to the Program to pay principal and interest on the Bonds in the event of any Program borrower' delinquency in Bond repayment. All remaining escrow funds are returned to the University upon repayment of the Bonds. The uses of the Series A 2015-6 Bond proceeds are summarized as follows:

Uses of Funds from Series A 2015-6 Bonds	Amount
Funding of Defeasance Escrow to Pay Series 2007 Bonds Principal	\$ 44,012,820
Issuance Costs, and Funding of Required Escrow	2,983,416
Total Loan Proceeds	<u>\$ 46,996,236</u>

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - BONDS PAYABLE (CONT'D)

In a legal context, the defeasance on September 25, 2015, renders the outstanding bonds paid, thereby removing all obligations of the issuer, the University, for payment of the bonds. Therefore, as of September 30, 2015, the Series 2007 bonds were no longer treated as debt for accounting purposes.

The Series 2015-6 Bonds will be repaid using various pledged revenues, which includes but is not limited to proceeds from tuition, fees, and auxiliary operations. Principal and interest payments are remitted to the Program on a monthly basis.

Issuance of Series A 2015-7 for New Construction

On September 25, 2015, the University issued the Series A 2015-7 Bonds, receiving proceeds of \$34,165,000 with interest rate equal to the 30 year Treasury rate plus 0.225%. These funds were borrowed so as to allow the University to engage in construction and renovations to residential and academic buildings across campus, at a competitive interest rate. The interest rate for the Bonds will be fixed, and will be a weighted average based on the prevailing market rates during the period the University draws down funds, during construction.

As the University conducts construction and costs are incurred, draws will be made on the available remaining balance until the Bonds outstanding eventually equals \$34,165,000. The Series A 2015-7 Bonds will be repaid using various pledged revenues, which includes but is not limited to proceeds from tuition, fees, and auxiliary operations. Principal and interest payments are remitted to the Program on a monthly basis, and the loan matures in 2045.

A summary of the University's bonds payable activity for the years ended September 30, 2018 and 2017, is as follows:

	<u>Balance 10/01/17</u>	<u>Addition</u>	<u>Reduction</u>	<u>Balance 09/30/18</u>	<u>Due Within One Year</u>
Rice Capital Access Program 2015-5 Series: Normal Hills Operations due in varying amounts including interest at 2.024% through June 3, 2030	\$ 13,034,433	\$ -	\$ 886,136	\$ 12,148,297	\$ 902,802
Rice Capital Access Program 2015-6 Series; Dormitory Construction and Renovation due in varying amounts including interest at 2.116% through June 1, 2032	43,366,555	-	2,485,149	40,881,406	2,533,222
Rice Capital Access Program 2015-7: Dormitory Construction and Renovation due in varying amounts including interest at 30 yr FFB rate at time of draw + .225% through June 1, 2045	30,003,417 86,404,405	4,161,582 4,161,582	- 3,371,285	34,164,999 87,194,702	- <u>\$ 3,436,024</u>
Less: unamortized loss on 2015-6 series	<u>(2,393,887)</u>	<u>-</u>	<u>(184,145)</u>	<u>(2,209,742)</u>	
Bonds payable	<u>\$ 84,010,518</u>	<u>\$ 4,161,582</u>	<u>\$ 3,187,140</u>	84,984,960	
Less current portion	<u>3,371,285</u>			<u>3,436,024</u>	
	<u>\$ 80,639,233</u>			<u>\$ 81,548,936</u>	

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - BONDS PAYABLE (CONT'D)

	Balance 10/01/16	Additions	Reductions	Balance 09/30/17	Due within one Year
Rice Capital Access Program 2015-5 Series: Normal Hills Operations due in varying amounts including interest at 2.024% through June 3, 2030	\$ 13,902,902	\$ -	\$ 868,469	\$ 13,034,433	\$ 886,136
Rice Capital Access Program 2015-6 Series; Dormitory Construction and Renovation due in varying amounts including interest at 2.116% through June 1, 2032	45,799,940	-	2,433,385	43,366,555	2,485,149
Rice Capital Access Program 2015-7: Dormitory Construction and Renovation due in varying amounts including interest at 30yr FFB rate at time of draw + .225% through June 1, 2045	<u>2,972,002</u>	<u>27,031,415</u>	<u>-</u>	<u>30,003,417</u>	<u>-</u>
	62,674,844	27,031,415	3,301,854	86,404,405	<u>\$ 3,371,285</u>
Less unamortized loss on defeasance 2007	-	-	-	-	
Less unamortized gain on defeasance 2015-5 and 2015-6 series	<u>(2,578,032)</u>	<u>-</u>	<u>(184,145)</u>	<u>(2,393,887)</u>	
Bonds payable	<u>\$ 60,096,812</u>	<u>\$ 27,031,415</u>	<u>\$ 3,117,709</u>	84,010,518	
Less current portion	<u>3,301,856</u>			<u>3,371,285</u>	
	<u>\$ 56,794,956</u>			<u>\$ 80,639,233</u>	

A trustee holds sinking fund deposits, including earnings on investments of these deposits. Revenues from student tuition and fees sufficient to pay the annual debt service are pledged to secure the bonds.

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

Fiscal Year	Principal	Interest	Total
2019	\$ 3,436,024	\$ 2,026,366	\$ 5,462,390
2020	3,691,441	2,698,076	6,389,517
2021	4,488,644	1,900,873	6,389,517
2022	4,672,600	1,716,917	6,389,517
2023	4,781,420	1,608,096	6,389,516
2024-2028	25,527,695	6,419,888	31,947,583
2029-2033	21,544,266	3,577,037	25,121,303
2034-2038	7,239,395	2,031,865	9,271,260
2039-2043	8,220,662	1,050,599	9,271,261
2044-2045	<u>3,592,555</u>	<u>115,947</u>	<u>3,708,502</u>
	<u>\$ 87,194,702</u>	<u>\$ 23,145,664</u>	<u>\$ 110,340,366</u>

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - DEFINED BENEFIT PLAN

Plan Description

The University contributes to the Teachers' Retirement System of Alabama ("TRS"), a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

The TRS, 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.

