

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

FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2022 AND 2021

**ALABAMA STATE UNIVERSITY
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SEPTEMBER 30, 2022 AND 2021**

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Alabama State University

Report on the Audit of the Financial Statements

Opinions

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of the other auditors, 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, 2022 and 2021, 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.

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 1.77%, 3.14% and 3.62%, 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.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the University, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions. The financial statements of the Trust for Educational Excellence at Alabama State University and the Foundation were not audited in accordance with *Government Auditing Standards*.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 17 and supplementary information on pages 71 through 73 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United

States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2023, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 30, 2023

ALABAMA STATE UNIVERSITY
Management's Discussion and Analysis
September 30, 2022 and 2021
(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, 2022. 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.

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 Annual Comprehensive Financial Report.

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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 63 through 65. 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.

During fiscal year 2022, the University adopted GASB Statement No. 87, *Leases*, which establishes a single model for lease accounting based on the principle that leases serve to finance the right to use an underlying asset. The statement requires lessees to recognize right-to-use assets and related liabilities, and lessors to recognize receivables and corresponding deferred inflows of resources, for leases that were previously classified as operating and recognized as inflows or outflows of resources. The adoption of GASB Statement No. 87 has been reflected at the beginning of the earliest period presented in the financial statements, or October 1, 2020.

Condensed Statements of Net Position

	2022	(Restated) 2021
ASSETS AND DEFERRED OUTFLOWS		
Current assets	\$ 113,191,747	\$ 98,591,004
Noncurrent assets		
Capital assets, net	243,145,607	249,437,160
Other	901,028	312,650
Deferred outflows	44,017,518	54,027,120
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 401,255,900	\$ 402,367,934
LIABILITIES AND DEFERRED INFLOWS		
Current liabilities	\$ 32,125,025	\$ 28,416,998
Noncurrent liabilities	143,265,534	177,675,942
Deferred inflows	54,213,399	35,959,500
TOTAL LIABILITIES AND DEFERRED INFLOWS	229,603,958	242,052,440
NET POSITION		
Net investment in capital assets	200,404,070	194,911,763
Restricted	27,199,434	24,150,650
Unrestricted	(55,951,562)	(58,746,919)
TOTAL NET POSITION	\$ 171,651,942	\$ 160,315,494

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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 \$58.5 million at September 30, 2022, an increase of \$9.5 million from the previous year. Restricted cash increased due to an increase in construction projects in the current year.

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 \$26.9 million at September 30, 2022, net of allowance for doubtful accounts of \$15.8 million. Accounts receivable increased \$6.7 million from the previous year. The increase is primarily due to the University allowing students to enroll in the current academic semester with a previous balance due.

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 \$15.1 million at September 30, 2022, a decrease of \$3.6 million from the previous year. This decrease is due primarily to market fluctuations in the current 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, leased assets and construction in progress totaling \$243.1 million at September 30, 2022. The amount reported is net of accumulated depreciation of \$196.8 million. The decrease of \$6.3 million between fiscal years 2021 and 2022 is primarily a result of current year depreciation expense which totaled \$12.2 million, an increase in land and buildings of \$2.2 million, an increase in infrastructure of \$2.1 million and an increase in equipment of approximately \$574,000.

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LIABILITIES

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2022, for goods and services received prior to the end of the fiscal year.

Long-Term Debt

At the end of the fiscal year 2022, the University had debt outstanding of \$51.9 million. Of this amount, \$49.1 million was comprised of bonds, \$1.9 million in lease liabilities, as a result of the implementation of GASB 87, and \$825,000 in notes payable. The decrease of \$2.9 million is primarily attributed to \$4.3 million in principal debt payments. In addition, the University refinanced bonds in the current year which resulted in a net decrease of \$2.2 million, as well a \$4 million bond premium. The net change in lease liability totaled approximately \$732,000.

Net Pension Liability

At the end of the fiscal year 2022, the University had a net pension liability of \$60 million. The decrease 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 2022, the University had a postemployment benefit other than pensions (OPEB) liability of \$34 million. The decrease is based on the valuation as determined by employer contribution rates of 12.43% of payroll for Tier I members and 11.32% of payroll for Tier II members for the fiscal year ended 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 0.66%.

