

ALABAMA STATE UNIVERSITY
(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED

SEPTEMBER 30, 2021 AND 2020

**ALABAMA STATE UNIVERSITY
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SEPTEMBER 30, 2021 AND 2020**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Alabama State University

We have audited the accompanying financial statements of Alabama State University (the University), a component unit of the State of Alabama, and its aggregate discretely presented component units, as of and for the years ended September 30, 2021 and 2020, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the Alabama State University Foundation, Inc. (the Foundation), and the related notes to the financial statements, which represent 1.25%, 2.28% and 2.07%, respectively, of the assets, net position and revenues of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Trust for Educational Excellence at Alabama State University and the Alabama State University Foundation were not audited in accordance with *Government Auditing Standards*.

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

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

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 aggregate discretely presented component units, as of September 30, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 16 and the supplementary information on pages 70 through 72 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 audits 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2022, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Warren Averett, LLC

Montgomery, Alabama
June 29, 2022

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2021 and 2020
(Unaudited)

Management's Discussion and Analysis

This section of the Alabama State University (the University) annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended September 30, 2021. This discussion has been prepared by management along with the financial statements and related footnote disclosures. This report should be read in conjunction with 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 financial statements focus on the financial condition of the University, the results of operations and cash flows of the University as a whole.

Using the Annual Report

One of the most important questions asked about university finances is whether the University as a whole is better off, or worse off, as a result of the year's activities. The keys to understanding this question are the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The University's net position is one indicator of its financial health. Over time, increases or decreases in net position are indicators of the improvement or erosion of the University's financial health when considered with nonfinancial facts such as enrollment levels and the condition of the facilities.

The Statement of Net Position includes all assets, deferred outflows and inflows and liabilities. It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Position presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or nonoperating. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Another important factor to consider when evaluating viability is the University's ability to meet financial obligations as they mature. The Statement of Cash Flows presents the information related to cash inflows and outflows summarized by operating, capital and noncapital financing and investing activities. The Statement of Cash Flows also helps users assess the ability to generate future net cash flows, the ability to meet obligations as they come due and a need for external financing.

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The University is considered a discretely presented component unit of the State of Alabama and as such, the University's financial activity is also included within the State of Alabama's Comprehensive Annual Financial Report.

The Trust for Educational Excellence at Alabama State University and the Alabama State University Foundation, Inc. are discretely presented component units of the University that are discussed on pages 60 through 62. Complete financial statements of the individual component units can be obtained directly from the Vice President for Business and Finance.

Since the focus of this discussion is on the University, these component units are not included in the amounts below.

Condensed Statements of Net Position

	<u>2021</u>	<u>2020</u>
ASSETS AND DEFERRED OUTFLOWS		
Current assets	\$ 98,591,004	\$ 70,024,213
Noncurrent assets		
Capital assets, net	246,758,765	254,801,097
Other	312,650	711,775
Deferred outflows	<u>54,027,120</u>	<u>25,414,221</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u><u>\$ 399,689,539</u></u>	<u><u>\$ 350,951,306</u></u>
LIABILITIES AND DEFERRED INFLOWS		
Current liabilities	\$ 27,517,802	\$ 37,114,431
Noncurrent liabilities	175,896,743	280,083,776
Deferred inflows	<u>35,959,500</u>	<u>37,115,428</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS	<u><u>239,374,045</u></u>	<u><u>354,313,635</u></u>
NET POSITION		
Net investment in capital assets	194,911,763	65,835,724
Restricted	24,150,650	20,063,941
Unrestricted	<u>(58,746,919)</u>	<u>(89,261,994)</u>
TOTAL NET POSITION	<u><u>\$ 160,315,494</u></u>	<u><u>\$ (3,362,329)</u></u>

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2021 and 2020
(Unaudited)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the University's bank accounts and investments in cash equivalents of operating funds held by investment managers. The investments are recorded at fair market value. Cash and cash equivalents totaled \$49 million at September 30, 2021, an increase of \$14.9 million from the previous year. The University was refunded \$5 million that had previously been paid into the Rice Capital Access Program (RCAP). In addition, restricted cash increased due to HEERF funding of \$2 million, Title VI unspent proceeds of \$6.1 million and \$2 million of federal, state and private grant funding.

Accounts Receivable

Accounts receivable relate to several transactions including student tuition and fee billings and auxiliary enterprise sales, such as food service and residence halls. In addition, receivables arise from grant awards and financial aid. Accounts receivable totaled \$20.3 million at September 30, 2021, net of allowance for doubtful accounts of \$14.2 million. Accounts receivable increased \$6.5 million from the previous year. The increase is primarily due to the timing of the drawing of Department of Education fund totaling \$7 million.

Endowment Investments

Endowment investments include marketable securities relating to the Endowment funds. These investments are recorded at fair market value. The investments are managed and held by investment managers. Endowment investments totaled \$18.7 million at September 30, 2021, an increase of \$8.7 million from the previous year. This increase is due primarily to current year investment income totaling \$2.2 million as well as the investment of endowment cash held in the previous year.

Other Short-Term Investments

Other short-term investments include marketable securities held and managed by investment managers and banking institutions.

Capital Assets, Net

Capital assets, net of related accumulated depreciation, consist of land, infrastructure, buildings, equipment, library collections and holdings and construction in progress totaling \$247 million at September 30, 2021. The amount reported is net of accumulated depreciation of \$184 million. The decrease of \$8 million between fiscal years 2020 and 2021 is primarily a result of current year depreciation expense which totaled \$11 million, an increase in land and buildings of \$1.2 million, infrastructure increase of \$400,000 and an increase in equipment of \$1.3 million.

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LIABILITIES

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2021, for goods and services received prior to the end of the fiscal year.

Long-Term Debt

At the end of the fiscal year 2021, the University had debt outstanding of \$52.5 million. Of this amount, \$51.7 million was comprised of bonds and \$825,000 in long-term leases. The decrease of \$143.9 million is primarily attributed to the American Rescue Plan Act loan forgiveness of \$138.8 million of bonds issued through the RCAP in 2018. In addition, the University paid \$6.1 million in principal debt payments.

Net Pension Liability

At the end of the fiscal year 2021, the University had a net pension liability of \$79.4 million. The increase in net pension liability is a result of the state's actuarial valuation and actual versus expected experience of the Teacher's Retirement System of Alabama (TRS), of which the University's proportionate share was 0.64%.

Postemployment Benefits Other Than Pensions

At the end of the fiscal year 2021, the University had a postemployment benefit other than pensions (OPEB) liability of \$47.2 million. The increase is based on the valuation as determined by employer contribution rates of 12.36% of payroll for Tier I members and 11.22% of payroll for Tier II members for the fiscal year ending September 30, 2022 to include market fluctuations. This is a result of the state's valuation of the Alabama Public Education Employee's Health Insurance Plan. The University's proportionate share of the OPEB liability was 0.73%.

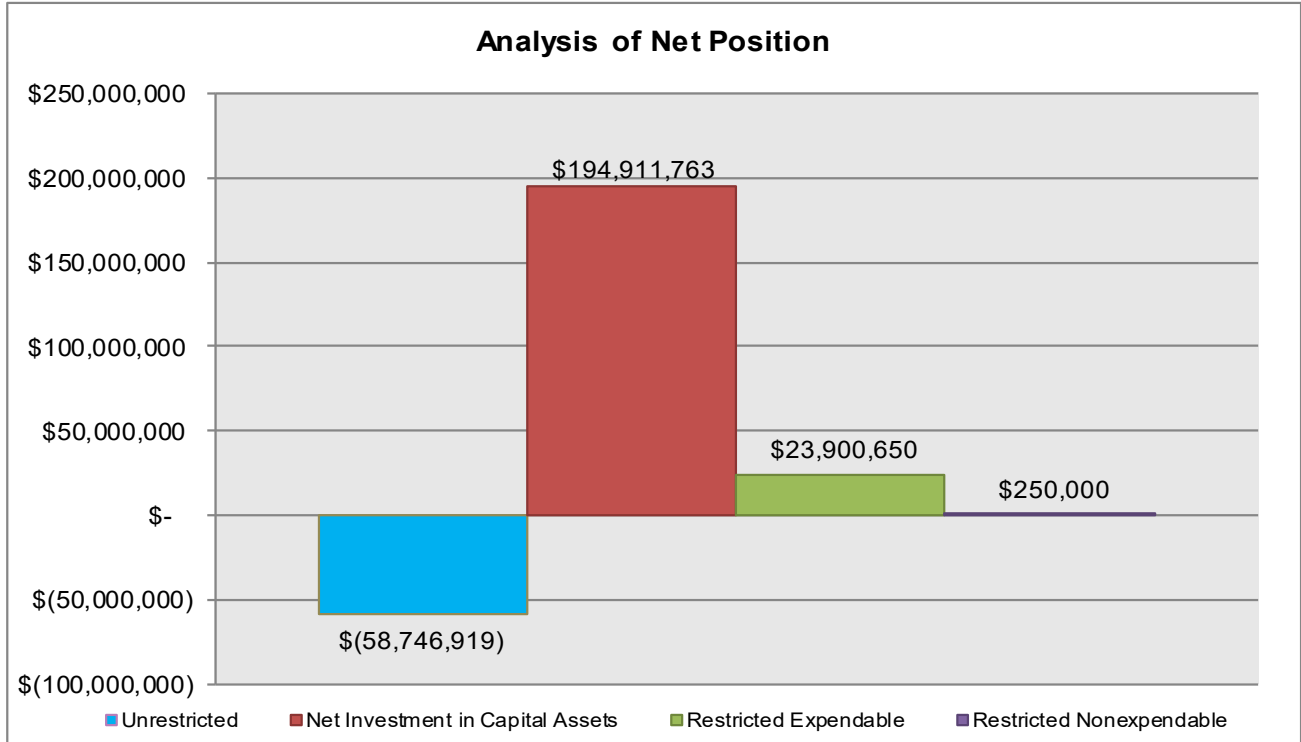
Unearned Revenue

Unearned revenue represents payments received for tuition, fees and room and board of \$13.6 million net of deferred scholarships, allowances and discounts of \$4.9 million relating to a future period. Examples of unearned revenue are fall tuition, fees, room and board, and grants where funding has been received but not expended.

NET POSITION

Net position represents the difference between University assets and liabilities. Total net position at September 30, 2021, was \$160.3 million.

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Restricted expendable net position consists of income from endowment funds, gifts and pledges with specific temporary restrictions; grants from third party agencies with expenditure restrictions; and certain loan funds. Restricted expendable funds also include funds that have been designated by the governing board for specific purposes as well as amounts that have been contractually committed for goods and services which have not yet been received.

Unrestricted net position represents those balances from operational activities that have not been restricted by parties external to the University, such as donors or grant agencies. Also included in unrestricted net position are working capital and unrestricted endowments. None of the unrestricted net assets were designated as of year-end. The (\$58.7) million is primarily the result of recognizing the University's proportionate share of the employers' net pension liability and total OPEB liability, as well as the resulting deferred inflows and outflows due to changes in actuarial expenses and assumptions.

The increase of approximately \$129.1 million in the University's net investment in capital assets net position is primarily attributable to the following: 1) Depreciation expense of \$11 million, 2) Transfers in and out of other funds for debt service and capital assets of \$6.8 million and 3) \$134.3 million gain on forgiveness of long-term debt.

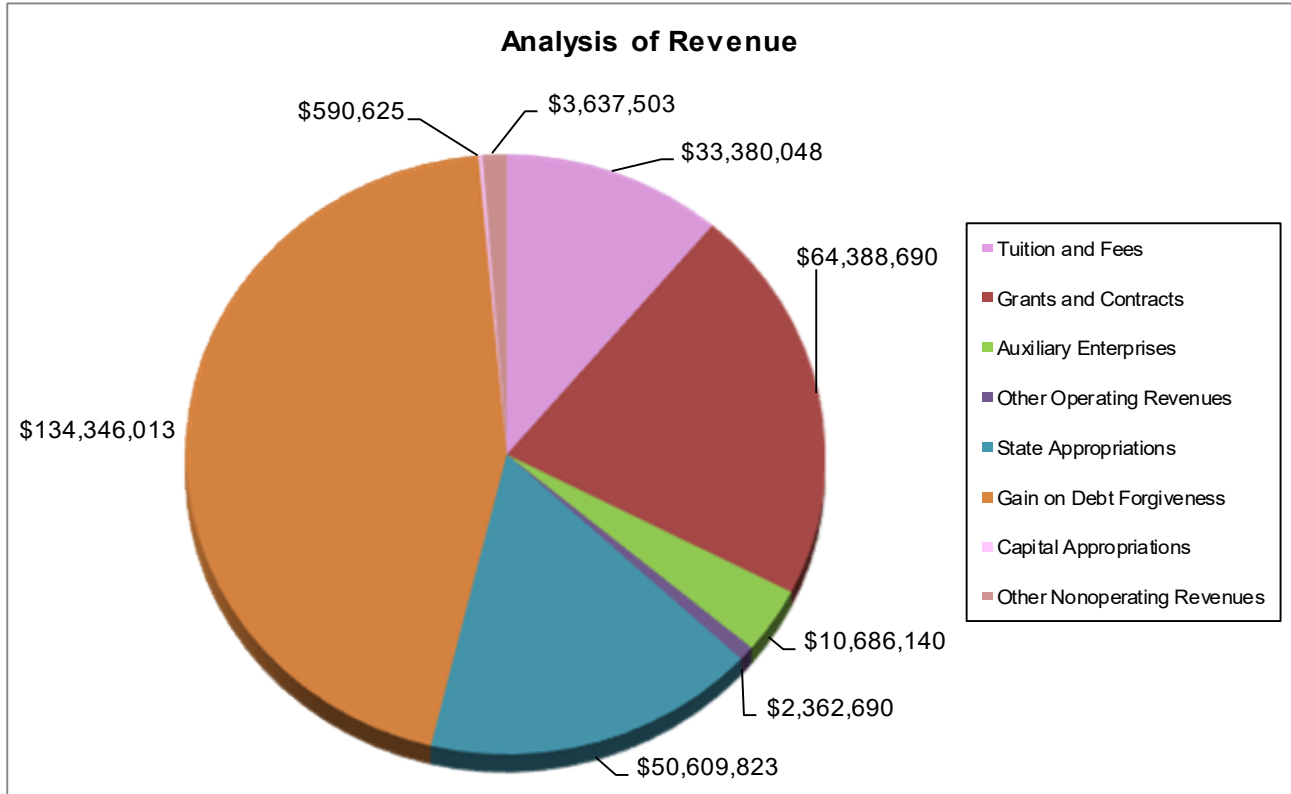
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(Unaudited)