Substantially all employees of the University are members of the TRS. Membership is mandatory for covered or eligible employees of the University and they are classified as either Tier 1 or Tier 2 plan members, contingent upon if their eligible service began prior to January 1, 2013. Tier 1 participants in TRS who retire at age 60 with at least 10 years of credited service, or after completing 25 years of credited service, regardless of age, are entitled to an annual benefit, payable monthly, unless there is a return to full-time employment with a TRS or Employees' Retirement System ("ERS") agency, or to temporary employment in excess of specified limits. Tier 2 participants with at least 10 years of credited service who have attained the age of 62 are also entitled to an annual benefit, payable monthly. Service retirement benefits are calculated based on a retirement formula. The factors used to calculate the monthly benefit options include the employee's average final salary, years and months of creditable service, and a retirement benefit factor established by the Alabama Legislature. The benefit factor is 2.0125% for Tier 1 participants and 1.65% for Tier 2 participants. A participant terminating before reaching retirement age, but after completing 10 years of credited service, is eligible for a vested allowance at age 60 provided accumulated employee contributions are not withdrawn. TRS also provides death and disability benefits.

The actuarial accrued liability ("AAL"), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL and the actuarial valuation of assets at September 30, 2017 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were \$34,688,077,958 and \$23,887,076,646, respectively, resulting in an under-funded AAL of \$10,801,001,312.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - DEFINED BENEFIT PLAN (CONT'D)

Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2018 annual financial report of TRS. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

Funding Policy

Employees are required to contribute 7.5 percent of their salary to the Teachers' Retirement System. The University is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year, the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the University and its employees equal the required contributions for 2018 and 2017 as follows:

	2018		2017	
	Tier 1	Tier 2	Tier 1	Tier 2
Total Percentage of Covered Payroll	19.74%	17.01%	19.51%	16.82%
Total Percentage of Covered Payroll	20.74%	18.01%	20.51%	17.82%
Contributions:				
Percentage contributed by the University	12.24%	11.01%	12.01%	10.82%
Percentage contributed by Employees	7.50%	6.00%	7.50%	6.00%
Percentage contributed by Employees	8.50%	7.00%	8.50%	7.00%
Amount contributed by the University (both Tiers)		\$5,628,752		\$5,629,985
Amount contributed by Employees (both Tiers)		3,422,197		3,422,977
Total Contributions		<u>\$9,050,949</u>		<u>\$9,052,962</u>

Net Pension Liability

The net pension liability (NPL) is the difference between the "Total Pension Liability" (TPL) and the plan's "fiduciary net position" (FNP). The total pension liability (TPL) is the present value of pension benefits that are allocated to current members due to past service by entry age normal actuarial cost method. The (TPL) includes benefits related to projected salary and service, and automatic cost of living adjustments (COLA's). In addition, ad hoc COLA's are also included in the (TPL) to the extent they are substantively automatic. The (FNP) is determined on the same basis used by the pension plans. The NPL was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - DEFINED BENEFIT PLAN (CONT'D)

Net Pension Liability	(In Thousands)
Valuation Date:	September 30, 2016
Measurement Date:	September 30, 2017
Reporting Date:	September 30, 2018
Net Pension Liability:	
Total Pension Liability (TPL)	\$ 34,479,936
Fiduciary Net Position (FNP)	<u>(24,651,457)</u>
Net Pension Liability (NPL)	<u>\$ 9,828,479</u>
Plan Fiduciary Net Position as a percentage of Total Pension Liability	71.50 %
University Percentage of TRS Net Pension Liability	0.72 %

The TPL was determined by an actual values as of September 30, 2016, using the following key assumptions:

Inflation	2.75%
Salary increases, including inflation	3.25% - 5.00%
Long-term Investment Rate of Return, net of pension plan investment expense, including inflation	7.75%

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 summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Fixed Income	17.00 %	4.40 %
US Large Stocks	32.00 %	8.00 %
US Mid Stocks	9.00 %	10.00 %
US Small Stocks	4.00 %	11.00 %
Int'l Developed Mkt Stocks	12.00 %	9.50 %
Int'l Emerging Mkt Stocks	3.00 %	11.00 %
Alternatives	10.00 %	10.10 %
Real Estate	10.00 %	7.50 %
Cash Equivalent	<u>3.00 %</u>	<u>1.50 %</u>
Total	<u>100.00 %</u>	

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - DEFINED BENEFIT PLAN (CONT'D)

Contributions

Employer contributions to the plan are as follows:

2016	2017	2018
<u>\$5,296,334</u>	<u>\$5,422,931</u>	<u>\$5,631,846</u>

Sensitivity of the net pension liability to changes in the discount rate

The discount rate used to measure the total pension liability was 8.00 percent. 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 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.

The following presents the net pension liability of the University's proportionate share of the plan, calculated using the discount rate, as well as what the University's net pension liability would have been if it were calculated using a discount rate that is 1-percent-point lower and 1-percent-point higher than the current rate:

	(In Thousands)		
	1% Decrease (6.75%)	Current Discount Rate (7.75)%	1% Increase (8.75%)
Net Pension Liability	\$97,536	\$70,713	\$48,023

Schedule of Deferred Outflows and Inflow of Resources

Deferred outflows of resources and deferred inflows of resources by source reported by the University at September 30, 2018 for each plan are as follows:

	Collective Deferred Outflows of Resources (In Thousands)	Collective Deferred Inflows of Resources (In Thousands)
Differences between expected and actual experience	\$ -	\$ 3,032
Changes of assumptions	4,220	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	218	343
Net difference between projected and actual earnings	-	4,228
Total	<u>\$ 4,438</u>	<u>\$ 7,603</u>

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - DEFINED BENEFIT PLAN (CONT'D)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2018 will be recognized in pension expense as follows:

Deferred Amounts to Be Recognized in Fiscal Years Ended September 30 :

	<u>(In Thousands)</u>
2019	\$ (726)
2020	\$ (528)
2021	\$ (1,483)
2022	\$ (1,401)
2023	\$ (82)

Pension Expense

For the fiscal years ended September 30, 2018 and 2017, the University recognized pension expense of \$6.0 million and \$7.9 million, respectively.