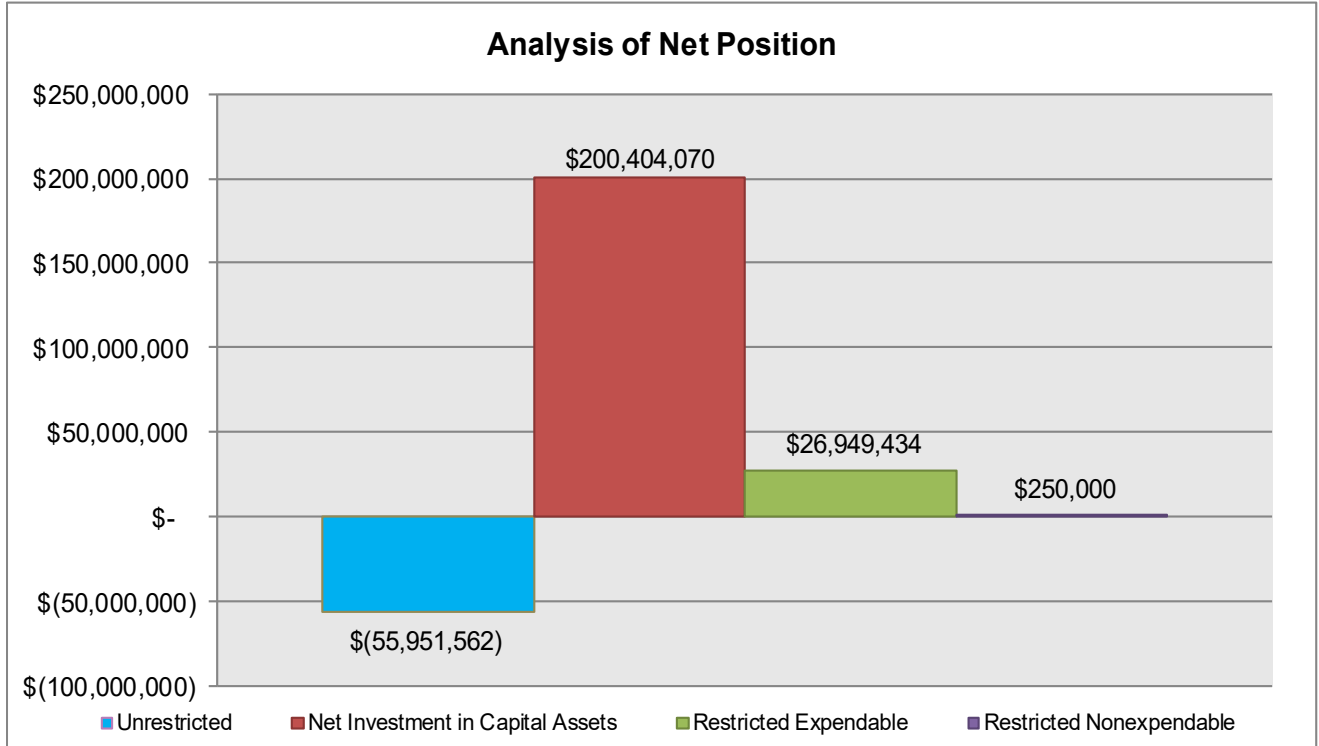
Unearned Revenue

Unearned revenue represents payments received for tuition, fees and room and board of \$15.9 million net of deferred scholarships, allowances and discounts of \$3.9 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, 2022, was \$171.7 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 (\$55.9) 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 \$5.4 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 \$18.3 million.

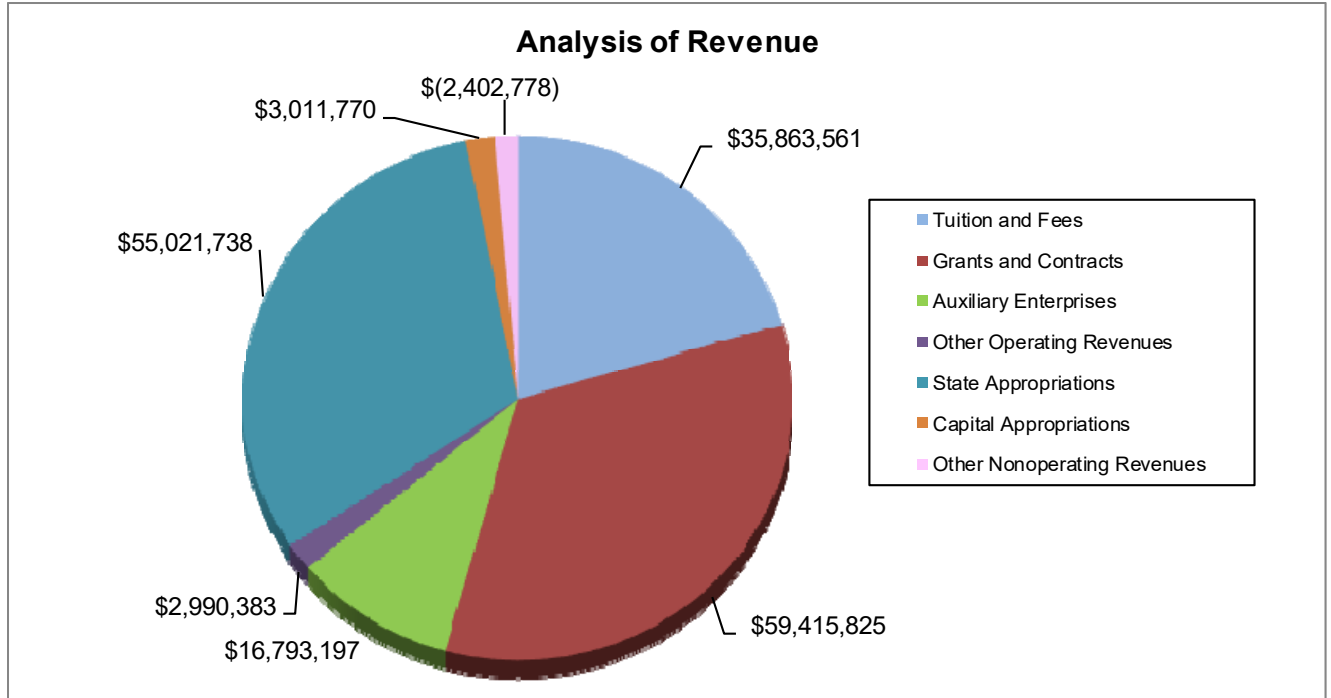
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Condensed Statements of Revenues, Expenses and Changes in Net Position