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Tuition and fees	\$ 33,380,048	\$ 37,003,390
Grants and contracts	64,388,690	49,113,527
Auxiliary enterprises	10,686,140	12,610,453
Other operating revenues	2,362,690	2,261,504
Total operating revenues	<u>110,817,568</u>	<u>100,988,874</u>
OPERATING EXPENSES	<u>132,697,098</u>	<u>130,630,127</u>
Operating loss	<u>(21,879,530)</u>	<u>(29,641,253)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	50,609,823	49,983,014
Gain on forgiveness of long-term debt	134,346,013	-
Other nonoperating revenues (expenses), net	10,892	(7,076,944)
Net nonoperating revenues (expenses)	<u>184,966,728</u>	<u>42,906,070</u>
Gain before other changes in net position	<u>163,087,198</u>	<u>13,264,817</u>
OTHER CHANGES IN NET POSITION		
Capital appropriations	<u>590,625</u>	<u>351,250</u>
Change in net position	<u>163,677,823</u>	<u>13,616,067</u>
NET POSITION		
Net position at beginning of year	<u>(3,362,329)</u>	<u>(16,978,396)</u>
Net position at end of year	<u>\$ 160,315,494</u>	<u>\$ (3,362,329)</u>

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REVENUES



Tuition and Fees for Services of Educational Activities

Tuition and fees assessed for educational purposes totaled \$50.1 million. The tuition discounts and allowances were \$16.7 million, resulting in net tuition and fees of \$33.4 million. This represents a \$3.6 million decrease in net tuition and fees between fiscal years 2020 and 2021. This is primarily due to declining enrollment during the year.

Grants and Contracts

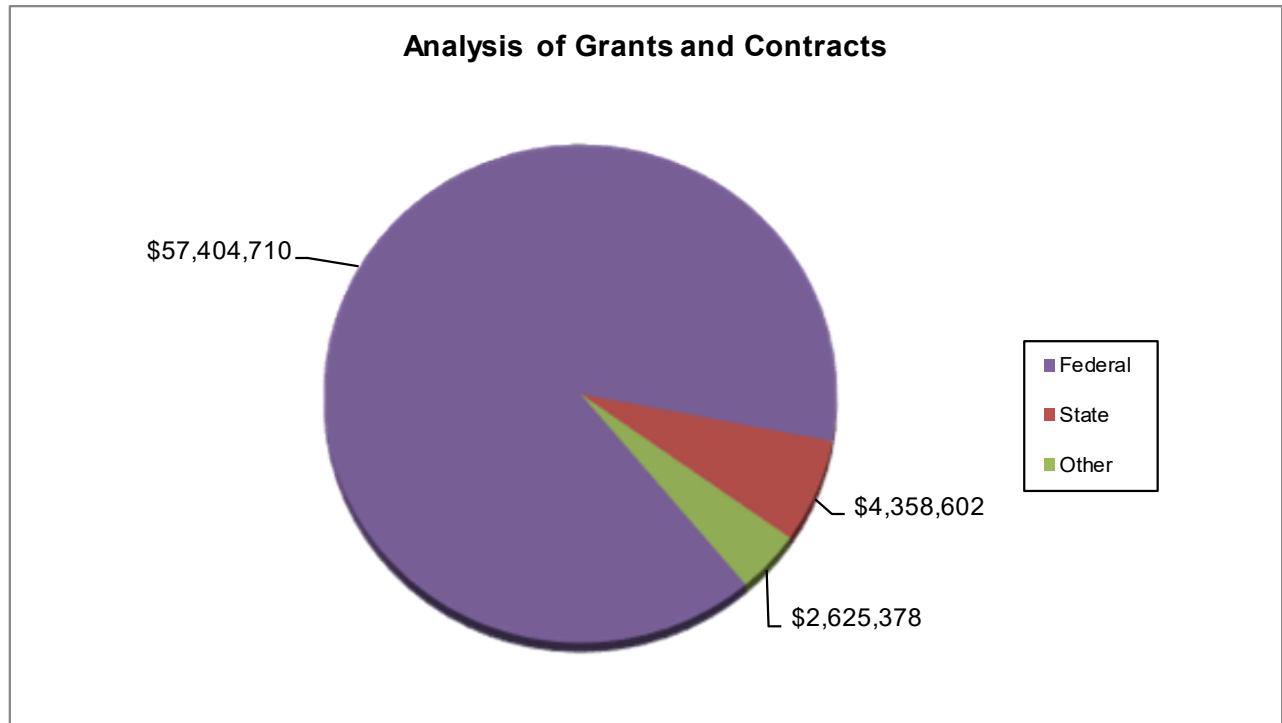
This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Deferred or non-reimbursable revenues are recorded when received, or when eligibility criteria have been met. Grants and contracts revenue increased by \$15.3 million between fiscal years 2020 and 2021. The increase is primarily due to funding received as a result of the Higher Education Emergency Relief Fund, Coronavirus Aid, Relief and Economic Security Act.

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The following table details the University's grant and contract awards for the fiscal years ended September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
FEDERAL SOURCES		
Financial aid	\$ 14,571,615	\$ 12,363,722
Department of Education	39,739,245	24,214,546
Department of the Treasury	-	2,475,097
National Science Foundation	900,267	1,055,303
Department of Health and Human Services	1,014,594	720,186
Other federal agencies	1,178,989	980,736
Total federal sources	<u>57,404,710</u>	<u>41,809,590</u>
STATE AND OTHER SOURCES		
Grants and contracts	4,358,602	4,802,345
Other sources	2,625,378	2,501,592
Total state and other sources	<u>6,983,980</u>	<u>7,303,937</u>
	<u><u>\$ 64,388,690</u></u>	<u><u>\$ 49,113,527</u></u>

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



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Auxiliary Enterprises

Auxiliary enterprises consist of various enterprise entities that exist predominantly to furnish goods or services to students, faculty, staff or the general public and charge a fee directly related to the cost of those goods or services.

These include residence halls, apartments, food services, vending machines, and ticket sales, and are intended to be self-supporting. Auxiliary enterprise revenue decreased by \$661,000 between fiscal years 2020 and 2021 primarily due to occupancy rates.

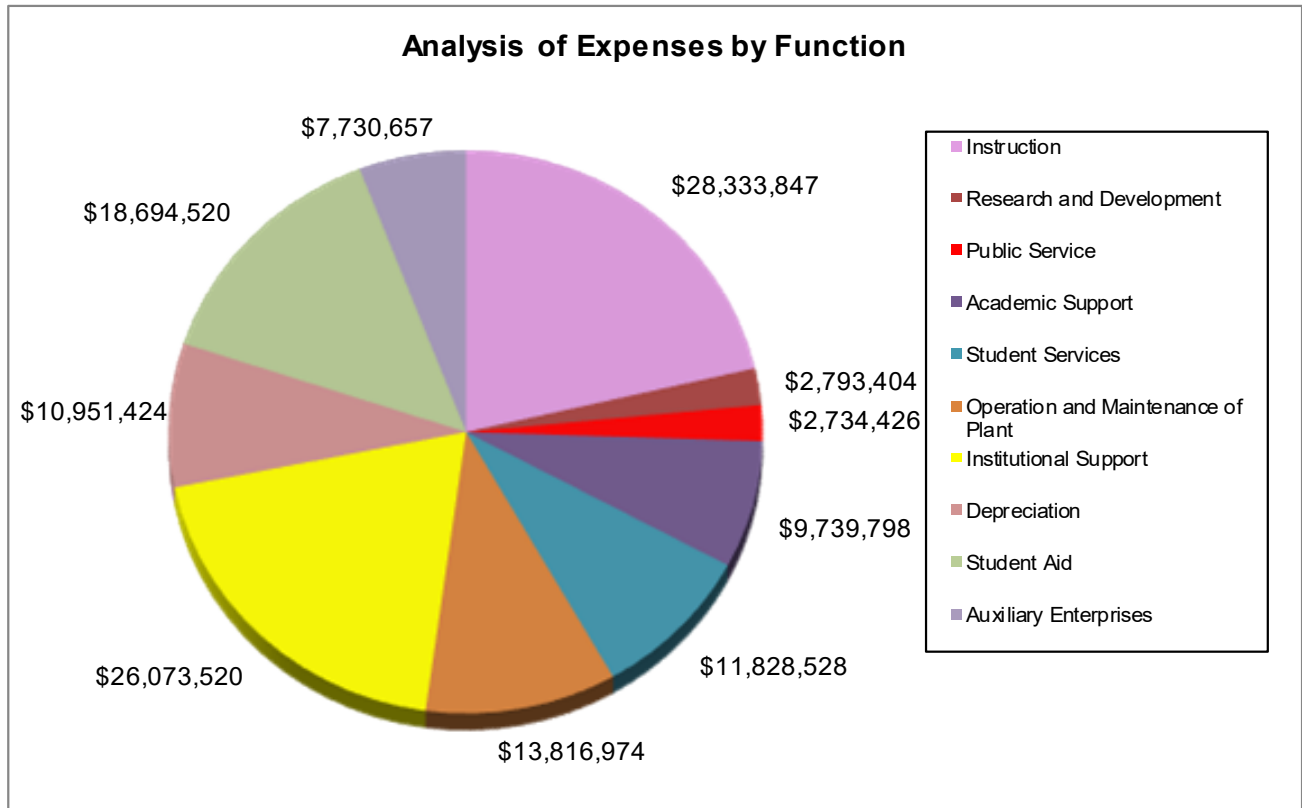
OPERATING EXPENSES

Operating expenses totaling \$132.7 million include salaries and benefits of \$65.3 million, materials and services of \$56.4 million and depreciation of \$11 million. This represents a \$2.1 million increase between fiscal years 2020 and 2021, due primarily to increases in instructional and institutional support expenses.

Expenses by Function

	<u>2021</u>	<u>2020</u>
Educational and General:		
Instruction	\$ 28,333,847	\$ 27,798,424
Research and development	2,793,404	2,837,084
Public service	2,734,426	3,910,708
Academic support	9,739,798	9,485,461
Student services	11,828,528	11,498,914
Operation and maintenance of plant	13,816,974	13,094,482
Institutional support	26,073,520	26,988,725
Depreciation	10,951,424	10,830,767
Student aid	18,694,520	16,687,540
Auxiliary Enterprises:		
Residential life	6,912,909	6,628,068
Other auxiliary expenses	817,748	869,954
Total operating expenses	<u>\$ 132,697,098</u>	<u>\$ 130,630,127</u>

ALABAMA STATE UNIVERSITY
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NONOPERATING REVENUES (EXPENSES)

State Appropriations

Annually, the State of Alabama appropriates funding for higher education. The University received \$50.6 million for fiscal year 2021 for operations and maintenance. State appropriations increased by \$627,000 between fiscal years 2020 and 2021.

Investment Income, Net

Included in investment income are the earnings from endowment funds, pooled cash and plant investments, as well as the realized and unrealized gains and losses on investments. Investment income increased by \$1.7 million between fiscal years 2020 and 2021.

Interest on Capital Assets Related Debt

This includes the interest incurred for fiscal year 2021 on bond debt. Interest expense decreased \$4.7 million primarily due to debt forgiveness associated with the American Rescue Plan Act.

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STATEMENTS OF CASH FLOWS

The Statements of Cash Flows present the significant sources and uses of cash.

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents provided by (used in):		
Operating activities	\$ (19,528,320)	\$ (23,173,340)
Noncapital financing activities	45,631,926	54,119,711
Capital and related financing activities	(4,738,176)	(19,749,327)
Investing activities	<u>(6,468,499)</u>	<u>(5,471,370)</u>
Net increase in cash and cash equivalents	14,896,931	5,725,674
Cash and cash equivalents at beginning of year	<u>34,099,410</u>	<u>28,373,736</u>
Cash and cash equivalents at end of year	<u>\$ 48,996,341</u>	<u>\$ 34,099,410</u>

The increase in cash and cash equivalents of \$15 million is primarily due to funding received as a result of the Higher Education Emergency Relief Fund, Coronavirus Aid, Relief and Economic Security Act.