NOTE 10 - ADDITIONAL BENEFIT PLANS

Regular full-time employees are eligible to contribute to optional supplemental retirement programs which are a defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. The employee's contributions are funded as they accrue and are immediately and fully vested. The University does not match employee contributions.

During the fiscal years ended September 30, 2018 and 2017, employees' contributions to optional supplemental retirement programs were \$725,204 and \$688,204, respectively.

NOTE 11 - OTHER POST-RETIREMENT EMPLOYEE BENEFITS

The University offers post-employment healthcare benefits to all employees who officially retire from the University. Healthcare benefits are offered through the Alabama Public Education Employees' Health Insurance Plan (PEEHIP) with TRS. Retirees who elect to participate in PEEHIP pay a portion of the PEEHIP premium, with the University paying an allocation toward the cost of retiree coverage.

Certain retirees may also elect to continue their basic term life insurance coverage and accidental death and dismemberment insurance up to certain maximum amounts. The retirees pay the full amount of the premiums in such cases. Retirees are eligible for tuition assistance benefits for themselves as well as for their spouse and unmarried dependent children.

PEEHIP is a cost-sharing multiple-employer defined benefit healthcare plan administered by the Public Education Employee Health Insurance Board. PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - OTHER POST-RETIREMENT EMPLOYEE BENEFITS (CONT'D)

care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan are subject to a lifetime contract maximum of \$1,000,000 for each covered individual. The Code of Alabama 1975, Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers. The required rates of retirees are as follows as of September 30, 2018:

Retired Member Rates:

Individual Coverage/Non-Medicare Eligible	\$166
Family Coverage/Non-Medicare Eligible Retired Member and More Than 1 Dependant or Only Dependent Non-Medicare Eligible	\$421
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse	\$521
Family Coverage/Non-Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible	\$280
Family Coverage/Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$310
Individual Coverage/Medicare Eligible Retired Member	\$ 25
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - No Spouse	\$280
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - with Non-Medicare Eligible Spouse	\$380
Family Coverage/Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible	\$139
Family Coverage/Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$169
Tobacco surcharge (per month)	\$ 50
Wellness premium (per month)	\$ 50
Number of retirees for the year ended	743

NOTE 12 - OTHER POSTEMPLOYMENT BENEFIT PLANS

Plan Description

Employees of the University are covered by a cost sharing multiple-employer other post employment benefit plan administered by the Alabama Retired Education Employees Health Care Trust (Trust). The Trust's financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expenses, and information about the fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. In accordance with GASB, the Trust is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - OTHER POSTEMPLOYMENT BENEFIT PLANS (CONT'D)

At September 30, 2018, the University reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Change of assumptions	-	4,787,620
Net difference between projected and actual earnings on OPEB	-	245,495
Changes in proportion and differences between employer Employer contribution subsequent to the measurement date	-	1,778,953
	<u>1,507,058</u>	<u>-</u>
Total	<u>\$ 1,507,058</u>	<u>\$ 6,812,068</u>

At September 30, 2018, approximately \$1,507,058 reported as deferred outflows related to OPEB resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expenses as follows:

Year ended September 30:	Amount
2019	\$ (1,316,954)
2020	\$ (1,316,954)
2021	\$ (1,316,954)
2022	\$ (1,315,954)
2023	\$ (1,255,580)
Thereafter	\$ (288,780)

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ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - OTHER POSTEMPLOYMENT BENEFIT PLANS (CONT'D)

Actuarial Assumptions

The total OPEB liability as September 30, 2018 was determined by an actuarial valuation performed as of September 30, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases, including inflation*	3.25% - 5.00%
Long-term Investment Rate of Return**	7.25%
Municipal bond index rate at the measurement date	3.57%
Municipal bond index rate at the prior measurement date	2.93%
Projected year for fiduciary net position to be depleted	2042
Single equivalent interest rate at the measurement date	4.63%
Single equivalent interest rate at the prior measurement date	4.01%
Healthcare cost trend eligible:	
Pre-medicare eligible	7.75%
Medicare eligible	5.00%
Ultimate trend rate:	
Pre-medicare eligible	5.00%
Medicare eligible	5.00%
Year of ultimate trend rate	2022

* Includes 3.00% wage inflation

** Compounded annually, net of investment expenses, and includes inflation

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

The decremental assumptions used in the valuation were based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the TRS on September 13, 2016. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate plan participation, rates of plan election, etc) used in the September 30, 2016 valuation were based a review of recent plan experience done concurrently with the September 30, 2016 valuation.

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

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - OTHER POSTEMPLOYMENT BENEFIT PLANS (CONT'D)

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class are summarized in the following Table:

Asset Class	Target Allocation	Long-term Expected Rate of Return *
Fixed Income	30.00 %	4.40 %
US Large Stocks	38.00 %	8.00 %
US Mid Stocks	8.00 %	10.00 %
US Small Stocks	4.00 %	11.00 %
Int'l Developed Mkt Stocks	15.00 %	9.50 %
Cash Equivalent	5.00 %	1.50 %
Total	100.00 %	

* Geometric mean, includes 2.5% inflation

Discount Rate

The discount rate used to measure the total OPEB liability at September 30, 2017 was 4.63%. The projection of cashflows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating employers must contribute for each active employee. Approximately 27.08% of the employer contributions were used to assist in funding retiree benefit payments in 2016 and it is assumed that amount will increase by 3.00% per year. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-years Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2115. The long-term rate is used until the assets are expected to be depleted in 2042, after which the municipal bond rate is used.

Sensitivity of Alabama A&M University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.