	2022	(Restated) 2021
OPERATING REVENUES		
Tuition and fees	\$ 35,863,561	\$ 33,380,048
Grants and contracts	59,415,825	64,388,690
Auxiliary enterprises	16,793,197	10,686,140
Other operating revenues	2,990,383	2,362,690
Total operating revenues	<u>115,062,966</u>	<u>110,817,568</u>
OPERATING EXPENSES	<u>155,309,327</u>	<u>132,626,228</u>
Operating loss	<u>(40,246,361)</u>	<u>(21,808,660)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	55,021,738	50,609,823
Gain on forgiveness of long-term debt	-	134,346,013
Other nonoperating revenues (expenses), net	<u>(6,450,699)</u>	<u>(59,978)</u>
Net nonoperating revenues (expenses)	<u>48,571,039</u>	<u>184,895,858</u>
Gain before other changes in net position	<u>8,324,678</u>	<u>163,087,198</u>
OTHER CHANGES IN NET POSITION		
Capital appropriations	<u>3,011,770</u>	<u>590,625</u>
Change in net position	<u>11,336,448</u>	<u>163,677,823</u>
NET POSITION		
Net position at beginning of year	<u>160,315,494</u>	<u>(3,362,329)</u>
Net position at end of year	<u>\$ 171,651,942</u>	<u>\$ 160,315,494</u>

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REVENUES



Tuition and Fees for Services of Educational Activities

Tuition and fees assessed for educational purposes totaled \$52.8 million. The tuition discounts and allowances were \$16.9 million, resulting in net tuition and fees of \$35.9 million. This represents a \$2.5 million increase in net tuition and fees between fiscal years 2021 and 2022. This is primarily due to increased enrollment during the year.

Grants and Contracts

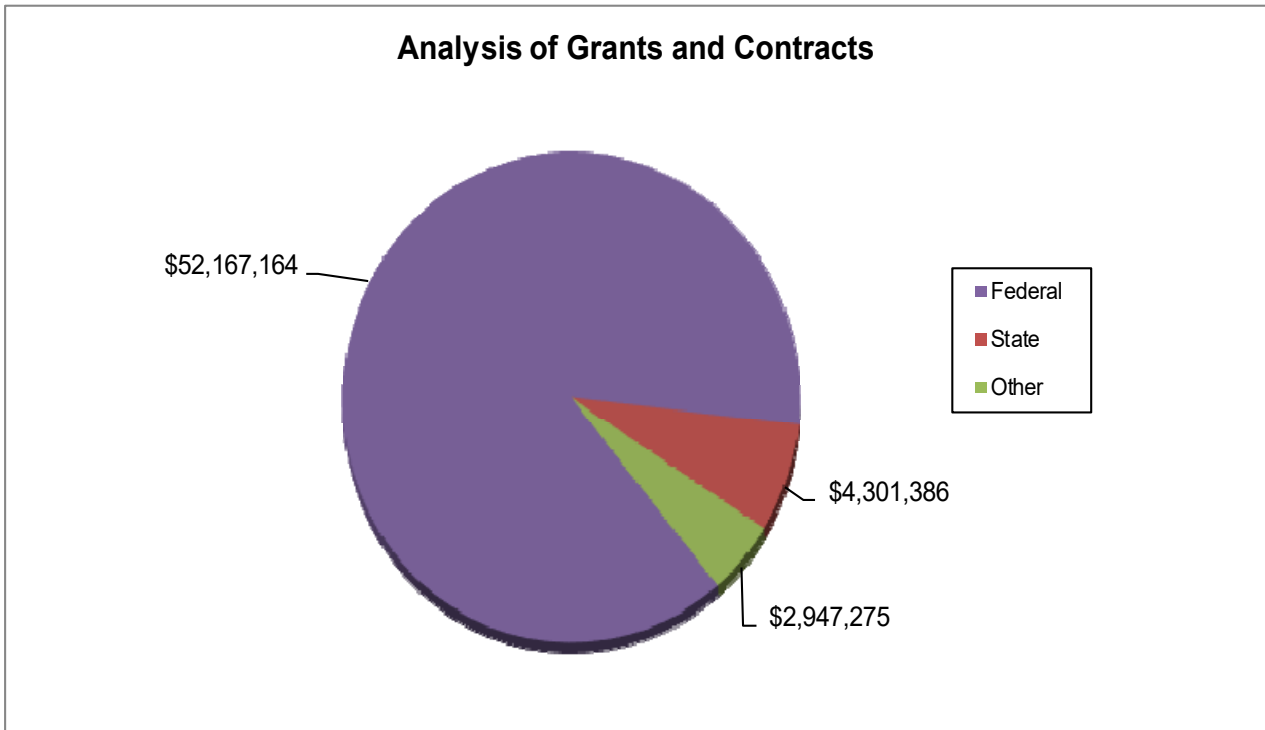
This includes all restricted revenues made available by government agencies as well as private agencies. Grant revenues are recorded only to the extent the funds have been expended for exchange transactions. Deferred or non-reimbursable revenues are recorded when received, or when eligibility criteria have been met. Grants and contracts revenue decreased by \$5 million between fiscal years 2021 and 2022. The decrease is primarily due to funding received as a result of the Higher Education Emergency Relief Fund, Coronavirus Aid, Relief and Economic Security Act in the prior year.

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The following table details the University's grant and contract awards for the fiscal years ended September 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
FEDERAL SOURCES		
Financial aid	\$ 14,961,781	\$ 14,571,615
Department of Education	33,610,543	39,739,245
National Science Foundation	1,063,959	900,267
Department of Health and Human Services	962,941	1,014,594
Other federal agencies	1,567,940	1,178,989
Total federal sources	<u>52,167,164</u>	<u>57,404,710</u>
STATE AND OTHER SOURCES		
Grants and contracts	4,301,386	4,358,602
Other sources	2,947,275	2,625,378
Total state and other sources	<u>7,248,661</u>	<u>6,983,980</u>
	<u>\$ 59,415,825</u>	<u>\$ 64,388,690</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 increased by \$3.4 million between fiscal years 2021 and 2022 primarily due to occupancy rates.