ENROLLMENT

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 2017 through 2021 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

<u>Academic Year</u>	<u>Undergraduate</u>	<u>Graduate</u>	<u>Total</u>	<u>Full-Time Equivalent</u>	<u>Total Credit Hours Taken</u>
2021	3,499	465	3,964	3,749	46,195
2020	3,614	458	4,072	3,903	57,425
2019	3,750	440	4,190	4,026	57,978
2018	3,903	510	4,413	4,234	61,363
2017	4,208	552	4,760	4,539	67,786

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Student Admissions

The following tables show the total of new freshmen and transfer applications received, the number accepted and the number who enrolled for the fall semesters of 2017 through 2021:

Fall Semester Freshmen Student Admissions

Academic Year	Number of Applicants	Number Accepted	Percent Accepted	Number Enrolled	Percent Enrolled
2021	5,974	5,854	98.0%	890	15.2%
2020	7,027	6,948	98.9%	975	14.0%
2019	6,674	6,470	96.9%	1,028	15.9%
2018	7,783	7,607	97.7%	1,038	13.6%
2017	6,842	6,696	97.9%	967	14.4%

Fall Semester Transfer Student Admissions

Academic Year	Number of Applicants	Number Accepted	Percent Accepted	Number Enrolled	Percent Enrolled
2021	349	307	88.0%	133	43.3%
2020	363	325	89.5%	137	42.2%
2019	395	343	86.8%	146	42.6%
2018	370	305	82.4%	147	48.2%
2017	436	132	30.3%	102	77.3%

Student Cost per Credit Hour

Student tuition is 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 tuition rates for an on-campus student, for the academic years indicated, are set forth below:

Student Cost Per Hour

Student Classification	2020-21	2019-20	2018-19	2017-18	2016-17
Undergraduate, resident	\$ 347	\$ 347	\$ 347	\$ 347	\$ 347
Undergraduate, nonresident	694	694	694	694	694
Graduate, resident	412	412	412	412	412
Graduate, nonresident	824	824	824	824	824

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Annual Full-Time

<u>Student Classification</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>	<u>2016-17</u>
Undergraduate, resident	\$ 8,328	\$ 8,328	\$ 8,328	\$ 8,328	\$ 8,328
Undergraduate, nonresident	16,656	16,656	16,656	16,656	16,656
Graduate, resident	7,416	7,416	7,416	7,416	7,416
Graduate, nonresident	14,832	14,832	14,832	14,832	14,832

Annual Estimated Total Costs

The cost of room and board and the estimated costs 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>Academic Year</u>	<u>Room and Board</u>	<u>Estimated Tuition, Fees, Books and Miscellaneous</u>	<u>Estimated Total Costs</u>
2021	\$ 6,788	\$ 12,848	\$ 19,636
2020	6,050	12,848	18,898
2019	6,050	12,668	18,718
2018	6,050	12,668	18,718
2017	5,422	12,668	18,090

The University has enjoyed a very high residence hall occupancy rate for the past several years and the expectation is that in the future the occupancy will continue to increase.

Residence Hall Occupancy Analysis

<u>Fall Semester</u>	<u>Number of Occupants</u>	<u>Percent of Occupancy</u>
2021	2,004	95.93%
2020	1,905	81.00%
2019	2,151	98.00%
2018	2,075	92.00%
2017	2,136	91.32%

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The Administration continues to be committed to a strong and vibrant future for the University. Management continues to evaluate and review existing policies and procedures and organizational structure to enhance operational efficiency, budgetary control and fiscal stability while providing excellent services to the student body and the campus community. Resources have been and continue to be strategically allocated to priorities that support the University's mission.

The COVID-19 pandemic continues to present the University with a number of challenges, but with most challenges new opportunities have been discovered. The University's response has been to expand remote learning, enhance technology and improve delivery processes. The University had more than \$138 million of long-term debt which has been forgiven and has just completed the refinancing of approximately \$41 million to take advantage of reduced interest rates.

During the past four years, the Administration has increased funding to address years of neglected deferred maintenance. The Administration expects Fiscal Year 2021-2022 to end with a surplus.

President Ross continues his focus on building strategic partnerships with local businesses, community leaders and Community Colleges throughout the state of Alabama. Several Memorandum of Understanding between Alabama State University and member colleges of the Alabama Community College System have been signed providing interested community college students an opportunity to participate in a seamless enrollment process, which means that qualified students may obtain a four-year degree from ASU. The University's partnership with the Montgomery County Community Action continues the expansion of quality preschool opportunities in Montgomery County and the State of Alabama.

The Administration continues to enhance the student experience by expanding the services provided by the Student Affairs and Academic Affairs divisions. Increasing new and transfer enrollments of both on-campus classes and expanded online offerings has been successful and those efforts will be continued and enhanced. The President has continued his efforts with the State Legislature to provide opportunities for out-of-state students to qualify for in-state tuition in a manner similar to other Public Colleges and Universities in Alabama and seeking additional state funding.

Bill Hopper
Vice President for Business and Finance
June 29, 2022

**ALABAMA STATE UNIVERSITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	\$ 22,630,168	\$ 4,881,766
Stadium Fund:		
Cash and cash equivalents	948	948
Endowments:		
Cash and cash equivalents	613,613	2,586,359
Short-term investments	16,285,852	8,452,931
Accounts receivable (net of allowance of \$14,157,569 and \$14,730,876, respectively)	20,335,143	13,719,528
Prepaid expenses	645,888	7,137
Inventories	3,643	5,211
Total unrestricted assets	<u>60,515,255</u>	<u>29,653,880</u>
Restricted Assets:		
Grants and Contracts:		
Cash and cash equivalents	22,637,728	12,530,025
Grants receivable	9,805,889	6,886,511
Accounts receivable	17,622	14,855
Student Loans:		
Cash and cash equivalents	233,949	305,398
Endowments:		
Cash and cash equivalents	94,912	797,520
Short-term investments	2,266,604	1,394,962
Capital Projects and Debt Service:		
Cash and cash equivalents	2,785,023	12,997,394
Short-term investments	186,473	186,139
Other receivables	-	5,209,980
Agency Funds:		
Other receivables	47,549	47,549
Total restricted assets	<u>38,075,749</u>	<u>40,370,333</u>
Total current assets	<u>98,591,004</u>	<u>70,024,213</u>
NONCURRENT ASSETS		
Student loans receivable	312,650	711,775
Capital assets, net	246,758,765	254,801,097
Total noncurrent assets	<u>247,071,415</u>	<u>255,512,872</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	137,065	7,189,683
Deferred outflows related to pensions	16,253,010	11,233,219
Deferred outflows related to OPEB	37,637,045	6,991,319
Total deferred outflows of resources	<u>54,027,120</u>	<u>25,414,221</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 399,689,539</u>	<u>\$ 350,951,306</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
LIABILITIES		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts payable and accrued liabilities	\$ 4,508,048	\$ 5,097,073
Student accounts payable	6,984	6,284
Unearned revenue	13,645,633	12,506,866
Line of credit	-	5,214,685
Current portion of other long-term liabilities	451,114	485,549
Total payable from unrestricted assets	<u>18,611,779</u>	<u>23,310,457</u>
Payable from Restricted Assets:		
Grants and contracts accounts payable	2,192,004	3,003,794
Unearned revenue	1,609,019	1,115,194
Current portion of long-term liabilities	5,105,000	9,684,986
Total payable from restricted assets	<u>8,906,023</u>	<u>13,803,974</u>
Total current liabilities	<u>27,517,802</u>	<u>37,114,431</u>
NONCURRENT LIABILITIES		
Long-term liabilities	49,354,160	188,411,926
Net pension liability	79,354,026	70,894,091
Postemployment benefits other than pensions	47,188,557	18,459,776
HBCU Capital Finance Program interest deferral	-	2,005,189
Other accrued liabilities	-	312,794
Total noncurrent liabilities	<u>175,896,743</u>	<u>280,083,776</u>
Total liabilities	<u>203,414,545</u>	<u>317,198,207</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	4,572,000	8,196,000
Deferred inflows related to OPEB	31,387,500	28,919,428
Total deferred inflows of resources	<u>35,959,500</u>	<u>37,115,428</u>
Total liabilities and deferred inflows	<u>239,374,045</u>	<u>354,313,635</u>
NET POSITION		
Net investment in capital assets	<u>194,911,763</u>	<u>65,835,724</u>
Restricted:		
Nonexpendable:		
Scholarships	<u>250,000</u>	<u>250,000</u>
Expendable:		
Scholarships	1,067,595	898,561
Other	22,833,055	18,915,380
Total restricted expendable	<u>23,900,650</u>	<u>19,813,941</u>
Total restricted	<u>24,150,650</u>	<u>20,063,941</u>
Unrestricted	<u>(58,746,919)</u>	<u>(89,261,994)</u>
Total net position	<u>\$ 160,315,494</u>	<u>\$ (3,362,329)</u>

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021	2020
OPERATING REVENUES		
Student tuition and fees (net of scholarships of \$16,741,727 and \$12,827,000, respectively)	\$ 33,380,048	\$ 37,003,390
Federal grants and contracts	57,404,710	41,809,590
State grants and contracts	4,358,602	4,802,345
Nongovernmental grants and contracts	2,625,378	2,501,592
Sales and services of auxiliary enterprises	10,294,363	10,955,090
Intercollegiate athletics	391,777	1,655,363
Other operating revenue	2,362,690	2,261,504
Total operating revenues	110,817,568	100,988,874
OPERATING EXPENSES		
Educational and General:		
Instruction	28,333,847	27,798,424
Research and development	2,793,404	2,837,084
Public service	2,734,426	3,910,708
Academic support	9,739,798	9,485,461
Student services	11,828,528	11,498,914
Operation and maintenance of plant	13,816,974	13,094,482
Institutional support	26,073,520	26,988,725
Depreciation	10,951,424	10,830,767
Student aid	18,694,520	16,687,540
Auxiliary Enterprises:		
Residential life	6,912,909	6,628,068
Other auxiliary expenses	817,748	869,954
Total operating expenses	132,697,098	130,630,127
Operating loss	(21,879,530)	(29,641,253)

See notes to the financial statements.

ALABAMA STATE UNIVERSITY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 50,609,823	\$ 49,983,014
Investment income, net	2,236,397	506,827
Interest expense	(3,335,383)	(8,021,332)
Amortization expense	(137,065)	(549,898)
Gifts and donations	324,609	223,867
Gain on forgiveness of long-term debt	134,346,013	-
Federal subsidies for interest on Build America and Recovery Bonds	1,076,497	1,097,929
Other nonoperating expenses	(154,163)	(334,337)
Net nonoperating revenues (expenses)	<u>184,966,728</u>	<u>42,906,070</u>
Gain before other changes in net position	<u>163,087,198</u>	<u>13,264,817</u>
OTHER CHANGES IN NET POSITION		
Capital appropriations	<u>590,625</u>	<u>351,250</u>
CHANGE IN NET POSITION		
Change in net position	<u>163,677,823</u>	<u>13,616,067</u>
Net position at beginning of year	<u>(3,362,329)</u>	<u>(16,978,396)</u>
Net position at end of year	<u>\$ 160,315,494</u>	<u>\$ (3,362,329)</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tuition and fees	\$ 26,427,645	\$ 35,120,026
Cash received from grants and contracts	62,248,054	53,424,238
Cash received from auxiliary enterprises	10,686,140	12,610,453
Cash received from other sources	3,949,685	1,730,417
Cash paid to suppliers for goods and services	(54,396,279)	(55,136,394)
Cash paid to employees for services	(49,749,044)	(54,234,540)
Cash paid for scholarships	(18,694,521)	(16,687,540)
Net cash used in operating activities	<u>(19,528,320)</u>	<u>(23,173,340)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	50,609,823	49,983,014
Gifts and donations	324,609	223,867
Gifts and grants for other than capital purposes:		
FFEL lending receipts	27,959,117	31,404,716
FFEL lending disbursements	(27,959,117)	(31,404,716)
SEOG lending receipts	334,517	289,100
SEOG lending disbursements	(334,517)	(289,100)
Proceeds from short-term debt	46,381,298	92,993,302
Principal paid on short-term debt	(51,595,983)	(88,928,090)
Interest paid on short-term debt	(87,821)	(152,382)
Net cash provided by noncapital financing activities	<u>45,631,926</u>	<u>54,119,711</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	590,625	351,250
Purchase of capital assets	(2,946,005)	(2,049,044)
Forgiveness of long-term debt	5,035,150	-
Principal paid on capital debt and leases	(5,325,000)	(10,399,795)
Interest paid on capital debt and leases	(3,564,712)	(7,865,899)
Other Rice Capital Access Program activities	(154,162)	(334,337)
Federal subsidies for interest on Build America and Recovery Bonds	1,625,928	548,498
Net cash used in capital and related financing activities	<u>(4,738,176)</u>	<u>(19,749,327)</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	\$ 233,725	\$ 149,305
Proceeds from sale of investments	7,317,670	4,833,473
Purchase of investments	<u>(14,019,894)</u>	<u>(10,454,148)</u>
Net cash used in investing activities	<u>(6,468,499)</u>	<u>(5,471,370)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,896,931	5,725,674
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>34,099,410</u>	<u>28,373,736</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 48,996,341</u>	<u>\$ 34,099,410</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (21,879,530)	\$ (29,641,253)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	10,951,424	10,830,767
Loss on disposal of capital assets	36,913	660
Changes in assets and liabilities:		
Accounts receivable, net	(6,618,382)	461,501
Grants receivable	(2,919,378)	3,029,528
Prepaid expenses	(638,751)	171,026
Inventories	1,568	(1,309)
Student loans receivable	399,125	550,229
Other long-term liabilities	185,975	231,117
Accounts payable and accrued liabilities	(1,047,147)	(2,377,710)
Other accrued liabilities	-	(32,934)
Net pension liability	(183,856)	(1,112,493)
Postemployment benefits other than pensions	551,127	(3,137,470)
Unearned revenue	<u>1,632,592</u>	<u>(2,144,999)</u>
Net cash used in operating activities	<u>\$ (19,528,320)</u>	<u>\$ (23,173,340)</u>
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Forgiveness of long-term debt	<u>\$ 129,310,863</u>	<u>\$ -</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
2021 AND 2020**

	2021	2020
ASSETS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	\$ 2,976,017	\$ 1,886,783
Contributions receivable	53,025	60,025
Due from Alabama State University	281,377	225,051
Total unrestricted assets	3,310,419	2,171,859
Restricted Assets:		
Grants and Contracts:		
Cash and cash equivalents	532,830	532,540
Short-term investments	2,978,747	2,553,481
Endowments:		
Cash and cash equivalents	10,624,339	9,212,739
Short-term investments	101,884,661	88,403,616
Accrued interest and dividends	30,188	35,586
Total restricted assets	116,050,765	100,737,962
Total current assets	119,361,184	102,909,821
TOTAL ASSETS	\$ 119,361,184	\$ 102,909,821
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 6,624	\$ 6,119
Due to related parties	84,349	-
TOTAL LIABILITIES	90,973	6,119
NET ASSETS		
Without restrictions	1,390,442	932,108
With restrictions	117,879,769	101,971,594
TOTAL NET ASSETS	119,270,211	102,903,702
TOTAL LIABILITIES AND NET ASSETS	\$ 119,361,184	\$ 102,909,821

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
OPERATING REVENUES		
Contributions	\$ 2,671,569	\$ 3,154,011
Total operating revenues	<u>2,671,569</u>	<u>3,154,011</u>
OPERATING EXPENSES		
Educational and General:		
Program services	2,128,514	3,040,091
Supporting services	<u>225,634</u>	<u>31,086</u>
Total operating expenses	<u>2,354,148</u>	<u>3,071,177</u>
Operating income	<u>317,421</u>	<u>82,834</u>
NONOPERATING REVENUES		
Investment income, net	1,754,657	1,610,144
Realized and unrealized gains on investments	<u>14,294,431</u>	<u>6,961,099</u>
Net nonoperating revenues	<u>16,049,088</u>	<u>8,571,243</u>
CHANGE IN NET ASSETS	16,366,509	8,654,077
NET ASSETS AT BEGINNING OF YEAR	<u>102,903,702</u>	<u>94,249,625</u>
NET ASSETS AT END OF YEAR	<u>\$ 119,270,211</u>	<u>\$ 102,903,702</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Alabama State University (the University) are described below to enhance the usefulness of the financial statements to the reader.