The following table presents the University's proportionate share of the net OPEB liability calculated using the discount rate of 4.63%, as well as what the net OPEB liability would be if calculated using 1-percentage point lower (3.63%) or 1-percentage point higher (5.63%) than the current rate:

	1% Decrease (3.63%)	Current Discount Rate (4.63)%	1% Increase (5.63%)
Net OPEB Liability	\$55,737,664	\$46,110,221	\$38,435,946

**ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 12 - OTHER POSTEMPLOYMENT BENEFIT PLANS (CONT'D)

OPEB Plan Fiduciary Net Position

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

NOTE 13 - INCOME TAX STATUS

The University is considered a political subdivision of the State of Alabama. Accordingly, it is exempt from federal income taxes under Section 115 of the Internal Revenue Code.

NOTE 14 - RELATED PARTIES

The North Alabama Center for Educational Excellence was chartered under the laws of the State of Alabama on October 30, 1991, as a nonprofit organization incorporated to receive public funds, gifts, grant income, interest, dividends, real estate and any and all property rights of every kind and character to be held, invested and reinvested for educational purposes at the University. Because the University is not financially accountable for the related party, it is not included in the University's financial statements as a component unit.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Litigation

The University is a defendant in a number of legal actions. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any for these actions, will not have a material effect on the University's financial position.

NOTE 16 - OPERATING EXPENSES

Operating expenses by functional classification for the fiscal years ended September 30, 2018 and 2017, are as follows:

<u>Expenses by Function</u>		
	<u>2018</u>	<u>2017</u>
Educational and General:		
Instruction	\$ 30,423,688	\$ 29,358,033
Research and development	12,219,232	8,098,262
Public service	12,078,712	12,904,910
Academic support	6,282,268	6,171,774
Student services	16,744,455	16,395,674
Institutional support	17,505,256	21,515,242
Operation and maintenance of plant	15,226,287	17,457,070
Scholarships and fellowships	20,099,094	19,260,889
Auxiliary Enterprises	11,232,916	13,043,524
Depreciation and amortization	6,990,689	6,355,640
Total operating expenses	<u>\$ 148,802,597</u>	<u>\$ 150,561,018</u>

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 - RISKS AND UNCERTAINTIES

The University has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the University. There were no significant reductions in coverage compared to the prior year.

NOTE 18 - EFFECT OF CHANGE IN ACCOUNTING STANDARD

As a result of implementing GASB Statement No. 75, "Accounting and Financial Report for Postemployment Benefits Other Than Pensions", net position was restated at October 1, 2017. With the adoption of GASB Statement No. 75, the University is reporting a decrease in beginning net position of \$50,477,099, increase in 2017 deferred outflows of resources for OPEB of \$1,752,553, and increase in 2017 deferred inflows of resources of \$245,495, and OPEB liability of \$51,984,157.

NOTE 19 - COMPONENT UNITS

Details of the Foundation's net position at September 30, 2018 and 2017 and the Trust's net position at July 31, 2018 and 2017, are as follows:

	2018			2017		
	Foundation	Trust	Totals	Foundation	Trust	Totals
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 1,945,871	\$ 295,734	\$ 2,241,605	\$ 1,829,936	\$ 1,019,961	\$ 2,849,897
Receivables,	-	-	-	-	-	-
Total current assets	<u>1,945,871</u>	<u>295,734</u>	<u>2,241,605</u>	<u>1,829,936</u>	<u>1,019,961</u>	<u>2,849,897</u>
Non-current assets:						
Investments	7,176,404	43,210,081	50,386,485	7,343,127	40,069,081	47,412,208
Capital assets, net	1,367,708	-	1,367,708	1,150,941	-	1,150,941
Total non-current assets	<u>8,544,112</u>	<u>43,210,081</u>	<u>51,754,193</u>	<u>8,494,068</u>	<u>40,069,081</u>	<u>48,563,149</u>
Total assets	<u>\$ 10,489,983</u>	<u>\$ 43,505,815</u>	<u>\$ 53,995,798</u>	<u>\$ 10,324,004</u>	<u>\$ 41,089,042</u>	<u>\$ 51,413,046</u>
LIABILITIES						
Current liabilities:						
Funds held for other organizations	\$ 1,182,472	\$ -	\$ 1,182,472	\$ 990,042	\$ -	\$ 990,042
Current portion due on mortgage payable	43,236	-	43,236	76,196	-	76,196
Total current liabilities	<u>1,225,708</u>	<u>-</u>	<u>1,225,708</u>	<u>1,066,238</u>	<u>-</u>	<u>1,066,238</u>
Non-current liabilities:						
Mortgage payable	1,287,356	-	1,287,356	868,527	-	868,527
Total non-current liabilities	<u>1,287,356</u>	<u>-</u>	<u>1,287,356</u>	<u>868,527</u>	<u>-</u>	<u>868,527</u>
Total liabilities	<u>2,513,064</u>	<u>-</u>	<u>2,513,064</u>	<u>1,934,765</u>	<u>-</u>	<u>1,934,765</u>
NET POSITION						
Restricted:						
Temporarily	5,715,777	1,698,523	7,414,300	6,814,477	377,457	7,191,934
Permanently	1,000,000	41,807,292	42,807,292	1,000,000	40,711,585	41,711,585
Total restricted	<u>6,715,777</u>	<u>43,505,815</u>	<u>50,221,592</u>	<u>7,814,477</u>	<u>41,089,042</u>	<u>48,903,519</u>
Unrestricted	<u>1,261,142</u>	<u>-</u>	<u>1,261,142</u>	<u>574,762</u>	<u>-</u>	<u>574,762</u>
Total net position	<u>7,976,919</u>	<u>43,505,815</u>	<u>51,482,734</u>	<u>8,389,239</u>	<u>41,089,042</u>	<u>49,478,281</u>
Total liabilities and net position	<u>\$ 10,489,983</u>	<u>\$ 43,505,815</u>	<u>\$ 53,995,798</u>	<u>\$ 10,324,004</u>	<u>\$ 41,089,042</u>	<u>\$ 51,413,046</u>