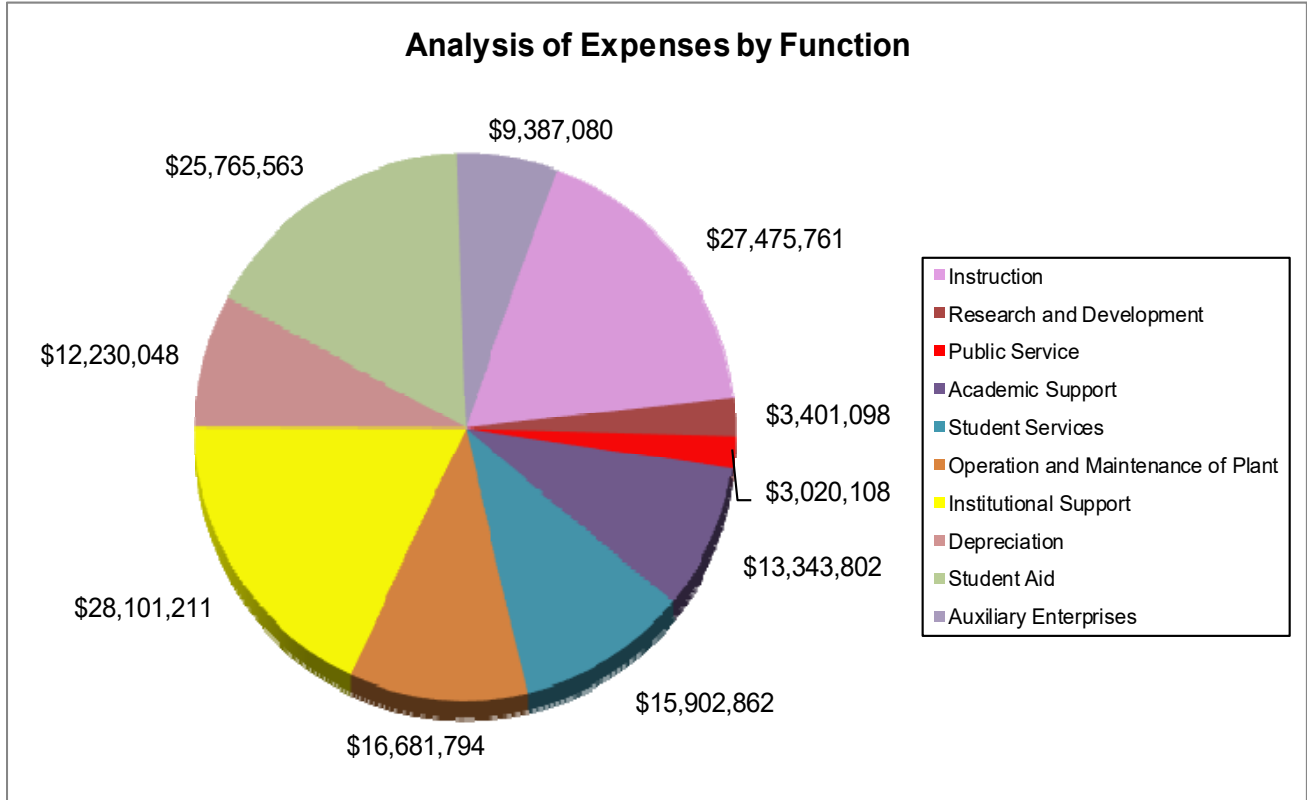
OPERATING EXPENSES

Operating expenses totaling \$155.3 million include salaries and benefits of \$68.1 million, materials and services of \$75 million and depreciation and amortization of \$12.2 million. This represents a \$22.6 million increase between fiscal years 2021 and 2022, due primarily to increases in academic support, student services and student aid expenses.

Expenses by Function

	2022	(Restated) 2021
Educational and General:		
Instruction	\$ 27,475,761	\$ 28,333,847
Research and development	3,401,098	2,793,404
Public service	3,020,108	2,734,426
Academic support	13,343,802	9,209,251
Student services	15,902,862	11,828,528
Operation and maintenance of plant	16,681,794	13,708,973
Institutional support	28,101,211	25,892,000
Depreciation	12,230,048	11,718,821
Student aid	25,765,563	18,694,520
Auxiliary Enterprises:		
Residential life	8,635,841	6,912,909
Other auxiliary expenses	751,239	799,549
Total operating expenses	\$ 155,309,327	\$ 132,626,228

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NONOPERATING REVENUES (EXPENSES)

State Appropriations

Annually, the State of Alabama appropriates funding for higher education. The University received \$55 million for fiscal year 2022 for operations and maintenance. State appropriations increased by \$4.4 million between fiscal years 2021 and 2022.

Investment Income (Loss), 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 decreased by \$5.5 million between fiscal years 2021 and 2022.

Interest on Capital Assets Related Debt

This includes the interest incurred for fiscal year 2022 on bond debt. Interest expense decreased approximately \$193,000 between fiscal years 2021 and 2022.

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STATEMENTS OF CASH FLOWS

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

	<u>2022</u>	<u>(Restated) 2021</u>
Cash and cash equivalents provided by (used in):		
Operating activities	\$ (35,548,636)	\$ (18,690,053)
Noncapital financing activities	55,144,522	45,631,926
Capital and related financing activities	(10,339,755)	(5,576,443)
Investing activities	<u>324,219</u>	<u>(6,468,499)</u>
Net increase in cash and cash equivalents	9,580,350	14,896,931
Cash and cash equivalents at beginning of year	<u>48,996,341</u>	<u>34,099,410</u>
Cash and cash equivalents at end of year	<u>\$ 58,576,691</u>	<u>\$ 48,996,341</u>

The increase in cash and cash equivalents of \$9.5 million is primarily due to funding received for construction projects in the current year.