Reporting Entity

The accompanying basic financial statements present the financial position and activities of the University, which is a component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position and, where applicable, cash flows of only that portion of the basic financial statements and the aggregate discretely presented component units of the State of Alabama that are attributable to the transactions of the University.

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, consists of the primary government and all of its component units. Component units are legally separate organizations for which the primary government is financially accountable. In addition, the primary government may determine, through exercise of management's professional judgment, that the inclusion of an organization that does not meet the financial accountability criteria is necessary in order to prevent the reporting entity's financial statements from being misleading. In such instances, that organization is included as a component unit. Accordingly, the basic financial statements include the accounts of the University, as the primary government, and the accounts of the entities discussed below as component units.

The University has adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*, which amends GASB Statements No. 14 and No. 39, and provides criteria for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship with the primary government. Such criteria include the appointment of a voting majority of the board of the organization, the ability to impose the will of the primary government on the organization and the financial benefits/burden between the primary government and the potential component unit. Based on the criteria as of September 30, 2021 and 2020, the University reports the Alabama State University Foundation, Inc. (the Foundation) and the Trust for Educational Excellence at Alabama State University (the Trust) as discretely presented component units. These component units are described in greater detail in Note 12.

The fiscal years of the Trust and the Foundation are different from that of the University. The fiscal years of the Trust are July 31, 2021 and 2020 and the fiscal years of the Foundation are December 31, 2020 and 2019. These component units are presented in the report on their respective fiscal years. Complete financial statements of the individual component units can be obtained directly from the University's administrative office.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reporting Entity – Continued

The Trust and the Foundation financial statements have been prepared on the accrual basis, reporting under the Financial Accounting Standards Board (FASB). Net assets and revenues, expenses, gains and losses are based on the existence or absence of donor-imposed restrictions. Net assets of the component units and changes therein are classified as follows in their separately issued financial statements:

- Net assets without donor restrictions are not subject to donor-imposed restrictions and are available for use in general operations. Items in this net asset category include unrestricted gifts and earnings on idle funds and on unrestricted endowments.
- Net assets with donor restrictions may be temporary in nature or may be perpetual in nature, as specified by the donor. Those net assets whose restrictions are temporary in nature are subject to donor-imposed restrictions that may or will be met either by actions of the Trust, Foundation or the passage of time. Items in this net asset category include pledges to unrestricted and temporarily restricted accounts, temporarily restricted gifts and earnings on endowment funds expendable for the purpose stipulated by the donor. These amounts are reclassified to unrestricted net assets when such restrictions, primarily purpose restrictions, are met or have expired.

Basis of Accounting

The financial statements of the University have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

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.

The University recognizes grant and contract revenue in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on the terms of the individual grant or contract.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Revenue and Expense Recognition – Continued

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.

Subsequent Events

Management has evaluated subsequent events through June 29, 2022, which is the date the financial statements were issued.

Cash and Cash Equivalents

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

Investments

In accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, investments are reported at fair value in the statements of net position, and investment income, including realized and unrealized gains and losses on investments, is presented in the statements of revenues, expenses and changes in net position.

Receivables

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.

Inventories

Inventories are valued at the lower of cost or market and are recorded as expenditures when consumed rather than when purchased.

Restricted Assets

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

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 the trust indenture.

Capital Assets

Capital assets, which include property, plant, equipment, software and library holdings, are reported in the statements of net position at historical cost or at fair value at date of donation, less accumulated depreciation. Depreciation has been provided over the estimated useful lives using the straight-line method.

Estimated useful lives by asset category are as follows:

Buildings	10–35 years
Infrastructure improvements	5–30 years
Machinery and equipment	5–15 years
Furniture and fixtures	5–15 years
Library holdings	15 years

In accordance with GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, interest costs incurred before the end of a construction period are expensed. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service.

For equipment, the University’s capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year.

The University charges a full year of depreciation in the year of acquisition for all items except equipment. For equipment, the University begins depreciation on the date of acquisition.

When property and equipment are disposed, the related cost and accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in current operations. Maintenance and repairs are expensed as incurred.

The University evaluates impairment in accordance with GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. For the year ended September 30, 2021, no impairments were recorded.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Unearned Revenue

Unearned revenue represents payments received for services, goods, tuition and fees, room and board or property damage liability charges relating to a future period. Unearned revenue also includes amounts received in advance from grant and contract sponsors that have not yet been earned under the terms of the agreement. The amounts are recognized as revenue in the following fiscal year.

Bond Issuance Costs and Loss on Bond Refunding

Bond premium and discounts, and loss on refunding on long-term indebtedness are deferred and amortized over the term of the related debt.

Bond issuance costs are expensed during the current period.

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 36 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. The University funds sick leave as taken.

An accrual is recorded for accumulated unpaid vacation pay. As of September 30, 2021 and 2020, accrued vacation pay totaled \$2,826,967 and \$2,640,988, respectively. Because sick pay does not vest and will only be paid to employees on approved sick leave, no accrued liability has been recorded.

Pensions

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan administered by the Teachers Retirement System of Alabama (TRS or the Plan). The TRS financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to the Plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with the requirements of the GASB. Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Annual Comprehensive Financial Report.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Postemployment Benefits Other Than Pensions (OPEB)

Employees of the University are covered by a cost sharing multiple-employer defined benefit postemployment healthcare plan administered by the Alabama Retired Education Employees' Health Care Trust (Health Care Trust). The Health Care Trust 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, and OPEB expense, information about the fiduciary net position of the Health Care Trust and additions to/deductions from the Health Care Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Additionally, the University offers health care benefits through the University's self-insured Retiree Medical Plan. See note 9 for additional details.

Deferred Outflows of Resources

Deferred outflows of resources consist of bond deferred refunding amounts, pension obligations and OPEB obligations. Pension obligations include employer contributions to the Teachers' Retirement System subsequent to the Plan's measurement date, changes in proportion and differences between employer contributions and proportionate share of contributions, net difference between projected and actual earnings on pension plan investments and changes in actuarial and other assumptions. OPEB obligations include employer contributions to the Health Care Trust subsequent to the Health Care Trust's measurement date, changes in proportion and differences between employer contributions and proportionate share of contributions, net difference between projected and actual earnings on OPEB plan investments and changes in actuarial and other assumptions.

Deferred Inflows of Resources

Deferred inflows of resources are composed of both pension and OPEB obligations. Pension obligations include differences between expected and actual experience, changes in proportion and differences between employer contributions and proportionate share of contributions and net difference between projected and actual earnings on pension plan investments. OPEB obligations include changes in actuarial and other assumptions and net difference between projected and actual earnings on OPEB plan investments.

Net Position

Net position is classified into the following four categories according to external donor restrictions or availability of assets for satisfaction of University obligations:

- 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. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position – Continued

- Restricted-nonexpendable – this component of net position consists of endowments and similar type assets whose use is limited by donors or other outside sources and, as a condition of the gift, the principal is to be maintained in perpetuity.
- Restricted-expendable – this component of net position consists of resources for which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.
- Unrestricted – this component of net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.” Unrestricted net position includes resources derived from student tuition and fees, sales and services, unrestricted gifts and interest income. While unrestricted net position may be designated for specific purposes by action of management or the Board of Trustees, it is available for use at the discretion of the governing board to meet current expenses for any purpose.

Scholarship Allowances and Student Aid

Financial aid to students is reported under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid, such as loans, funds provided to students as awarded by third parties and Federal Direct Lending is accounted for as a third party payment (credited to the student’s account as if the student made the payment). All other aid is reflected as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents that portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method followed by the University, scholarship allowances are computed by allocating the cash payments to students, excluding payments for services, on the ratio of using aid not considered to be third party aid to total aid.

Management Estimates and Assumptions

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Income Tax Status

The University is exempt from federal income taxes under the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

The University's discretely presented component units follow the provisions of FASB Accounting Standards Codification (ASC) guidance relating to uncertainty in income taxes. This guidance requires entities to assess their uncertain tax positions for the likelihood that they would be overturned upon Internal Revenue Service (IRS) examination or upon examination by state taxing authorities. In accordance with this guidance, the component units have determined that there are no positions at their respective year-ends, which they would be unable to substantiate. The component units have filed their tax returns through 2021. The tax returns for years ended 2019 and thereafter are subject to audit by the taxing authorities.

2. CASH AND CASH EQUIVALENTS

The University's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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*, requires certain disclosures related to interest rate and credit risk. Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations.

Custodial Credit Risk of Bank Deposits

At year-end, the bank balance of the University's funds was either covered by federal depository insurance or secured by collateral through the Alabama State Treasury's Security for Alabama Funds Enhancement (SAFE) Program. Under the SAFE program, the University's funds are protected through a collateral pool administered by the Alabama State Treasury.

As of September 30, 2021 and 2020, the University had \$21,710,192 and \$26,119,949 of deposits in money market funds, respectively, that are exposed to custodial risk because they are uninsured and collateralized with investment securities held by a financial institution's trust department, but not in the University's name. The underlying securities of the money market funds are direct obligations of, or fully guaranteed by, the United States of America.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

3. INVESTMENTS

In accordance with the policies of the Board of Trustees of the University, the types of investments which may be purchased include United States government securities, federal agency securities, obligations of commercial banks, including certificates of deposit, money markets, repurchase agreements, banker's acceptances, treasury bills, commercial paper, obligations of corporations, municipal notes and bonds, and investment programs offered through the Pooled Endowment Fund (the Fund). The Fund, which includes the Trust, as well as other endowment holdings of the University, is subject to review by the Board of Trustees.

The University's investments consisted of the following as of September 30:

<u>Type of Investment</u>	<u>2021</u>	<u>2020</u>
U.S. Government Guaranteed Securities	\$ 186,473	\$ 186,139
Mutual Funds – Bonds Only	7,214,080	3,761,093
Mutual Funds – Bonds and Equity Mix or Equity Only	7,763,437	3,450,340
Domestic Common and Preferred Stocks	3,574,939	2,636,460
Total	<u>\$ 18,738,929</u>	<u>\$ 10,034,032</u>

Investment Risk Factors

Many factors can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk

The University's Investment Policies limit investment in U.S. Government agency or corporate bonds to securities with a minimum "BBB" rating, at the time of purchase, by Moody's or Standard and Poor's. Additionally, the University's Investment Policies require that not more than 10% of the fixed income may be invested in high yield bonds or global bonds.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

3. INVESTMENTS – CONTINUED

Credit Risk – Continued

The University's exposure to credit risk and concentration of credit risk at September 30, 2021 is as follows:

Credit Rating		Carrying and Fair Value	% of Total
Aaa	U.S. Treasury Obligations	\$ 186,473	2.52%
Aa2	Ishares Core Total US Aggregate Bond ETF	6,690,225	90.40%
Aa2	PIMCO Low Duration Active ETF	100,598	1.36%
A3	PIMCO Active Bond ETF	140,399	1.90%
A1	JP Morgan Ultra-Short Income ETF	91,651	1.24%
BB	INVESCO Senior Loan ETF	191,207	2.58%
		<u>\$ 7,400,553</u>	<u>100.00%</u>

The University's exposure to credit risk and concentration of credit risk at September 30, 2020 is as follows:

Credit Rating		Carrying and Fair Value	% of Total
Aaa	U.S. Treasury Obligations	\$ 186,139	4.72%
Aa2	Ishares Core Total US Aggregate Bond ETF	3,237,559	82.02%
Aa2	PIMCO Low Duration Active ETF	100,954	2.56%
A3	PIMCO Active Bond ETF	142,786	3.62%
A1	JP Morgan Ultra-Short Income ETF	91,787	2.33%
BB	INVESCO Senior Loan ETF	188,007	4.75%
		<u>\$ 3,947,232</u>	<u>100.00%</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

3. INVESTMENTS – CONTINUED

Interest Rate Risk

At September 30, 2021, the maturity dates of the University’s debt instruments were as follows:

Type of Investment	Investment Maturities at Fair Value (in Years)				Totals
	Less Than 1	1 – 5	6 – 10	More Than 10	
<i>Debt Securities:</i>					
U.S. Government					
Guaranteed Securities	\$ 186,473	\$ -	\$ -	\$ -	\$ 186,473
Mutual Funds –					
Bonds Only	-	383,456	6,830,624	-	7,214,080
<i>Total Debt Securities</i>	<u>\$ 186,473</u>	<u>\$ 383,456</u>	<u>\$ 6,830,624</u>	<u>\$ -</u>	<u>\$ 7,400,553</u>

4. CHANGE IN CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2021 and 2020, was as follows:

	Balance 10/1/20	Additions	Reductions/ Transfers	Balance 9/30/21
Land	\$ 21,200,141	\$ 59,511	\$ -	\$ 21,259,652
Construction in progress	101,250	1,607,859	(1,546,836)	162,273
Buildings	281,686,597	-	1,124,899	282,811,496
Equipment	15,986,646	1,261,112	(242,781)	17,004,977
Library holdings	10,234,360	17,523	-	10,251,883
Intangible software	11,744,019	-	-	11,744,019
Infrastructure	86,942,823	-	421,937	87,364,760
Total capital assets	<u>427,895,836</u>	<u>2,946,005</u>	<u>(242,781)</u>	<u>430,599,060</u>
Less accumulated depreciation for:				
Buildings	115,852,675	6,337,045	-	122,189,720
Equipment	11,753,036	965,661	(205,868)	12,512,829
Library holdings	9,959,806	75,199	-	10,035,005
Intangible software	5,284,809	587,201	-	5,872,010
Infrastructure	30,244,413	2,986,318	-	33,230,731
Total accumulated depreciation	<u>173,094,739</u>	<u>10,951,424</u>	<u>(205,868)</u>	<u>183,840,295</u>
Capital assets, net	<u>\$ 254,801,097</u>	<u>\$ (8,005,419)</u>	<u>\$ (36,913)</u>	<u>\$ 246,758,765</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

4. CHANGE IN CAPITAL ASSETS – CONTINUED

	<u>Balance 10/1/19</u>	<u>Additions</u>	<u>Reductions/ Transfers</u>	<u>Balance 9/30/20</u>
Land	\$ 21,200,141	\$ -	\$ -	\$ 21,200,141
Construction in progress	-	101,250	-	101,250
Buildings	280,674,552	1,012,045	-	281,686,597
Equipment	15,129,001	884,035	(26,390)	15,986,646
Library holdings	10,182,646	51,714	-	10,234,360
Intangible software	11,744,019	-	-	11,744,019
Infrastructure	86,942,823	-	-	86,942,823
Total capital assets	<u>425,873,182</u>	<u>2,049,044</u>	<u>(26,390)</u>	<u>427,895,836</u>
Less accumulated depreciation for:				
Buildings	109,538,338	6,314,337	-	115,852,675
Equipment	10,912,735	866,031	(25,730)	11,753,036
Library holdings	9,856,861	102,945	-	9,959,806
Intangible software	4,697,608	587,201	-	5,284,809
Infrastructure	27,284,160	2,960,253	-	30,244,413
Total accumulated depreciation	<u>162,289,702</u>	<u>10,830,767</u>	<u>(25,730)</u>	<u>173,094,739</u>
Capital assets, net	<u>\$ 263,583,480</u>	<u>\$ (8,781,723)</u>	<u>\$ (660)</u>	<u>\$ 254,801,097</u>

Depreciation expense for the years ended September 30, 2021 and 2020, totaled \$10,951,424 and \$10,830,767, respectively.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

5. ACCOUNTS RECEIVABLE

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

Accounts Receivable

	<u>2021</u>	<u>2020</u>
Tuition, fees, room and board	\$ 25,528,432	\$ 24,743,666
State grants and contracts	124,499	409,416
Federal Student Loans	8,689,095	1,958,274
Other	<u>150,686</u>	<u>1,339,048</u>
	34,492,712	28,450,404
Allowance for doubtful accounts	<u>(14,157,569)</u>	<u>(14,730,876)</u>
Total	<u>\$ 20,335,143</u>	<u>\$ 13,719,528</u>

Student Loans Receivable

	<u>2021</u>	<u>2020</u>
Perkins Loans:		
Loans advanced	<u>\$ 11,077,608</u>	<u>\$ 11,077,608</u>
Less:		
Loans assigned to U.S. Government	(662,436)	(660,236)
Principal collected	(9,401,699)	(9,006,673)
Principal cancellations	<u>(700,823)</u>	<u>(698,924)</u>
	<u>(10,764,958)</u>	<u>(10,365,833)</u>
Total	<u>\$ 312,650</u>	<u>\$ 711,775</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended September 30, 2021, was as follows:

	<u>Balance 10/1/20</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 9/30/21</u>	<u>Current Portion</u>
General tuition, fee and revenue bonds					
Series 1982 Dormitory Revenue Bonds, 3% interest, due semi-annually through 2022	\$ 110,000	\$ -	\$ 55,000	\$ 55,000	\$ 55,000
Series 2009 General Tuition and Fee Revenue Bonds, 2.00% – 5.43% interest, due semi-annually through 2039 on March 1 and September 1	1,840,000	-	900,000	940,000	940,000
Series 2010 General Tuition and Fee Revenue Bonds, 2.40% – 7.25% interest, due semi-annually through 2040 on March 1 and September 1	44,745,000	-	1,455,000	43,290,000	1,510,000
Series 2012-A General Tuition and Fee Revenue Bonds, 2.00% – 5.00% interest, due semi-annually through 2042 on March 1 and September 1	6,850,000	-	-	6,850,000	2,000,000
Series 2012-B General Tuition and Fee Revenue Bonds, 2.00% – 5.40% interest, due semi-annually through 2039 on March 1 and September 1	3,155,000	-	2,555,000	600,000	600,000
Total general tuition, fee and revenue bonds	56,700,000	-	4,965,000	51,735,000	5,105,000
Unamortized bond discount	(533,264)	-	(41,007)	(492,257)	-
Unamortized bond premium	20,753	-	5,189	15,564	-
Total general tuition, fee and revenue bonds, net	56,187,489	-	4,929,182	51,258,307	5,105,000
Direct borrowing and direct placements					
Series 2018-1 Future Advance Project Funding Bond, debt forgiven in March 2021	94,117,015	-	94,117,015	-	-
Series 2018-2 Future Advance Project Funding Bond, debt forgiven in March 2021	44,451,969	-	44,451,969	-	-
Capital lease obligations	825,000	-	-	825,000	-
Notes payable	360,000	-	360,000	-	-
Total direct borrowing and direct placements	139,753,984	-	138,928,984	825,000	-
Other liabilities					
Compensated absences	2,640,988	671,528	485,549	2,826,967	451,114
Total long-term liabilities	<u>\$ 198,582,461</u>	<u>\$ 671,528</u>	<u>\$ 144,343,715</u>	<u>\$ 54,910,274</u>	<u>\$ 5,556,114</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

6. LONG-TERM LIABILITIES – CONTINUED

Long-term liabilities activity for the year ended September 30, 2020, was as follows:

	<u>Balance 10/1/19</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 9/30/20</u>	<u>Current Portion</u>
General tuition, fee and revenue bonds					
Series 1982 Dormitory Revenue Bonds, 3% interest, due semi-annually through 2022	\$ 165,000	\$ -	\$ 55,000	\$ 110,000	\$ 55,000
Series 2009 General Tuition and Fee Revenue Bonds, 2.00% – 5.43% interest, due semi-annually through 2039 on May 1 and November 1	2,705,000	-	865,000	1,840,000	-
Series 2010 General Tuition and Fee Revenue Bonds, 2.40% – 7.25% interest, due semi-annually through 2040 on March 1 and September 1	46,150,000	-	1,405,000	44,745,000	1,455,000
Series 2012-A General Tuition and Fee Revenue Bonds, 2.00% – 5.00% interest, due semi-annually through 2042 on March 1 and September 1	6,850,000	-	-	6,850,000	-
Series 2012-B General Tuition and Fee Revenue Bonds, 2.00% – 5.40% interest, due semi-annually through 2039 on March 1 and September 1	5,755,000	-	2,600,000	3,155,000	2,555,000
Total general tuition, fee and revenue bonds	61,625,000	-	4,925,000	56,700,000	4,065,000
Unamortized bond discount	(574,271)	-	(41,007)	(533,264)	-
Unamortized bond premium	25,941	-	5,188	20,753	-
Total general tuition, fee and revenue bonds, net	61,076,670	-	4,889,181	56,187,489	4,065,000
Direct borrowing and direct placements					
Series 2018-1 Future Advance Project Funding Bond, 2.919% interest due semi-annually through 2038 on March 1 and September 1	96,037,521	-	1,920,506	94,117,015	3,959,543
Series 2018-2 Future Advance Project Funding Bond, 2.963% interest due semi-annually through 2042 on March 1 and September 1	45,170,815	-	718,846	44,451,969	1,480,443
Capital lease obligations	825,000	-	-	825,000	-
Notes payable	540,000	-	180,000	360,000	180,000
Total direct borrowing and direct placements	142,573,336	-	2,819,352	139,753,984	5,619,986
Other liabilities					
Compensated absences	2,409,873	808,431	577,316	2,640,988	485,549
Total long-term liabilities	<u>\$ 206,059,879</u>	<u>\$ 808,431</u>	<u>\$ 8,285,849</u>	<u>\$ 198,582,461</u>	<u>\$ 10,170,535</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

6. LONG-TERM LIABILITIES – CONTINUED

Bonds Payable

Series 2018-1 and the Series 2018-2 Future Advance Project Funding Bonds

On March 6, 2018, the University issued the Series 2018-1 Future Advance Project Funding Bonds (Series 2018-1 Bonds) in the amount of \$99,782,279 and the Series 2018-2 Future Advance Project Funding Bonds (Series 2018-2 Bonds) in the amount of \$46,570,528, to fully defease certain indebtedness of the University in an advanced refunding. The bonds were issued through the RCAP. The RCAP is a program established pursuant to the Higher Education Act of 1965, as amended, that provides historically black colleges and universities with access to funds on favorable terms for capital projects and to refinance existing debt related to such projects.

Participants in the RCAP are required to deposit 5% of any loan draws under this program into an escrow account to be held and used by the program trustee to satisfy any payment defaults the borrower may incur related to its outstanding obligations under the program. Any escrowed funds used by the trustee for debt service payments are required to be replenished by the borrower. If a program participant defaults on its obligations, the program trustee is required to use the defaulted borrower's escrow accounts to satisfy the debt service requirements of the defaulted borrower until those accounts are depleted. If the escrow accounts of this defaulted borrower are insufficient to satisfy the defaulted borrower's total debt service obligation, the program trustee may use the escrowed funds of all program participants, on a prorated basis, based on each program participant's level of participation in the program, to satisfy any additional debt service not covered by the defaulted borrower's escrowed accounts. As of September 30, 2020, \$7,055,874 was held in an escrow account to be used by the program trustee to satisfy any defaults under the program. This amount was included as cash restricted for capital projects and debt service on the 2020 statement of net position.

On March 27, 2020, the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law and the provisions provided for the deferment of loans facilitated by the federal government through its Historically Black College and University (HBCU) Capital Financing Program. During the year ended September 30, 2020, the University applied to receive a deferment under the CARES Act through the HBCU Capital Financing Program. On September 15, 2020, the University entered into a promissory note related to the Series 2018-1 and Series 2018-2 bonds. The initial deferment period began retroactively on April 1, 2020 and ended on September 30, 2020, and represented a temporary postponement of principal and interest payments. The interest was not capitalized during the deferment and did not continue to accrue beyond the stated maturity date. As a result of entering into the promissory note, during the year ended September 30, 2021, the U.S. Department of Education refunded the University's principal and interest payments for the 2018-1 and 2018-2 bond payments that were made during the deferment period, which totaled approximately \$3,288,000 and \$1,372,900, respectively. Interest refunded for the 2018-1 and 2018-2 bond payments totaled \$1,354,425 and \$650,764, respectively, and were reflected as noncurrent liabilities at September 30, 2020.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

6. LONG-TERM LIABILITIES – CONTINUED

Bonds Payable – Continued

Series 2018-1 and the Series 2018-2 Future Advance Project Funding Bonds – Continued

Section 706, of Division FF, of the Consolidated Appropriations Act, 2021 (2021 Appropriations Act) (Pub. L. 116-260), provided that the Secretary of Education repay, for each institution of higher education that is a participant in the HBCU Capital Financing Program, the institution's outstanding balance of principal, interest and fees on the disbursed loan amounts on closed loan agreements as of December 27, 2020. In March 2021, the University was notified that its Series 2018-1 and Series 2018-2 Bonds described above were forgiven. A gain on the forgiveness of the debt was recorded in the amount of \$134,346,013 which represents the principal balances, accrued interest, less unamortized deferred financing costs outstanding, plus other amounts deposited by the Department of Education in the University's debt service accounts.

Series 2012-A and 2012-B General Tuition and Fee Revenue Bonds

On March 1, 2012, the University issued the General Tuition and Fee Revenue Bonds, Series 2012-A (Tax Exempt), in the amount of \$31,475,000 and the General Tuition and Fee Revenue Bonds, Series 2012-B (Taxable), in the amount of \$11,550,000 (Series 2012 Bonds). The Series 2012 Bonds were for the purposes of (1) refunding certain indebtedness of the University, (2) paying amounts due under an option agreement and a debt service deposit agreement relating to the refunded indebtedness and (3) providing funds to complete the acquisition, construction and equipping of a football stadium on the campus of the University and related improvements.

The Series 2012-A and 2012-B Bonds will fully mature by March 1, 2042 and March 1, 2039, respectively. Interest payments are due semi-annually on March 1 and September 1, of each year, beginning September 1, 2012, at rates ranging from 2.00% to 5.40%.