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 - COMPONENT UNITS (CONT'D)

Details of the Foundation's revenues, expenses and changes in net position at September 30, 2018 and 2017 and the Trust's revenues, expenses, and changes in net position at July 31, 2018 and 2017, are as follows:

	2018			2017		
	Foundation	Trust	Totals	Foundation	Trust	Totals
OPERATING REVENUES						
Net rental revenue/ other	\$ 377,570	\$ -	\$ 377,570	\$ 118,429	\$ -	\$ 118,429
Contributions	1,736,492	-	1,736,492	1,698,775	-	1,698,775
Investment income	107,518	961,542	1,069,060	1,564	849,028	850,592
Realized and unrealized gain (loss) on investments	<u>201,292</u>	<u>3,421,282</u>	<u>3,622,574</u>	<u>(580,835)</u>	<u>2,645,330</u>	<u>2,064,495</u>
Total revenues	<u>2,422,872</u>	<u>4,382,824</u>	<u>6,805,696</u>	<u>1,237,933</u>	<u>3,494,358</u>	<u>4,732,291</u>
OPERATING EXPENSES						
Educational and general:						
Scholarships	1,528,629	1,629,279	3,157,908	1,502,266	1,698,775	3,201,041
Program administration	1,299,813	-	1,299,813	1,177,304	-	1,177,304
Investment fees	<u>6,750</u>	<u>336,772</u>	<u>343,522</u>	<u>4,795</u>	<u>552,800</u>	<u>557,595</u>
Total expenses	<u>2,835,192</u>	<u>1,966,051</u>	<u>4,801,243</u>	<u>2,684,365</u>	<u>2,251,575</u>	<u>4,935,940</u>
CHANGE IN NET POSITION						
Increase (decrease) in net position	(412,320)	2,416,773	2,004,453	(1,446,432)	1,242,783	(203,649)
Total net position, beginning of the year	<u>8,389,239</u>	<u>41,089,042</u>	<u>49,478,281</u>	<u>9,835,671</u>	<u>39,846,259</u>	<u>49,681,930</u>
Total net position, end of the year	<u>\$ 7,976,919</u>	<u>\$ 43,505,815</u>	<u>\$ 51,482,734</u>	<u>\$ 8,389,239</u>	<u>\$ 41,089,042</u>	<u>\$ 49,478,281</u>

NOTE 20 - RECENTLY ISSUED ACCOUNTING STANDARDS

The GASB issued Statement No. 80, Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 4 (GASB 80), in January 2016. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. This statement is effective for financial statements for reporting periods beginning after June 15, 2016. The University has determined that there is no material impact from the adoption of GASB 80.

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements* (GASB 81) in March 2016. The objective of GASB 81, is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. GASB 81 requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - RECENTLY ISSUED ACCOUNTING STANDARDS (CONT'D)

Furthermore, GASB 81 requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. GASB 81 requires that a government recognize revenue when the resources become applicable to the reporting period. GASB 81 is effective for financial statements for periods beginning after December 15, 2016. The University has determined that there is no material impact from the adoption of GASB 81. The requirements of this GASB 82 are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 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 of paragraph 7 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 has fully implemented the requirements of GASB 82.

The GASB issued Statement No. 82, *Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73*, in March 2016. The objective of GASB 82 is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, GASB 82 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 GASB issued Statement No. 83, *Certain Asset Retirement Obligations* in November 2016. GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this GASB 83. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The University is evaluating whether there will be any material impact from its adoption of GASB 83.

The GASB issued Statement No. 84, *Fiduciary Activities* in January 2017. The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - RECENTLY ISSUED ACCOUNTING STANDARDS (CONT'D)

fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The University is evaluating whether there will be any material impact from its adoption of GASB 84.

The GASB issued Statement No. 85, *Omnibus 2017* in March 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 requirements of this Statement were effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged. The University has fully implemented the provisions of GASB 85.

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues* in May 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The University has determined that GASB 86 has no impact upon its financial statements for the 2018 fiscal year.

The GASB issued Statement No. 87, *Leases* in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this GASB No. 87 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The University is evaluating the impact of adopting GASB 87.

ALABAMA A&M UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - RECENTLY ISSUED ACCOUNTING STANDARDS (CONT'D)

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. The primary objective of GASB 88 is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The University is evaluating the impact of adopting GASB 88.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* in June 2018. The objectives of this GASB 89 are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of GASB 89 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The University is evaluating the impact of adopting GASB 89.

The GASB issued Statement No. 90, *Majority Equity Interests, an Amendment of GASB Statements No. 14 and No. 61* in August 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis. The University is evaluating the impact of adopting GASB 90.



**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 of
Alabama A&M University
Normal, Alabama

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Alabama A&M University (“the University”), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 30, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the University’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a 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 the University's financial statements are free from 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 results of that testing, and not to provide an opinion on the effectiveness of the organization'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Birmingham, Alabama
March 30, 2019

Bank. Finley White '16



**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 of
Alabama A&M University
Normal, Alabama

Report on Compliance for Each Major Federal Program

We have audited Alabama A&M University's ("the University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2018. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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 the 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 the 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 University's compliance.



Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the 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 the 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 the University's internal control over compliance.

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

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

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

Birmingham, Alabama
March 30, 2019

Bank, Fuley White & Co.