ENROLLMENT

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 2018 through 2022 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>
2022	3,296	532	3,828	3,659	55,056
2021	3,499	465	3,964	3,749	55,379
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

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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 2018 through 2022:

Fall Semester Freshmen Student Admissions

<u>Academic Year</u>	<u>Number of Applicants</u>	<u>Number Accepted</u>	<u>Percent Accepted</u>	<u>Number Enrolled</u>	<u>Percent Enrolled</u>
2022	6,731	6,502	96.5%	945	14.5%
2021	5,974	5,854	98.0%	890	15.2%
2020	7,027	6,948	98.0%	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%

Fall Semester Transfer Student Admissions

<u>Academic Year</u>	<u>Number of Applicants</u>	<u>Number Accepted</u>	<u>Percent Accepted</u>	<u>Number Enrolled</u>	<u>Percent Enrolled</u>
2022	515	285	90.4%	124	43.5%
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	82.2%	147	48.2%

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

<u>Student Classification</u>	<u>2021-22</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</u>
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>2021-22</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2018-19</u>	<u>2017-18</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>
2022	\$ 7,052	\$ 12,848	\$ 19,900
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

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>
2022	2,033	97.00%
2021	2,004	95.93%
2020	1,905	81.00%
2019	2,151	98.00%
2018	2,075	92.00%

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September 30, 2022 and 2021
(Unaudited)

The Administration continues to be committed to a promising future for the University. Management continues an ongoing evaluation and review of 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 Administration continues to provide funding to address years of neglected deferred maintenance. The Administration expects Fiscal Year 2022-2023 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 additional Memoranda 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 is a priority. The President continues providing 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 30, 2023

**ALABAMA STATE UNIVERSITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2022 AND 2021**

	2022	(Restated) 2021
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	\$ 21,135,971	\$ 22,630,168
Stadium Fund:		
Cash and cash equivalents	954	948
Endowments:		
Cash and cash equivalents	687,448	613,613
Short-term investments	13,118,472	16,285,852
Accounts receivable (net of allowance of \$15,885,323 and \$14,157,569, respectively)	26,905,737	20,335,143
Prepaid expenses	1,079,308	645,888
Inventories	2,048	3,643
Total unrestricted assets	62,929,938	60,515,255
Restricted Assets:		
Grants and Contracts:		
Cash and cash equivalents	24,624,048	22,637,728
Grants receivable	11,418,602	9,805,889
Accounts receivable	23,421	17,622
Student Loans:		
Cash and cash equivalents	586,222	233,949
Endowments:		
Cash and cash equivalents	129,759	94,912
Short-term investments	2,019,919	2,266,604
Capital Projects and Debt Service:		
Cash and cash equivalents	11,412,289	2,785,023
Short-term investments	-	186,473
Agency Funds:		
Other receivables	47,549	47,549
Total restricted assets	50,261,809	38,075,749
Total current assets	113,191,747	98,591,004
NONCURRENT ASSETS		
Student loans receivable	30,194	312,650
Prepaid bond insurance	870,834	-
Capital assets, net	243,145,607	249,437,160
Total noncurrent assets	244,046,635	249,749,810
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amount on debt refunding	388,271	137,065
Deferred outflows related to pensions	15,044,500	16,253,010
Deferred outflows related to OPEB	28,584,747	37,637,045
Total deferred outflows of resources	44,017,518	54,027,120
TOTAL ASSETS AND DEFERRED OUTFLOWS	\$ 401,255,900	\$ 402,367,934

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENTS OF NET POSITION
SEPTEMBER 30, 2022 AND 2021**

	<u>2022</u>	<u>(Restated) 2021</u>
LIABILITIES		
CURRENT LIABILITIES		
Payable from Unrestricted Assets:		
Accounts payable and accrued liabilities	\$ 7,029,600	\$ 4,508,048
Student accounts payable	7,484	6,984
Unearned revenue	15,992,367	13,645,633
Current portion of other long-term liabilities	475,000	451,114
Total payable from unrestricted assets	<u>23,504,451</u>	<u>18,611,779</u>
Payable from Restricted Assets:		
Grants and contracts accounts payable	1,817,736	2,192,004
Unearned revenue	1,709,124	1,609,019
Current portion of long-term liabilities	5,093,714	6,004,196
Total payable from restricted assets	<u>8,620,574</u>	<u>9,805,219</u>
Total current liabilities	<u>32,125,025</u>	<u>28,416,998</u>
NONCURRENT LIABILITIES		
Long-term liabilities	49,211,101	51,133,359
Net pension liability	60,041,352	79,354,026
Postemployment benefits other than pensions	34,013,081	47,188,557
Total noncurrent liabilities	<u>143,265,534</u>	<u>177,675,942</u>
Total liabilities	<u>175,390,559</u>	<u>206,092,940</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	19,489,000	4,572,000
Deferred inflows related to OPEB	34,724,399	31,387,500
Total deferred inflows of resources	<u>54,213,399</u>	<u>35,959,500</u>
Total liabilities and deferred inflows	<u>229,603,958</u>	<u>242,052,440</u>
NET POSITION		
Net investment in capital assets	<u>200,404,070</u>	<u>194,911,763</u>
Restricted:		
Nonexpendable:		
Scholarships	<u>250,000</u>	<u>250,000</u>
Expendable:		
Scholarships	855,756	1,067,595
Other	26,093,678	22,833,055
Total restricted expendable	<u>26,949,434</u>	<u>23,900,650</u>
Total restricted	<u>27,199,434</u>	<u>24,150,650</u>
Unrestricted	<u>(55,951,562)</u>	<u>(58,746,919)</u>
Total net position	<u>\$ 171,651,942</u>	<u>\$ 160,315,494</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, 2022 AND 2021