Revenues and receipts from general tuition, other fees, and housing facilities payable by enrolled students are pledged to secure the bonds. In the event of default, bond principal of and accrued interest may become immediately due and payable. Events of default are considered failure to pay the principal or the interest on or the premium as they become due; failure to perform and observe agreements and covenants; and bankruptcy.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

6. LONG-TERM LIABILITIES – CONTINUED

Bonds Payable – Continued

Series 2010 General Tuition and Fee Revenue Bonds

On December 1, 2010, the University issued the General Tuition and Fee Revenue Bonds, Series 2010 (Series 2010 Bonds), in the amount of \$55,000,000. The Series 2010 Bonds were for the purpose of providing funds to pay a portion of the costs of acquiring, constructing and equipping a football stadium on the campus. General Tuition and Fee Revenue Bonds issued in 2011 include \$55,000,000 of fixed rate taxable Build America and Recovery Bonds.

The Series 2010 Bonds will fully mature by September 1, 2040. Interest payments are due semi-annually on March 1 and September 1, of each year, beginning March 1, 2011, at rates ranging from 2.40% to 7.25%.

Revenues and receipts from general tuition, other fees and housing facilities payable by enrolled students and interest subsidy payments are pledged to secure the bonds. In the event of default, bond principal and accrued interest may become immediately due and payable. Events of default are considered failure to pay the principal or the interest on or the premium as they become due; failure to perform and observe agreements and covenants; and bankruptcy.

Series 2009 General Tuition and Fee Revenue Bonds

On August 1, 2009, the University issued the Alabama State University General Tuition and Fee Revenue Bonds, Series 2009 (Series 2009 Bonds), in the amount of \$35,000,000. The Series 2009 Bonds were for the purposes of providing funds (1) to pay a portion of the costs of acquiring, constructing, and renovating certain capital improvements to the facilities of the University, (2) to pay for the purchase and implementation of an Enterprise Resource Planning (ERP) System for internal information management, (3) to pay for the acquisition of real property adjacent to and surrounding the University's campus and (4) to pay for minor renovations to existing facilities on the University's campus.

The Series 2009 Bonds will fully mature by September 1, 2039. Interest payments are due semi-annually on March 1 and September 1, of each year, beginning March 1, 2010, at rates ranging from 2.00% to 5.43%.

Revenues and receipts from general tuition, other fees and housing facilities payable by enrolled students are pledged to secure the bonds. In the event of default, bond principal and accrued interest may become immediately due and payable. Events of default are considered failure to pay the principal or the interest on or the premium as they become due; failure to perform and observe agreements and covenants; and bankruptcy.

The University is to maintain a minimum amount in a debt service reserve fund for the Series 2009 Bonds. The minimum amount was maintained at September 30, 2021.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

6. LONG-TERM LIABILITIES – CONTINUED

Series 1982 Dormitory Revenue Bonds

On February 1, 1982, the University issued \$1,293,000 in Dormitory Revenue Bonds (Series 1982 Bonds). The Series 1982 Bonds were issued for the purposes of providing funds to construct student housing.

The Series 1982 Bonds will fully mature by February 1, 2022. Interest payments are due semi-annually on February 1 and August 1, of each year, beginning on August 1, 1982, at 3%.

The trustee holds sinking fund deposits, including earnings on investments of these deposits. Revenues from the dormitory revenue sufficient to pay the annual debt service are pledged to secure the bonds. In the event of default, the University is required to fix and collect fees, rents or other charges in connection with the bonds so that pledged revenues are sufficient to meet the provisions of the Series 1982 Bonds. Events of default are considered a failure to perform any part of the Series 1982 Dormitory Revenue Bond agreement.

Note Payable

On August 30, 2012, the University entered into a note payable with BBVA Compass in the amount of \$1,800,000. The note was for the purpose of providing funds to purchase a scoreboard for the football stadium. Principal and interest payments were due semi-annually beginning on December 1, 2012, at a rate of 4.5%. The note was paid off during the year ended September 30, 2021.

Principal and interest maturity requirements on long-term liabilities are as follows:

	General Tuition, Fee, and Revenue Bonds			Direct Borrowing and Direct Placements		
	Principal	Interest	Net Cash Flows	Principal	Interest	Net Cash Flows
2022	\$ 5,105,000	\$ 3,290,526	\$ 8,395,526	\$ -	\$ 43,313	\$ 43,313
2023	4,440,000	3,062,051	7,502,051	125,000	40,031	165,031
2024	1,630,000	2,914,801	4,544,801	220,000	30,975	250,975
2025	1,695,000	2,817,001	4,512,001	235,000	19,031	254,031
2026	1,770,000	2,700,045	4,470,045	245,000	6,431	251,431
2027-2031	10,115,000	11,555,115	21,670,115	-	-	-
2032-2036	12,640,000	7,663,913	20,303,913	-	-	-
2037-2041	12,360,000	2,693,111	15,053,111	-	-	-
2042-2043	1,980,000	40,838	2,020,838	-	-	-
	<u>\$ 51,735,000</u>	<u>\$ 36,737,401</u>	<u>\$ 88,472,401</u>	<u>\$ 825,000</u>	<u>\$ 139,781</u>	<u>\$ 964,781</u>

Interest expense for the years ended September 30, 2021 and 2020, totaled \$3,335,383 and \$8,021,332, respectively.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
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6. LONG-TERM LIABILITIES – CONTINUED

Bond Covenants

The University's bonds have specific reporting requirements. These requirements include the completion of the annual audited financial statements within a specific number of days after year-end. The University was not in compliance with this reporting requirement for fiscal year 2021.

Line of Credit

The University has a line of credit with Regions Bank for \$7,000,000. The line of credit matures on September 15, 2022 and has an interest rate of LIBOR plus 2.75%. Short-term debt activity for the years ended September 30, 2021 and 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 5,214,685	\$ 1,149,473
Draws	46,381,298	92,993,302
Payments	<u>(51,595,983)</u>	<u>(88,928,090)</u>
Balance at end of year	<u>\$ -</u>	<u>\$ 5,214,685</u>

The line of credit is secured by a pledge of student revenues. The amount of the unused line of credit totaled \$7,000,000 at September 30, 2021.

Capital Lease Obligations

The University has entered into lease agreements as lessee for financing the acquisition of property and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

Assets acquired through capital leases were fully depreciated as of September 30, 2021 and 2020.

The future minimum lease obligations and the net present value of these lease payments as of September 30 are:

2022	\$ 43,313
2023	165,031
2024	250,975
2025	254,031
2026	<u>251,431</u>
Total minimum lease payments	964,781
Less amount representing interest	<u>139,781</u>
Present value of minimum lease payments	<u>\$ 825,000</u>

**ALABAMA STATE UNIVERSITY
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7. FAIR VALUE MEASUREMENT

The University follows GASB Statement No. 72 – *Fair Value Measurement and Application* for guidance related to fair value measurements and disclosures. This guidance provides a framework for measuring fair value and a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.

Level 2 inputs are inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the assets or liabilities. These inputs include: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers or in which little information is released publicly; (c) inputs other than quoted prices that are observable for the asset or liability; or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 inputs are unobservable inputs for the assets or liabilities and may require a degree of professional judgement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

All of the University's investments as of September 30, 2021 and 2020 were classified as Level 1.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. The University's Level 1 investments primarily consist of investments in U.S. government guaranteed securities, mutual funds, and domestic common and preferred stocks. When quoted prices in active markets are not available, fair values are based on evaluated prices received from the University's custodian of investments.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. There have been no changes in the methodologies used as of September 30, 2021 and 2020.

**ALABAMA STATE UNIVERSITY
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8. PENSION PLAN

Employees of the University are covered by a cost sharing multiple-employer defined benefit pension plan administered by the TRS.

Plan Description

The TRS was established as of September 15, 1939, pursuant to the *Code of Alabama 1975, Title 16, Chapter 25* (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, which consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975, Title 16, Chapter 25* grants the authority to establish and amend the benefit terms to the TRS Board of Control. The plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits Provided

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

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age sixty-two with ten years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest five of the last ten years) for each year of service. Members are eligible for disability retirement if they have ten years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered Tier 1 members of the TRS are required by statute to contribute 7.50% of earnable compensation.

**ALABAMA STATE UNIVERSITY
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8. PENSION PLAN – CONTINUED

Contributions – Continued

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2020 was 12.43% of annual pay for Tier 1 members and 11.34% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were \$5,579,010 and \$5,532,219 for the years ended September 30, 2021 and 2020, respectively.

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

At September 30, 2021 and 2020, the University reported a liability of \$79,354,026 and \$70,894,091, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuations as of September 30, 2019 and 2018. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2020 and 2019, the University's proportion was 0.641522% and 0.641175%, respectively, which was an increase (decrease) of 0.000347% and (0.030375)%, respectively, from its proportion measured as of September 30, 2019 and 2018.

For the years ended September 30, 2021 and 2020, the University recognized pension expense of approximately \$5,396,071 and \$4,441,977, respectively. At September 30, 2021 and 2020, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>September 30, 2021</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 3,927,000	\$ 1,376,000
Net difference between projected and actual earnings on pension plan investments	5,893,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	29,000	3,196,000
Change of assumptions	825,000	-
Employer contributions subsequent to measurement date	5,579,010	-
	<u>\$ 16,253,010</u>	<u>\$ 4,572,000</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

8. PENSION PLAN – CONTINUED

Pension Liabilities, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – Continued

	<u>September 30, 2020</u>		<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 1,048,000	\$ 2,351,000		
Net difference between projected and actual earnings on pension plan investments	2,469,000	-		
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	5,845,000		
Change of assumptions	2,184,000	-		
Employer contributions subsequent to measurement date	5,532,219	-		
	<u>\$ 11,233,219</u>	<u>\$ 8,196,000</u>		

Deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date in the amount of \$5,579,010 will be recognized as a reduction of the net pension liability in the year ended September 30, 2022. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30,		
2022	\$ 42,000	
2023	2,165,000	
2024	2,461,000	
2025	1,434,000	
	<u>\$ 6,102,000</u>	

Actuarial Assumptions

The total pension liability as of September 30, 2020 was determined by actuarial valuation as of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected salary increases	3.25-5.00%
Investment rate of return*	7.70%

*Net of pension plan investment expense

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

8. PENSION PLAN – CONTINUED

Actuarial Assumptions – Continued

The actuarial assumptions used in the actuarial valuation as of September 30, 2019 and 2018, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

Mortality rates for TRS were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females age 78 and older.

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

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

* Includes assumed rate of inflation of 2.5%

Discount Rate

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were 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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
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8. PENSION PLAN – CONTINUED

Sensitivity of the University’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the University’s proportionate share of the net pension liability calculated using the discount rate of 7.70%, as well as what the University’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	(6.70%)	(7.70%)	(8.70%)
University’s proportionate share of collective net pension liability	\$ 105,875,000	\$ 79,354,026	\$ 56,914,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal years ended September 30, 2020 and 2019. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2020 and 2019. The auditor’s report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at <http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/>.

9. POST-EMPLOYMENT BENEFITS (OPEB)

The University offers post-employment health care benefits to all employees who officially retire from the University. Health care benefits are offered through the State of Alabama Public Education Employees’ Health Insurance Plan (PEEHIP) with TRS or the University’s self-insured Retiree Medical Plan (the Plan), which is available for select employees who are not eligible for PEEHIP or those who were grandfathered in as Civil Service employees.

Eligibility for benefits for either option begins at age 60 with at least 10 years of service or at any age with 25 years of service. Retirees must have been enrolled in the active employees’ health care plan for the last six of those years in order to be eligible for coverage under the Plan.

**ALABAMA STATE UNIVERSITY
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9. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Plan Description

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

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

Benefits Provided

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

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

**ALABAMA STATE UNIVERSITY
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9. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Benefits Provided – Continued

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

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

Effective January 1, 2020, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the Humana Group Medicare Advantage plan for PEEHIP. The plan is fully insured, and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance) and Part D (prescription drug coverage) in one convenient plan. Retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Members have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

Contributions

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

**ALABAMA STATE UNIVERSITY
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9. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Contributions – Continued

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

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

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

At September 30, 2021 and 2020, the University reported a liability of \$47,188,557 and \$18,459,776, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2020 and 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2019 and 2018. The University's proportion of the net OPEB liability was based on the University's share of contributions to the OPEB plan relative to the total employer contributions of all participating PEEHIP employers. At September 30, 2020 and 2019, the University's proportion was 0.72711% and 0.48929%, respectively, which was an increase (decrease) of 0.23782% and (0.07358)%, respectively, from its proportion measured as of September 30, 2020 and September 30, 2019, respectively.

For the years ended September 30, 2021 and 2020, the University recognized OPEB expense of (\$873,417) and (\$1,510,675), respectively, with no special funding situations.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
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9. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

At September 30, 2021 and 2020, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>September 30, 2021</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 1,196,668	\$ 16,965,416
Changes of assumptions	16,482,594	8,762,483
Net difference between projected and actual earnings on OPEB plan investments	-	1,990
Changes in proportion and differences between Employer contributions and proportionate share of contributions	18,735,564	5,657,611
Employer contributions subsequent to the measurement date	1,222,219	-
	<u>\$ 37,637,045</u>	<u>\$ 31,387,500</u>
<u>September 30, 2020</u>		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 611,220	\$ 14,154,158
Changes of assumptions	882,488	7,646,148
Net difference between projected and actual earnings on OPEB plan investments	38,080	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	4,034,427	7,119,122
Employer contributions subsequent to the measurement date	1,425,104	-
	<u>\$ 6,991,319</u>	<u>\$ 28,919,428</u>

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9. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

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

Deferred outflows of resources related to OPEB resulting from the University's contributions subsequent to the measurement date in the amount of \$1,222,219 will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending September 30,	
2022	\$ (646,448)
2023	(574,565)
2024	(684,589)
2025	(863,053)
2026	4,630,794
Thereafter	3,165,187
	<u>\$ 5,027,326</u>

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary Increases ¹	3.25% - 5.00%
Long-Term Investment Rate of Return ²	7.25%
Municipal Bond Index Rate at the Measurement Date	2.25%
Municipal Bond Index Rate at the Prior Measurement Date	3.00%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2040
Single Equivalent Interest Rate at the Measurement Date	3.05%
Single Equivalent Interest Rate at the Prior Measurement	5.50%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.75%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.75% in 2027
Medicare Eligible	4.75% in 2024

¹Includes 3.00% wage inflation.