ALABAMA A&M UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2018

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FDA Number	Contract Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Agriculture Research - Basic and Applied Research	10.001	58-5030-6-053	\$ 57,268
Agriculture Research - Basic and Applied Research	10.001	58-6066-6-060	1,593
Agriculture Research - Basic and Applied Research	10.001	8072-41000-098-23S	821
Total Agricultural Research - Basic and Applied Research			<u>59,682</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Grants for Agricultural Research, Special Research Grants	10.200	2017/18-6-33100-08901	2,091,979
Grants for Agricultural Research, Special Research Grants	10.200	2015-33100-08901	20,855
Total Grants for Agricultural Research, Special Research Grants			<u>2,112,834</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Cooperative Forestry Research	10.202	2018/9-32100-08901	94,509
Cooperative Forestry Research	10.202	2017/8-32100-08901	62,089
Cooperative Forestry Research	10.202	2017/8-32100-08901	32,565
Cooperative Forestry Research	10.202	2017/8-32100-08901	46,568
Cooperative Forestry Research	10.202	2017/8-32100-08901	35,568
Cooperative Forestry Research	10.202	2017/8-32100-089015	42,943
Cooperative Forestry Research	10.202	2017/8-32100-08901	47,744
Cooperative Forestry Research	10.202	2017/8-32100-08901	11,906
Total Cooperative Forestry Research			<u>373,892</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	2015/6-33100-08901	14,404
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	2016/7-33100-08901	42,344
Payments to 1890 Land-Grant Colleges and Tuskegee University	10.205	2018-33100-08901	485,714
Total Payments to 1890 Land-Grant Colleges and Tuskegee University			<u>542,462</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through University of Georgia			
Sustainable Agriculture Research and Education	10.215	RD309-134/S0001222	6,386
Total Sustainable Agriculture Research and Education			<u>6,386</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
1890 Institution Capacity Building Grant	10.216	2013-38821-21130	138,584
1890 Institution Capacity Building Grant	10.216	2013-38821-21250	50,414
1890 Institution Capacity Building Grant	10.216	2015-38821-24337	48,923
1890 Institution Capacity Building Grant	10.216	2015-38821-24348	17,307
1890 Institution Capacity Building Grant	10.216	2015-38821-24349	73,928
1890 Institution Capacity Building Grant	10.216	2015-38821-24366	127,396
1890 Institution Capacity Building Grant	10.216	2017-38821-26421	100,766
1890 Institution Capacity Building Grant	10.216	2017-38821-24426	34,945
1890 Institution Capacity Building Grant	10.216	2017-38821-264359	90,265
1890 Institution Capacity Building Grant	10.216	2017-38821-26406	3,772
1890 Institution Capacity Building Grant	10.216	2018-38821-27722	21,445
1890 Institution Capacity Building Grant	10.216	2018-38821-27728	72,575
1890 Institution Capacity Building Grant	10.216	2018-38821-27736	43,930
1890 Institution Capacity Building Grant	10.216	2018-38821-27757	13,512
Pass-Through Programs:			
Alcorn State University			
1890 Institution Capacity Building Grant	10.216	2015-38821-24360	54,273
Auburn			
1890 Institution Capacity Building Grant	10.216	2015-38821-24366	414,922
Delaware State University			
1890 Institution Capacity Building Grant	10.216	2014-38821-22442	18,270
Fort Valley State University			
1890 Institution Capacity Building Grant	10.216	2014-38821-22437	32,792
Fort Valley State University			
1890 Institution Capacity Building Grant	10.216	2014-38821-224277	25,000
Tuskegee			
1890 Institution Capacity Building Grant	10.216	2014-38821-22364	51,988
Total 1890 Institution Capacity Building Grant			<u>1,435,007</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Higher Education Challenge Grant	10.217	2015-70003-22361	60,198
Higher Education Challenge Grant	10.217	2017-70003-24772	56,662
Total 1890 Institution Capacity Building Grant			<u>116,860</u>

ALABAMA A&M UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2018

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Higher Education - Multicultural Scholars Grant	10.220	2015-38413-23538	17,800
Pass-Through University of North Carolina:			
Higher Education - Multicultural Scholars Grant	10.220	2014-38413-21797	7,211
Total Higher Education - Multicultural Scholars Grant			<u>25,011</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through Program:			
Special Crop Research Initiative	10.309	2017-51181-26828	45,466
Total Higher Education - Multicultural Scholars Grant			<u>45,466</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Agriculture and Food Research Initiative (AFRI)	10.310	2018-68006-28100	2,500
Agriculture and Food Research Initiative (AFRI)	10.310	2016-67016-24945	19,452
Agriculture and Food Research Initiative (AFRI)	10.310	2016-67020-25276	60,946
Agriculture and Food Research Initiative (AFRI)	10.310	2016-68006-24785	173,403
Pass-Through Program:			
Agriculture and Food Research Initiative (AFRI)	10.310	2016-68006-24785	4,873
Pass-Through Program:			
Agriculture and Food Research Initiative (AFRI)	10.310	2014-68006-21862	2,575
Agriculture and Food Research Initiative (AFRI)	10.310	2016-68006-27464	22,218
Total Agriculture and Food Research Initiative (AFRI)			<u>285,967</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Beginning Farmer and Rancher Development Program	10.311	2017-70017-26842	81,864
Total Beginning Farmer and Rancher Development Program	10.311	2017-70017-26842	<u>81,864</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Capacity Building for Non-Land Grant Colleges of Agriculture	10.326	2017-70017-26842	36,027
Total Capacity Building for Non-Land Grant Colleges of Agriculture			<u>36,027</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through Program:			
National Food Safety raining, Education, Extension, Outreach, and Technical Assistance Competitive Grants Program	10.328	2017-70020-27253	24,462
Pass-Through University of Florida:			
National Food Safety raining, Education, Extension, Outreach, and Technical Assistance Competitive Grants Program	10.328	2015-70020-24397	12,171
Total National Food Safety raining, Education, Extension, Outreach, and Technical Assistance Competitive Grants Program			<u>36,633</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Farm Operating Loans	10.406	FA-AL-6-050	3,911
Total Farm Operating Loans			<u>3,911</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Risk Management Education Partnerships	10.460	RM16RMEPP522C041/ 4500068416	41,867
Total Risk Management Education Partnerships			<u>41,867</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Cooperative Extension Service	10.500	2011-45200-04423	126,234
Cooperative Extension Service	10.500	2014-41520-22199	136,635
Cooperative Extension Service	10.500	2013-45200-21170	251,875
Cooperative Extension Service	10.500	2018-45100-08901	2,145,309
Cooperative Extension Service	10.500	31000-09	1,359
Cooperative Extension Service	10.500	N18RREAFXXXGO25	4,043
Cooperative Extension Service	10.500	N118EFNEPXXXG004-0001	112,723
Cooperative Extension Service	10.500	2017-45100-08901	462,940
Cooperative Extension Service	10.500	N117RREAFXXXG066	11,181
Pass-Through Programs:			
Cooperative Extension Service	10.500	2015-49200-24228	9,710
Cooperative Extension Service	10.500	21667-08	42,910
Total Cooperative Extension Service			<u>3,304,919</u>
U.S. DEPARTMENT OF AGRICULTURE			
Pass-Through Program:			
State Admin. Matching Grants for Supplemental Nutrition Assistance Program	10.561	4153	1,224,731
Total State Admin. Matching Grants for Supplemental Nutrition Assistance Program			<u>1,224,731</u>