	<u>2022</u>	<u>(Restated) 2021</u>
OPERATING REVENUES		
Student tuition and fees (net of scholarships of \$16,891,970 and \$16,741,727, respectively)	\$ 35,863,561	\$ 33,380,048
Federal grants and contracts	52,167,164	57,404,710
State grants and contracts	4,301,386	4,358,602
Nongovernmental grants and contracts	2,947,275	2,625,378
Sales and services of auxiliary enterprises	13,742,749	10,294,363
Intercollegiate athletics	3,050,448	391,777
Other operating revenue	2,990,383	2,362,690
Total operating revenues	<u>115,062,966</u>	<u>110,817,568</u>
OPERATING EXPENSES		
Educational and General:		
Instruction	27,475,761	28,333,847
Research and development	3,401,098	2,793,404
Public service	3,020,108	2,734,426
Academic support	13,343,802	9,209,251
Student services	15,902,862	11,828,528
Operation and maintenance of plant	16,681,794	13,708,973
Institutional support	28,101,211	25,892,000
Depreciation and amortization	12,230,048	11,718,821
Student aid	25,765,563	18,694,520
Auxiliary Enterprises:		
Residential life	8,635,841	6,912,909
Other auxiliary expenses	751,239	799,549
Total operating expenses	<u>155,309,327</u>	<u>132,626,228</u>
Operating loss	<u>(40,246,361)</u>	<u>(21,808,660)</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, 2022 AND 2021

	2022	(Restated) 2021
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 55,021,738	\$ 50,609,823
Investment income (loss), net	(3,276,319)	2,236,397
Interest expense	(3,141,446)	(3,406,253)
Amortization expense	(166,211)	(137,065)
Gifts and donations	122,784	324,609
Gain on forgiveness of long-term debt	-	134,346,013
Federal subsidies for interest on Build America and Recovery Bonds	750,757	1,076,497
Other nonoperating expenses	(740,264)	(154,163)
Net nonoperating revenues (expenses)	<u>48,571,039</u>	<u>184,895,858</u>
Gain before other changes in net position	<u>8,324,678</u>	<u>163,087,198</u>
OTHER CHANGES IN NET POSITION		
Capital appropriations	<u>3,011,770</u>	<u>590,625</u>
CHANGE IN NET POSITION		
Change in net position	<u>11,336,448</u>	<u>163,677,823</u>
Net position at beginning of year	<u>160,315,494</u>	<u>(3,362,329)</u>
Net position at end of year	<u>\$ 171,651,942</u>	<u>\$ 160,315,494</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	2022	(Restated) 2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from tuition and fees	\$ 32,924,745	\$ 26,427,645
Cash received from grants and contracts	57,974,740	62,248,054
Cash received from auxiliary enterprises	16,793,197	10,686,140
Cash received from other sources	1,910,473	3,949,685
Cash paid to suppliers for goods and services	(61,242,953)	(53,558,012)
Cash paid to employees for services	(58,143,275)	(49,749,044)
Cash paid for scholarships	(25,765,563)	(18,694,521)
Net cash used in operating activities	<u>(35,548,636)</u>	<u>(18,690,053)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	55,021,738	50,609,823
Gifts and donations	122,784	324,609
Gifts and grants for other than capital purposes:		
FFEL lending receipts	30,961,232	27,959,117
FFEL lending disbursements	(30,961,232)	(27,959,117)
SEOG lending receipts	427,925	334,517
SEOG lending disbursements	(427,925)	(334,517)
Proceeds from short-term debt	1,209,370	46,381,298
Principal paid on short-term debt	(1,209,370)	(51,595,983)
Interest paid on short-term debt	-	(87,821)
Net cash provided by noncapital financing activities	<u>55,144,522</u>	<u>45,631,926</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital appropriations received	3,011,770	590,625
Purchase of capital assets	(5,671,279)	(2,946,005)
Forgiveness of long-term debt	-	5,035,150
Principal paid on capital debt	(4,295,000)	(5,325,000)
Interest paid on capital debt	(3,089,609)	(3,564,712)
Net proceeds from bond refunding	45,129,906	-
Principal paid on bond refinancing	(43,290,000)	-
Other bond payments	(1,777,309)	-
Principal and interest paid on lease obligations	(1,108,991)	(838,267)
Other Rice Capital Access Program activities	-	(154,162)
Federal subsidies for interest on Build America and Recovery Bonds	750,757	1,625,928
Net cash used in capital and related financing activities	<u>(10,339,755)</u>	<u>(5,576,443)</u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021**