²Compounded annually, net of investment expense, and includes inflation.

** Initial Medicare claims are set based on scheduled increases through plan year 2022.

**ALABAMA STATE UNIVERSITY
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9. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Actuarial Assumptions – Continued

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

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the September 30, 2019 valuation.

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

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

**ALABAMA STATE UNIVERSITY
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9. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Actuarial Assumptions – Continued

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

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

* Geometric mean, includes 2.5% inflation

Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2020 was 3.05%. The discount rate used to measure the total OPEB liability at the prior measurement date was 5.50%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 14.802% of the employer contributions were used to assist in funding retiree benefit payments in 2020 and it is assumed that the 14.802% will increase at the same rate as expected benefit payments for the closed group until reaching an employer rate of 20.00%, at which point this amount will increase by 1.00% in subsequent years. 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. Therefore, the projected future benefit payments for all current plan members were projected through 2118. The long-term rate of return is used until the assets are expected to be depleted in 2040, after which the municipal bond rate is used.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

9. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Sensitivity of the 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 of the Trust calculated using the current healthcare trend rate, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.75% Decreasing to 3.75% for Pre- Medicare, Known Decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (6.75% Decreasing to 4.75% for Pre- Medicare, Known Decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% Decreasing to 5.75% for Pre- Medicare, Known Decreasing to 5.75% for Medicare Eligible)
University’s proportionate share of collective net OPEB liability	\$ 37,302,707	\$ 47,188,557	\$ 60,056,573

The following table presents the University’s proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 3.05%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.05%)	Current Discount Rate (3.05%)	1% Increase (4.05%)
University’s proportionate share of collective net OPEB liability	\$ 57,879,213	\$ 47,188,557	\$ 38,697,860

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is in the Health Care Trust’s financial statements for the fiscal years ended September 30, 2020 and 2019. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2020 and 2019. Additional financial and actuarial information is available at www.rsa-al.gov.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
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10. OPERATING LEASES

In December 2018, the University entered into an agreement for the lease of a copier fleet. The term of the lease requires 60 monthly installments of \$33,306. In January 2019, the University entered into an agreement for the lease of LED fixtures and bulbs. The term of the lease requires 60 monthly installments of \$7,219.

Future minimum lease payments are as follows:

2022	\$ 492,385
2023	492,385
2024	<u>159,324</u>
	<u>\$ 1,144,094</u>

Rent expense for all operating leases totaled \$757,160 and \$730,632 for the years ended September 30, 2021 and 2020, respectively.

11. CONSTRUCTION COMMITMENTS

As of September 30, 2021, the University had commitments on construction of capital projects as follows:

Gross commitments	\$ 8,484,321
Spent-to-date	<u>(8,015,746)</u>
Net commitments	<u>\$ 468,575</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

12. COMPONENT UNITS

Details of the Foundation's net assets at December 31, 2020 and 2019, and the Trust's net assets at July 31, 2021 and 2020, are as follows:

	FY 2021-2020			FY 2020-2019		
	Foundation	Trust	Totals	Foundation	Trust	Totals
ASSETS						
CURRENT ASSETS						
Unrestricted assets:						
Cash and cash equivalents	\$ 2,976,017	\$ -	\$ 2,976,017	\$ 1,886,783	\$ -	\$ 1,886,783
Contributions receivable	-	53,025	53,025	-	60,025	60,025
Due from Alabama State University	-	281,377	281,377	-	225,051	225,051
Total unrestricted assets	<u>2,976,017</u>	<u>334,402</u>	<u>3,310,419</u>	<u>1,886,783</u>	<u>285,076</u>	<u>2,171,859</u>
Restricted assets:						
Grants and contracts:						
Cash and cash equivalents	532,830	-	532,830	532,540	-	532,540
Short-term investments	2,978,747	-	2,978,747	2,553,481	-	2,553,481
Endowments:						
Cash and cash equivalents	-	10,624,339	10,624,339	-	9,212,739	9,212,739
Short-term investments	-	101,884,661	101,884,661	-	88,403,616	88,403,616
Accrued interest and dividends	-	30,188	30,188	-	35,586	35,586
Total restricted assets	<u>3,511,577</u>	<u>112,539,188</u>	<u>116,050,765</u>	<u>3,086,021</u>	<u>97,651,941</u>	<u>100,737,962</u>
Total current assets	<u>6,487,594</u>	<u>112,873,590</u>	<u>119,361,184</u>	<u>4,972,804</u>	<u>97,937,017</u>	<u>102,909,821</u>
TOTAL ASSETS	<u>\$ 6,487,594</u>	<u>\$ 112,873,590</u>	<u>\$ 119,361,184</u>	<u>\$ 4,972,804</u>	<u>\$ 97,937,017</u>	<u>\$ 102,909,821</u>
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	\$ 6,624	\$ -	\$ 6,624	\$ 6,119	\$ -	\$ 6,119
Due to related party	84,349	-	84,349	-	-	-
Total current liabilities	<u>90,973</u>	<u>-</u>	<u>90,973</u>	<u>6,119</u>	<u>-</u>	<u>6,119</u>
TOTAL LIABILITIES	<u>90,973</u>	<u>-</u>	<u>90,973</u>	<u>6,119</u>	<u>-</u>	<u>6,119</u>
NET ASSETS						
Without donor restrictions	1,390,442	-	1,390,442	932,108	-	932,108
With donor restrictions	<u>5,006,179</u>	<u>112,873,590</u>	<u>117,879,769</u>	<u>4,034,577</u>	<u>97,937,017</u>	<u>101,971,594</u>
TOTAL NET ASSETS	<u>6,396,621</u>	<u>112,873,590</u>	<u>119,270,211</u>	<u>4,966,685</u>	<u>97,937,017</u>	<u>102,903,702</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,487,594</u>	<u>\$ 112,873,590</u>	<u>\$ 119,361,184</u>	<u>\$ 4,972,804</u>	<u>\$ 97,937,017</u>	<u>\$ 102,909,821</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

12. COMPONENT UNITS – CONTINUED

Details of the Foundation’s revenues, expenses, and changes in net assets for the years ended December 31, 2020 and 2019, and the Trust’s revenues, expenses, and changes in net assets for the years ended July 31, 2021 and 2020, are as follows:

	FY 2021–2020			FY 2020–2019		
	Foundation	Trust	Totals	Foundation	Trust	Totals
OPERATING REVENUES						
Contributions	\$ 2,347,911	\$ 323,658	\$ 2,671,569	\$ 2,996,814	\$ 157,197	\$ 3,154,011
Total operating revenues	2,347,911	323,658	2,671,569	2,996,814	157,197	3,154,011
OPERATING EXPENSES						
Educational and general:						
Program services	1,120,454	1,008,060	2,128,514	2,144,205	895,886	3,040,091
Supporting services	225,634	-	225,634	31,086	-	31,086
Total operating expenses	1,346,088	1,008,060	2,354,148	2,175,291	895,886	3,071,177
Operating income (loss)	1,001,823	(684,402)	317,421	821,523	(738,689)	82,834
NONOPERATING REVENUES (EXPENSES)						
Investment income, net	18,685	1,735,972	1,754,657	(19,365)	1,629,509	1,610,144
Realized and unrealized gains on investments	409,428	13,885,003	14,294,431	527,968	6,433,131	6,961,099
Net nonoperating revenues (expenses)	428,113	15,620,975	16,049,088	508,603	8,062,640	8,571,243
CHANGE IN NET ASSETS	1,429,936	14,936,573	16,366,509	1,330,126	7,323,951	8,654,077
NET ASSETS AT BEGINNING OF YEAR	4,966,685	97,937,017	102,903,702	3,636,559	90,613,066	94,249,625
NET ASSETS AT END OF YEAR	\$ 6,396,621	\$ 112,873,590	\$ 119,270,211	\$ 4,966,685	\$ 97,937,017	\$ 102,903,702

Fair Value Measurement

The discretely presented component units of the University follow the provisions of the FASB ASC 820, *Fair Value Measurement*, for fair value measurement of financial assets and liabilities. These provisions define fair value, establish a framework for measuring fair value and expand disclosure about fair value measurement. These provisions also emphasize that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under the provisions of the FASB ASC 820, fair value measurements are disclosed by level within that hierarchy.

For each asset and liability required to be reported at fair value, management has identified the unit of account and valuation premise to be applied for purposes of measuring fair value. The unit of account is the level at which an asset or liability is aggregated or disaggregated for purposes of applying these provisions. The valuation premise is a concept that determines whether an asset is measured on a stand-alone basis or in combination with other assets. For purposes of applying these provisions, the discretely presented component units measure their assets and liabilities on a stand-alone basis then aggregate assets and liabilities with similar characteristics for disclosure purposes.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

12. COMPONENT UNITS – CONTINUED

Fair Value Measurement – Continued

The provisions of the FASB ASC 820 establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Component Units. Unobservable inputs are inputs that reflect the discretely presented component unit's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the discretely presented component units have the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2 – Valuations based on observable inputs, including quoted prices (other than Level 1) in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, such as interest rates, yield curves, volatilities and default rates, and inputs that are derived principally from or corroborated by observable market data.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

If the determination of fair value measurement for a particular asset or liability is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Management's assessment of the significance of a particular input to the fair value measurement requires judgment and considers factors specific to the asset or liability measured.

All of the University's discretely presented component units' investments at their respective fiscal year-ends were classified as Level 1 (December 31, 2020 and 2019 for the Foundation and July 31, 2021 and 2020 for the Trust).

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

13. ENDOWMENTS

University Endowments

The University's endowment pool consists of one donor-restricted endowment fund and several board-designated endowment funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of restrictions imposed by the donor.

All endowment funds are managed by a professional investment advisor. The investment advisor invests all endowment funds consistent with the University approved Statement of Investment Policies and Objectives (the Statement). The Statement is intended to provide guidance for the management of the pooled endowment fund subject to review by the Board of Trustees. The Statement is consistent with the United States District Court Decree in Knight v. the State of Alabama entered August 1, 1995.

University endowment net assets consist of the following as of September 30, 2021:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,111,516	\$ 250,000	\$ 2,361,516
Board-designated endowment funds	16,900,413	-	-	16,900,413
	<u>\$ 16,900,413</u>	<u>\$ 2,111,516</u>	<u>\$ 250,000</u>	<u>\$ 19,261,929</u>

University endowment net assets consisted of the following as of September 30, 2020:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,942,482	\$ 250,000	\$ 2,192,482
Board-designated endowment funds	11,040,238	-	-	11,040,238
	<u>\$ 11,040,238</u>	<u>\$ 1,942,482</u>	<u>\$ 250,000</u>	<u>\$ 13,232,720</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

13. ENDOWMENTS – CONTINUED

University Endowments – Continued

Changes in the University’s endowment net assets consist of the following for the year ended September 30, 2021:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 11,040,238	\$ 1,942,482	\$ 250,000	\$ 13,232,720
Interest and dividends, net of investment expenses	206,635	19,885	-	226,520
Realized and unrealized gains on investments	1,853,540	149,149	-	2,002,689
Repayment of loan from endowment assets	3,800,000	-	-	3,800,000
Change in endowment net assets	5,860,175	169,034	-	6,029,209
	<u>\$ 16,900,413</u>	<u>\$ 2,111,516</u>	<u>\$ 250,000</u>	<u>\$ 19,261,929</u>

Changes in the University’s endowment net assets consist of the following for the year ended September 30, 2020:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 1,841,249	\$ 1,899,082	\$ 250,000	\$ 3,990,331
Interest and dividends, net of investment expenses	127,191	19,571	-	146,762
Realized and unrealized gains on investments	71,791	23,829	-	95,620
Repayment of loan from endowment assets	9,000,007	-	-	9,000,007
Change in endowment net assets	9,198,989	43,400	-	9,242,389
	<u>\$ 11,040,238</u>	<u>\$ 1,942,482</u>	<u>\$ 250,000</u>	<u>\$ 13,232,720</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

13. ENDOWMENTS – CONTINUED

Endowments of the University’s Component Units

The endowments of the University’s discretely presented component units consist of individual funds established for a variety of purposes. The endowments include donor-restricted endowment funds and funds restricted pursuant to a Judge’s Decree from the United States District Court, Northern District of Alabama, Southern Division (Knight v. the State of Alabama) (the Decree). Net assets associated with endowment funds are classified and reported based on the existence or absence of restrictions imposed by donors and by the Decree.

Interpretation of Relevant Law

The State of Alabama adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective January 1, 2009. The Board of Trustees of the University’s discretely presented component units have determined the Component Units must adhere first and foremost to the Judge’s Decree. The Component Units seek to support and improve educational excellence at the University.

The endowment net assets of the University’s discretely presented component units are comprised of nonexpendable (restricted in perpetuity) and restricted as to time or purpose endowment funds restricted by donors and the Decree.

The following depicts the endowment funds, as well as the activity for the endowment funds for the Trust and the Foundation for the years ended July 31, 2021 and December 31, 2020, respectively.