ALABAMA A&M UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2018

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Contract Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Forestry Research	10.652	17-DG-11330124-046	44,629
Forestry Research	10.652	15-CA-11330136-073	20,758
Forestry Research	10.652	15-DG-11330124267	118,569
Forestry Research	10.652	16-DG-11330124-067	1,639
Forestry Research	10.652	15-CA-11330124-080	19,084
Forestry Research	10.652	15-DG-11330124-128	3,701
Total Higher Education Challenge Grant			<u>208,380</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Programs:			
Partnership Agreements	10.699	16-JV-11330124-088	41,840
Partnership Agreements	10.699	17-JV-11330124-077	7,032
Partnership Agreements	10.699	15-CCS-111325543-009	32,330
Total Partnership Agreements			<u>81,202</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Norman E. Borlaug International Agricultural Science and Tech Fellowship	10.777		37,989
Total Norman E. Borlaug International Agricultural Science and Tech Fellowship			<u>37,989</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Socially-Disadvantaged Groups Grant	10.871	01-045-636001097	95,344
Total Socially-Disadvantaged Groups Grant			<u>95,344</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Soil and Water Conservation	10.902	68-4101-18-001	3,893
Total Soil and Water Conservation			<u>3,893</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Scientific Cooperation and Research	10.961	FX17SR-10961R004	17,695
Total Scientific Cooperation and Research			<u>17,695</u>
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Cochran Fellowship Program-International Training-Foreign Participant	10.962	FX17CO-10962R021	30,255
Cochran Fellowship Program-International Training-Foreign Participant	10.962	FX17CO-10962R031	24,264
Cochran Fellowship Program-International Training-Foreign Participant	10.962	CO-CR-16-025	55
Total Cochran Fellowship Program-International Training-Foreign Participant			<u>54,574</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>10,239,807</u>
U.S. DEPARTMENT OF COMMERCE			
Direct Program:			
Weather and Air Quality Research	11.459	NA17OAR4590168	12,057
Total Weather and Air Quality Research			<u>12,057</u>
U.S. DEPARTMENT OF DEFENSE OFFICE OF THE SECRETARY OF DEFENSE			
Direct Program:			
Basic and Applied Scientific Research	12.300	N00014-17-1-2635	86,176
Total Basic and Applied Scientific Research			<u>86,176</u>
U.S. DEPARTMENT OF DEFENSE OFFICE OF THE SECRETARY OF DEFENSE			
Direct Programs:			
Basic, Applied, and Advanced Research in Science and Engineering	12.630	W911NF-17-1-0474	476,372
Basic, Applied, and Advanced Research in Science and Engineering	12.630	W911NF-15-1-0531	82,942
Total Basic, Applied, and Advanced Research in Science and Engineering			<u>559,314</u>
TOTAL U.S. DEPARTMENT OF DEFENSE OFFICE OF THE SECRETARY OF DEFENSE			<u>645,490</u>
U.S. DEPARTMENT OF JUSTICE			
Pass-Through 4H			
Juvenile Mentoring Program	16.726	2016-JU-FX-0022	8,851
Juvenile Mentoring Program	16.726	2017-JU-FX-0022	35,252
Juvenile Mentoring Program	16.726	2015-JU-FX-0015	3
Total Juvenile Mentoring Program			<u>44,106</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>44,106</u>
NATIONAL AERONAUTICS AND ADMINISTRATION			
Pass-Through UAB			
Science	43.001	NNX10AJ80H	252,391
Total Science			<u>252,391</u>