	2022	(Restated) 2021
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends on investments	\$ 339,587	\$ 233,725
Proceeds from sale of investments	3,961,987	7,317,670
Purchase of investments	(3,977,355)	(14,019,894)
Net cash provided by (used in) investing activities	324,219	(6,468,499)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,580,350	14,896,931
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	48,996,341	34,099,410
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 58,576,691	\$ 48,996,341
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (40,246,361)	\$ (21,808,660)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	12,230,048	11,718,821
Loss on disposal of capital assets	38,010	36,913
Changes in assets and liabilities:		
Accounts receivable, net	(6,576,393)	(6,618,382)
Grants receivable	(1,612,713)	(2,919,378)
Prepaid expenses	(433,420)	(638,751)
Inventories	1,595	1,568
Student loans receivable	282,456	399,125
Other long-term liabilities	53,218	185,975
Accounts payable and accrued liabilities	2,241,528	(1,047,147)
Net pension liability	(3,187,164)	(183,856)
Postemployment benefits other than pensions	(786,279)	551,127
Unearned revenue	2,446,839	1,632,592
Net cash used in operating activities	\$ (35,548,636)	\$ (18,690,053)
SUPPLEMENTAL NONCASH ACTIVITIES INFORMATION		
Forgiveness of long-term debt	\$ -	\$ 129,310,863

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
DISCRETELY PRESENTED COMPONENT UNITS
STATEMENTS OF FINANCIAL POSITION
2022 AND 2021**

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Unrestricted Assets:		
Cash and cash equivalents	\$ 5,149,470	\$ 2,976,017
Contributions receivable	531	53,025
Due from Alabama State University	241,096	281,377
Total unrestricted assets	<u>5,391,097</u>	<u>3,310,419</u>
Restricted Assets:		
Grants and Contracts:		
Cash and cash equivalents	533,333	532,830
Short-term investments	3,365,345	2,978,747
Endowments:		
Cash and cash equivalents	11,449,750	10,624,339
Short-term investments	90,180,398	101,884,661
Accrued interest and dividends	50,298	30,188
Total restricted assets	<u>105,579,124</u>	<u>116,050,765</u>
Total current assets	<u>110,970,221</u>	<u>119,361,184</u>
TOTAL ASSETS	<u>\$ 110,970,221</u>	<u>\$ 119,361,184</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 180,256	\$ 6,624
Due to related parties	-	84,349
TOTAL LIABILITIES	<u>180,256</u>	<u>90,973</u>
NET ASSETS		
Without restrictions	1,660,285	1,390,442
With restrictions	109,129,680	117,879,769
TOTAL NET ASSETS	<u>110,789,965</u>	<u>119,270,211</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 110,970,221</u>	<u>\$ 119,361,184</u>

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 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES		
Contributions	\$ 5,729,690	\$ 2,671,569
Total operating revenues	<u>5,729,690</u>	<u>2,671,569</u>
OPERATING EXPENSES		
Educational and General:		
Program services	4,090,824	2,128,514
Supporting services	<u>409,463</u>	<u>225,634</u>
Total operating expenses	<u>4,500,287</u>	<u>2,354,148</u>
Operating income	<u>1,229,403</u>	<u>317,421</u>
NONOPERATING REVENUES		
Investment income, net	2,150,880	1,754,657
Realized and unrealized gains (losses) on investments	<u>(11,860,529)</u>	<u>14,294,431</u>
Net nonoperating revenues	<u>(9,709,649)</u>	<u>16,049,088</u>
CHANGE IN NET ASSETS	<u>(8,480,246)</u>	<u>16,366,509</u>
NET ASSETS AT BEGINNING OF YEAR	<u>119,270,211</u>	<u>102,903,702</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 110,789,965</u></u>	<u><u>\$ 119,270,211</u></u>

See notes to the financial statements.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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, 2022 and 2021, 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 11.

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, 2022 and 2021 and the fiscal years of the Foundation are December 31, 2021 and 2020. 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, 2022 AND 2021**

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, 2022 AND 2021**

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 30, 2023, which is the date the financial statements were issued.

Cash and Cash Equivalents

For purposes of the statements 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.

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2022, no impairments were recorded.

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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, 2022 and 2021, accrued vacation pay totaled \$2,880,185 and \$2,826,967, 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.

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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 TRS 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.
- 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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Net Position – Continued

- 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.

Leases

For the year ended September 30, 2022, the financial statements include the adoption of GASB Statement No. 87, *Leases*. The primary objective of this statement is to enhance the relevance and consistency of information about governments' leasing activities. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. GASB 87 requires a restatement of the earliest year presented.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Leases – Continued

The effects of adopting GASB 87 to the University's financial statements as of and for the year ended September 30, 2021, were as follows:

	<u>As Previously Reported</u>	<u>Effect of Adoption of of GASB 87</u>	<u>As Restated</u>
Statements of Net Position			
Capital assets, net	\$ 246,758,765	\$ 2,678,395	\$ 249,437,160
Total noncurrent assets	\$ 247,071,415	\$ 2,678,395	\$ 249,749,810
Total assets	\$ 345,662,419	\$ 2,678,395	\$ 348,340,814
Current portion of long-term liabilities	\$ 5,105,000	\$ 899,196	\$ 6,004,196
Total current liabilities	\$ 27,517,802	\$ 899,196	\$ 28,416,998
Long-term liabilities	\$ 49,354,160	\$ 1,779,199	\$ 51,133,359
Total noncurrent liabilities	\$ 175,896,743	\$ 1,779,199	\$ 177,675,942
Total liabilities	\$ 203,414,545	\$ 2,678,395	\$ 206,092,940
Statements of Revenues, Expenses and Changes in Net Position			
Academic support	\$ 9,739,798	\$ (530,547)	\$ 9,209,251
Operation and maintenance of plant	\$ 13,816,974	\$ (108,001)	\$ 13,708,973
Institutional support	\$ 26,073,520	\$ (181,520)	\$ 25,892,000
Depreciation and amortization	\$ 10,951,424	\$ 767,397	\$ 11,718,821
Other auxiliary expenses	\$ 817,748	\$ (18,199)	\$ 799,549
Total operating expenses	\$ 132,697,098	\$ (70,870)	\$ 132,626,228
Operating loss	\$ (21,879,530)	\$ 70,870	\$ (21,808,660)
Interest expense	\$ (3,335,383)	\$ (70,870)	\$ (3,406,253)
Statements of Cash Flows			
Cash paid to suppliers for goods and services	\$ (54,396,279)	\$ 838,267	\$ (53,558,012)
Net cash used in operating activities	\$ (19,528,320)	\$ 838,267	\$ (18,690,053)
Principal and interest paid on lease obligations	\$ -	\$ (838,267)	\$ (838,267)
Net cash used in capital and related financing activities	\$ (4,738,176)	\$ (838,267)	\$ (5,576,443)

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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.