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 932,108	\$ 101,971,594	\$ 102,903,702
Investment return:			
Interest and dividends, net of investment expenses	2,855	1,780,119	1,782,974
Realized and unrealized gains on investments	-	14,294,431	14,294,431
Total investment return	2,855	16,074,550	16,077,405
Contributions and additions	681,113	1,990,456	2,671,569
Appropriation of endowment assets for expenditure	(225,634)	(2,156,831)	(2,382,465)
Endowment net assets at end of year	<u>\$ 1,390,442</u>	<u>\$ 117,879,769</u>	<u>\$ 119,270,211</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

13. ENDOWMENTS – CONTINUED

Endowments of the University’s Component Units – Continued

The following depicts the endowment funds, as well as the activity for the endowment funds for the Trust and the Foundation for the years ended July 31, 2020 and December 31, 2019, respectively.

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 591,894	\$ 93,657,731	\$ 94,249,625
Investment return:			
Interest and dividends, net of investment expenses	25,216	1,635,299	1,660,515
Realized and unrealized gains on investments	-	6,961,099	6,961,099
Total investment return	25,216	8,596,398	8,621,614
Contributions and additions	346,083	2,807,928	3,154,011
Appropriation of endowment assets for expenditure	(31,085)	(3,090,463)	(3,121,548)
Endowment net assets at end of year	<u>\$ 932,108</u>	<u>\$ 101,971,594</u>	<u>\$ 102,903,702</u>

Return Objectives and Risk Parameters

The primary investment objectives are: (1) to maximize the total financial return on assets, using prudent management techniques and (2) to preserve the growth of principal in constant dollars so as to provide under a prudent spending rule policy a consistent level of real growth of budgetary support from the endowment funds. Endowment gifts will serve to increase rather than maintain the real purchasing power of the endowment funds, thereby fostering growth and enhancement of the Component Units’ financial resources. The endowment fund will be substantially enlarged by virtue of superior investment management and limitation of cash withdrawals.

Strategies Employed for Achieving Objectives

To satisfy these long-term rate-of-return objectives, the University’s component units rely on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The component units target a diversified asset allocation to achieve these long-term objectives within prudent risk parameters.

The following are recommended allocations. Decisions on actual allocations will be made by the investment manager taking into consideration market conditions and risks.

- Equities ratio of 50% – 75%.
- Fixed income ratio of 25% – 50%.
- Real estate (for example, real estate investment trusts) to be determined based on the size of the portfolio. However, should not exceed 10% – 15%.
- Venture capital not permitted unless specifically approved by the finance committee.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

13. ENDOWMENTS – CONTINUED

Endowments of the University’s Component Units – Continued

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The current spending policy is to distribute an amount equal to 3% to 4% of a trailing three-year market value. According to the Decree, the principal of any public funds, gifts, grants, monies or property received by the component units shall be maintained in perpetuity with at least 25% of the annual income earned thereon to be reinvested in the corpus. Accordingly, the investment income included in nonexpendable (permanently restricted) net assets has been calculated as 25% of total investment income, net of Trustee fees.

The portion of income not annually reinvested is to be used for educational purposes at Alabama State University and is, therefore, included in restricted expendable (temporarily restricted) net position in the accompanying financial statements until the related expenses have been incurred.

14. CONTINGENT LIABILITIES

The University is a defendant in various lawsuits whose outcome is not presently determinable. In the opinion of the University’s counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the University.

15. RECENTLY ISSUED ACCOUNTING STANDARDS

Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the University.

GASB 87, *Leases*. 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. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2021.

GASB 91, *Conduit Debt Obligations*. This Statement provides a single method for government issuers to report conduit debt obligations and related commitments. The enhanced guidance is designed to eliminate diversity in practice associated with these issues. The Statement clarifies how government issuers should account for and report 1) commitments they extend or voluntarily provide, 2) arrangements associated with conduit debt obligations, which often are characterized in practice as leases, but are not leases for financial reporting purposes and 3) enhances note disclosures. Requirements for this Statement will take effect for financial statements whose fiscal year begins after December 15, 2021.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

15. RECENTLY ISSUED ACCOUNTING STANDARDS – CONTINUED

GASB 93, *Replacement of Interbank Offered Rate*. This Statement establishes accounting and financial reporting requirements related to the replacement of interbank offered rates (IBORs) in hedging derivatives and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. Requirements for this Statement will take effect for financial statements whose fiscal year begins after December 31, 2021.

GASB 96, *Subscription-Based Information Technology Arrangements*. This Statement provides accounting and financial reporting guidance for subscription-based information technology arrangements (SBITAs). This Statement 1) defines a SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset - and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and 4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in GASB 87, *Leases*, as amended. Requirements for this Statement will take effect for financial statements whose fiscal year begins after June 15, 2022.

16. COVID-19 PANDEMIC

In January 2020, the World Health Organization declared the novel Coronavirus (COVID-19) a Public Health Emergency of International Concern. The outbreak of COVID-19 has caused domestic and global disruption in operations for institutions of higher education. The outbreak has also negatively impacted both the global financial markets and the University's investments and may continue to do so. Other adverse consequences of COVID-19 in the future may include, but are not limited to, decline in enrollment, decline in demand for University housing, decline in demand for University programs that involve travel, and additional volatility within the University's investments. The University believes it has sufficient liquidity to meet its operating and financing needs; however, given the difficulty in predicting the ultimate duration and severity of the impact of COVID-19 on the University, the economy and the financial markets, the ultimate impact is unknown and cannot be reasonably quantified at this time.

The CARES Act was signed into law in March 2020 to provide economic assistance for businesses and individuals that have been negatively impacted by the COVID-19 pandemic.

The Higher Education Emergency Relief Fund (HEERF I) and the Coronavirus Relief Fund (CRF) are authorized by the CARES Act. The Higher Education Emergency Relief Fund II (HEERF II) is authorized by the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA), which was signed into law in December 2020. The CRRSAA funds support education in addition to the HEERF I CARES Act funding.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2021 AND 2020**

16. COVID-19 PANDEMIC – CONTINUED

The Higher Education Emergency Relief Fund III (HEERF III) is authorized by the American Rescue Plan (ARP), which was signed into law in March 2021 to provide support to institutions of higher education to serve students and ensure learning continues during the COVID-19 pandemic. ARP funds are in addition to funds authorized by the CRRSAA and CARES Act.

The HEERF was administered through the U.S. Department of Education and was designed to facilitate the distribution of emergency financial aid grants directly to students, as well as to provide funding for institutions negatively impacted by the COVID-19 pandemic. Under the terms of the student portion of this program, revenue is recognized once eligible expenditures associated with the distribution of aid to students have been incurred. For the institutional portions of this program, revenue is recognized as the University identifies eligible expenditures or lost revenues which qualify for reimbursement. The University received \$31,329,022 and \$16,869,892 from the HEERF for the years ended September 30, 2021 and 2020, respectively.

The Coronavirus Relief Fund is administered through the State of Alabama Department of Finance. The purpose of the Coronavirus Relief Fund appropriation is for the funds to be used to prevent, prepare for, and respond to coronavirus only. The CRF covers only those costs that are necessary expenditures incurred due to the public health emergency with respect to COVID-19. Eligibility to receive payment from the State's portion of funds from the CRF is contingent upon certifying that the University will: (1) use the funds in a lawful manner consistent with Section 601(d) of the Coronavirus Relief Fund and (2) will comply with any and all policies and directives issued by the Alabama Department of Finance related to the Coronavirus Relief Funds. The University received \$342,353 and \$2,475,097 from the CRF for the years ended September 30, 2021 and 2020, respectively.

17. SUBSEQUENT EVENTS

On April 1, 2022, the University issued the Series 2022 General Tuition and Fee Revenue Bonds (Series 2022 Bonds) in the amount of \$41,140,000. The Series 2022 Bonds bear an interest rate of 5% with interest due in semiannual payments. The principal amounts of the Series 2022 Warrants are due annually on September 1, 2022 through September 1, 2040 with a maximum principal of \$3,260,000 due in fiscal year 2040. The proceeds of the Series 2022 Bonds were used to refund the Series 2010 General Tuition and Fee Revenue Bonds as well to finance the costs of certain capital improvements and renovations on the campus of the University.

On June 13, 2022, the University received a Final Audit Determination (FAD) from the U.S. Department of Education (DOE) covering the periods October 1, 2018 through September 30, 2019. The FAD imposed a liability of \$1,630,612, which must be paid to the DOE within 45 days of the date of the FAD. The University can request an appeal no later than 45 days from the date the University receives the FAD, and therefore this amount has not been recorded as a liability as of September 30, 2021.

The DOE is currently performing a review of the University covering the periods October 1, 2019 through September 30, 2020. The DOE has not issued a FAD related to this review.

REQUIRED SUPPLEMENTARY INFORMATION

ALABAMA STATE UNIVERSITY
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY AND EMPLOYER CONTRIBUTIONS (UNAUDITED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2021

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability	0.641522%	0.641175%	0.671550%	0.67234%	0.71222%	0.77107%	0.71222%
Employer's proportionate share of the collective net pension liability	\$ 79,354,026	\$ 70,894,091	\$ 66,769,800	\$ 66,081,091	\$ 77,104,865	\$ 80,697,982	\$ 73,602,774
Employer's covered payroll during the measurement period	\$ 46,540,741	\$ 45,861,391	\$ 45,658,735	\$ 45,563,104	\$ 46,022,196	\$ 47,310,904	\$ 49,256,359
Employer's proportionate share of the net pension liability as a percentage of its covered payroll	170.50%	154.58%	146.24%	145.03%	167.54%	170.57%	149.43%
Plan fiduciary net position as a percentage of the total collective pension liability	67.72%	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

Schedule of the University's Contributions – Teachers' Retirement Plan of Alabama

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 5,579,010	\$ 5,532,219	\$ 5,524,435	\$ 5,427,718	\$ 5,354,299	\$ 5,689,859	\$ 5,819,937
Contributions in relation to the contractually required contribution	\$ 5,579,010	\$ 5,532,219	\$ 5,524,435	\$ 5,427,718	\$ 5,354,299	\$ 5,689,859	\$ 5,819,937
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 46,540,741	\$ 45,861,391	\$ 45,658,735	\$ 45,563,104	\$ 46,022,196	\$ 47,310,904	\$ 49,256,359
Contributions as a percentage of covered payroll	11.99%	12.06%	12.10%	11.91%	11.63%	12.03%	11.82%

Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.

Notes to Schedules

Employer's Covered payroll: The payroll on which contributions to a pension plan are based.

Measurement period:

For fiscal year 2021, the measurement period is October 1, 2019 – September 30, 2020
For fiscal year 2020, the measurement period is October 1, 2018 – September 30, 2019
For fiscal year 2019, the measurement period is October 1, 2017 – September 30, 2018
For fiscal year 2018, the measurement period is October 1, 2016 – September 30, 2017
For fiscal year 2017, the measurement period is October 1, 2015 – September 30, 2016
For fiscal year 2016, the measurement period is October 1, 2014 – September 30, 2015
For fiscal year 2015, the measurement period is October 1, 2013 – September 30, 2014

ALABAMA STATE UNIVERSITY
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB
LIABILITY AND EMPLOYER CONTRIBUTIONS (UNAUDITED)
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2021

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

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Employer's proportion of collective net OPEB liability	0.72711%	0.48929%	0.56287%	0.59637%
Employer's proportionate share of the collective net OPEB liability	\$ 47,188,557	\$ 18,459,776	\$ 46,260,910	\$ 44,295,403
Employer's covered payroll during the measurement period	\$ 46,540,741	\$ 45,861,391	\$ 45,658,735	\$ 45,563,104
Employer's proportionate share of the collective net OPEB liability as a percentage of its covered payroll	101.39%	40.25%	101.32%	97.22%
Plan fiduciary net position as a percentage of the total collective net OPEB liability	19.80%	28.14%	14.81%	15.37%

Schedule of the University's Contributions – Alabama Retired Education Employees' Health Care Trust

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 1,222,219	\$ 1,425,104	\$ 1,395,363	\$ 1,384,486
Contributions in relation to the contractually required contribution	\$ 1,222,219	\$ 1,425,104	\$ 1,395,363	\$ 1,384,486
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 46,540,741	\$ 45,861,391	\$ 45,658,735	\$ 45,563,104
Contributions as a percentage of covered payroll	2.63%	3.11%	3.06%	3.04%

Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.

Notes to Required Supplementary Information for the Year Ended September 30, 2021

Covered payroll: The payroll on which contributions to an OPEB plan are based.

Measurement periods: For fiscal year 2021, the measurement period is October 1, 2019 through September 30, 2020. For fiscal year 2020, the measurement period is October 1, 2018 through September 30, 2019. For fiscal year 2019, the measurement period is October 1, 2017 through September 30, 2018. For fiscal year 2018, the measurement period is October 1, 2016 through September 30, 2017.

Changes in Actuarial Assumptions

In 2019, the anticipated rates of participation, spouse coverage and tobacco use were adjusted to more closely reflect actual experience.

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

**ALABAMA STATE UNIVERSITY
SCHEDULES OF THE UNIVERSITY'S PROPORTIONATE SHARE OF THE NET OPEB
LIABILITY AND EMPLOYER CONTRIBUTIONS (UNAUDITED) – CONTINUED
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2021**

Recent Plan Changes

Beginning in plan year 2021, the Medicare Advantage Plan with Prescription Drug Coverage (MAPD) plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

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

The Plan is changed each year to reflect the Affordable Care Act (ACA) maximum annual out-of-pocket amounts.

Methods and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the schedule of the University's proportionate share of the net OPEB liability and employer contributions (unaudited) are calculated as of September 30, 2017, which is three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	24 years, closed
Asset Valuation Method	Market value of assets
Inflation	2.75%
Health Care Cost Trend Rate:	
Pre-Medicare Eligible	7.00%
Medicare Eligible*	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75%
Medicare Eligible	4.75%
Year of Ultimate Trend Rate	2026 for Pre-Medicare Eligible 2024 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

* Initial Medicare claims are set based on scheduled increases through plan year 2019.