ALABAMA A&M UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2018

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Expenditures</u>
NATIONAL AERONAUTICS AND ADMINISTRATION			
Pass-Through UAH			
Education	43.008	2015-050	27,594
Education	43.008	NNX15AJ18H	<u>12,325</u>
Total Education UAH			39,919
Pass-Through Program:			
NASA Student Career Exploration Program	43.008	NNX15J18H	<u>15,046</u>
Total NASA Student Career Exploration Program			<u>15,046</u>
TOTAL NATIONAL AERONAUTICS AND ADMINISTRATION			<u>307,356</u>
NATIONAL SCIENCE FOUNDATION			
Direct Programs:			
Engineering Grants	47.041	EEC-1640488	12,246
Engineering Grants	47.041	NSF-1740687	<u>97,478</u>
Total Engineering Grants			<u>109,724</u>
NATIONAL SCIENCE FOUNDATION			
Direct Programs:			
Mathematical and Physical Sciences	47.049	CHE-1745333	49,931
Mathematical and Physical Sciences	47.049	PHY-1559870	<u>81,163</u>
Total Mathematical and Physical Sciences			<u>131,094</u>
NATIONAL SCIENCE FOUNDATION			
Direct Program:			
Biological Sciences	47.074	OIA-1655280	<u>52,117</u>
Total Biological Sciences			<u>52,117</u>
NATIONAL SCIENCE FOUNDATION			
Direct Programs:			
Education and Human Resources	47.076	HRD-103660	1,058
Education and Human Resources	47.076	NSF 1818732	8,661
Education and Human Resources	47.076	DGE-1419295	307
Education and Human Resources	47.076	DUE-11544	28,400
Education and Human Resources	47.076	DUE-1238192	780,192
Education and Human Resources	47.076	DUE-1347749	82,982
Education and Human Resources	47.076	DUE-1525120	64,569
Education and Human Resources	47.076	HRD-103660	34,920
Education and Human Resources	47.076	HRD-1436572	232,451
Education and Human Resources	47.076	HRD-1546965	278,445
Education and Human Resources	47.076	DUE-1643799	77,105
Pass-Through UA			
Education and Human Resources	47.076	1619659	87,193
Education and Human Resources	47.076	1619659	<u>88,247</u>
Total Education and Human Resources			<u>1,764,530</u>
NATIONAL SCIENCE FOUNDATION			
Direct Program:			
Polar Programs	47.078	DUE-1564893	<u>112,667</u>
Total Polar Programs			<u>112,667</u>
TOTAL NATIONAL SCIENCE FOUNDATION			
			<u>2,170,132</u>
U.S. NUCLEAR REGULATORY COMMISSION			
Direct Program:			
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	31310018M0035	279
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	NRC-HQ-84-16-G-0014	<u>78,425</u>
Total U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program			<u>78,704</u>
TOTAL U.S. NUCLEAR REGULATORY COMMISSION			
			<u>78,704</u>
U.S. DEPARTMENT OF ENERGY			
Pass-Through Florida A&M University			
National Nuclear Sec. Admin. (NNSA) Minority Serving Institutions Program	81.123	DE-NA0002683	<u>1,328</u>
Pass-Through Program:			
National Nuclear Sec. Admin. (NNSA) Minority Serving Institutions Program	81.123	DE-NA0002683	<u>188,270</u>
Total National Nuclear Sec. Admin. (NNSA) Minority Serving Institutions Program			<u>189,598</u>

ALABAMA A&M UNIVERSITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2018

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA Number	Contract Number	Expenditures
U.S. DEPARTMENT OF EDUCATION			
Student Financial Aid Cluster			
Federal Pell Grant Program	84.063	OE-P063111097	18,125,301
Federal Supplemental Educational Opportunity Program	84.007	OE-P007A09001	468,644
College Work-Study Program	84.033	OE-P033A070001	391,815
Federal Direct Loan Program	84.268	OE-P268K181027	57,182,273
TEACH Grants	84.379	P379T141027	25,687
Total Student Financial Aid Cluster			<u>76,193,720</u>
U.S. DEPARTMENT OF EDUCATION			
Direct Programs:			
Higher Education - Institutional Aid	84.031	P031141001	1,905,159
Higher Education - Institutional Aid	84.031	P031B150030	824,707
Higher Education - Institutional Aid	84.031	P031B170009	3,391,035
Higher Education - Institutional Aid	84.031	P031B120500	25,142
Higher Education - Institutional Aid	84.031	P031B141001	1,237
Higher Education - Institutional Aid	84.031	P031B141001	389,012
Higher Education - Institutional Aid	84.031	P031B150030	248,493
Total Higher Educational - Institutional Aid			<u>6,784,785</u>
U.S. DEPARTMENT OF EDUCATION			
Trio Cluster:			
TRIO - Upward Bound	84.047	P047A171384	171,903
TRIO - Upward Bound	84.047	P047A171384	305,894
Total TRIO - Upward Bound			<u>477,797</u>
U.S. DEPARTMENT OF EDUCATION			
Direct Program:			
Minority Science and Engineering Improvement	84.120	P120A150053	96,061
Total Minority Science and Engineering Improvement			<u>96,061</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>83,552,363</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Program:			
Mental and Behavioral Health Education and Training Grants	93.732	1M01P31282-01-00	305,481
Total Mental and Behavioral Health Education and Training Grants			<u>305,481</u>
Direct Program:			
Biomedical Research and Research Training	93.859		47,258
Total Biomedical Research and Research Training			<u>47,258</u>
TOTAL NATIONAL INSTITUTE OF HEALTH			<u>352,739</u>
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct Programs:			
Scholars and Fellows and Educational Programs	97.062	2010-ST-062-000034	1,792
Scholars and Fellows and Educational Programs	97.062	2014-ST-062-000060	128,984
Total Scholars and Fellows and Educational Programs			<u>130,776</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>130,776</u>
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT			
Direct Program:			
USAID Foreign Assistance for Programs Overseas	98.001	OSU-RD-011-G-G	11,996
Total USAID Foreign Assistance for Programs Overseas			<u>11,996</u>
TOTAL U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT			<u>11,996</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 97,735,124</u>

ALABAMA A&M UNIVERSITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Alabama A&M University ("the University") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).

NOTE 2 - INDIRECT COST RATE

The University has elected not to use the 10 percent de minimus cost rate allowed under Uniform Guidance. The University operates under predetermined fixed Facilities and Administrative Cost Rates (F&A) which were effective from October 1, 2016 through through October 1, 2020 and thereafter until amended. The predetermined fixed rates were based upon 2015 financial information. The provisional fixed rates, begin on October 1, 2020 and are the same as the predetermined fixed rates. For fiscal year September 30, 2018, the based rate for on-campus research was 48% and for off-campus the rate was 26%.

ALABAMA A&M UNIVERSITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2018

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Significant deficiencies identified? ___ Yes X No
- Significant deficiencies identified that are considered to be material weaknesses? ___ Yes X None reported

Noncompliance material to financial statements noted? ___ Yes X No

Federal Awards

Internal control over major programs:

- Significant deficiencies identified? ___ Yes X No
- Significant deficiencies identified that are considered to be material weaknesses? ___ Yes X None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? ___ Yes X No

Identification of major programs:

CFDA Numbers

Name of Federal Program

84.007, 84.033, 84.063, 84.268, 84.379

Student Financial Aid Cluster

Dollar threshold used to distinguish between Type A and type B programs: \$2,931,837

Auditee qualified as low-risk auditee? X Yes ___ No