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 Trust has filed its tax returns through 2022. The tax returns for years ended 2020, and thereafter are subject to audit by the taxing authorities. The Foundation has filed its tax returns through 2020. The tax returns for the years ended 2018, 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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

2. CASH AND CASH EQUIVALENTS – CONTINUED

Custodial Credit Risk of Bank Deposits – Continued

As of September 30, 2022 and 2021, the University had \$19,390,111 and \$21,710,192 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.

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>2022</u>	<u>2021</u>
U.S. Government Guaranteed Securities	\$ -	\$ 186,473
Mutual Funds – Bonds Only	5,932,155	7,214,080
Mutual Funds – Bonds and Equity Mix or Equity Only	6,227,330	7,763,437
Domestic Common and Preferred Stocks	2,978,906	3,574,939
Total	<u>\$ 15,138,391</u>	<u>\$ 18,738,929</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, 2022 AND 2021**

3. INVESTMENTS – CONTINUED

Credit Risk – Continued

The University's exposure to credit risk and concentration of credit risk at September 30, 2022 is as follows:

Credit Rating		Carrying and Fair Value	% of Total
Aa2	Ishares Core Total US Aggregate Bond ETF	\$ 5,552,969	93.61%
Aa2	PIMCO Low Duration Active ETF	113,944	1.92%
A1	JP Morgan Ultra-Short Income ETF	90,639	1.53%
BB	INVESCO Senior Loan ETF	174,603	2.94%
		\$ 5,932,155	100.00%

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%
		\$ 7,400,553	100.00%

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

3. INVESTMENTS – CONTINUED

Interest Rate Risk

At September 30, 2022, 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	
Mutual Funds – Bonds Only	\$ -	\$ 358,815	\$ 5,573,340	\$ -	\$ 5,932,155
<i>Total Debt Securities</i>	<u>\$ -</u>	<u>\$ 358,815</u>	<u>\$ 5,573,340</u>	<u>\$ -</u>	<u>\$ 5,932,155</u>

4. CHANGE IN CAPITAL ASSETS

Capital asset activity for the years ended September 30, 2022 and 2021, was as follows:

	Balance 10/1/21 (Restated)	Additions	Reductions/ Transfers	Balance 9/30/22
Land	\$ 21,259,652	\$ -	\$ -	\$ 21,259,652
Construction in progress	162,273	5,047,620	(4,244,630)	965,263
Buildings	282,811,496	-	2,067,148	284,878,644
Equipment	17,004,977	574,249	(77,031)	17,502,195
Library holdings	10,251,883	49,410	-	10,301,293
Intangible software	11,744,019	-	-	11,744,019
Infrastructure	87,364,760	-	2,177,482	89,542,242
Leased right-to-use assets	3,445,792	305,226	-	3,751,018
Total capital assets	<u>434,044,852</u>	<u>5,976,505</u>	<u>(77,031)</u>	<u>439,944,326</u>
Less accumulated depreciation for:				
Buildings	122,189,720	6,386,879	-	128,576,599
Equipment	12,512,829	962,259	(39,021)	13,436,067
Library holdings	10,035,005	61,737	-	10,096,742
Intangible software	5,872,010	587,201	-	6,459,211
Infrastructure	33,230,731	3,168,249	-	36,398,980
Leased right-to-use assets	767,397	1,063,723	-	1,831,120
Total accumulated depreciation	<u>184,607,692</u>	<u>12,230,048</u>	<u>(39,021)</u>	<u>196,798,719</u>
Capital assets, net	<u>\$ 249,437,160</u>	<u>\$ (6,253,543)</u>	<u>\$ (38,010)</u>	<u>\$ 243,145,607</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

4. CHANGE IN CAPITAL ASSETS – CONTINUED

	Balance 10/1/20	Additions	Reductions/ Transfers	Balance 9/30/21 (Restated)
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
Leased right-to-use assets	-	3,445,792	-	3,445,792
Total capital assets	<u>427,895,836</u>	<u>6,391,797</u>	<u>(242,781)</u>	<u>434,044,852</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
Leased right-to-use assets	-	767,397	-	767,397
Total accumulated depreciation	<u>173,094,739</u>	<u>11,718,821</u>	<u>(205,868)</u>	<u>184,607,692</u>
Capital assets, net	<u>\$ 254,801,097</u>	<u>\$ (5,327,024)</u>	<u>\$ (36,913)</u>	<u>\$ 249,437,160</u>

Depreciation expense for the years ended September 30, 2022 and 2021, totaled \$11,166,325 and \$10,951,424, respectively.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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>2022</u>	<u>2021</u>
Tuition, fees, room and board	\$ 31,952,683	\$ 25,528,432
State grants and contracts	52,976	124,499
Federal Student Loans	9,462,924	8,689,095
Other	<u>1,322,477</u>	<u>150,686</u>
	42,791,060	34,492,712
Allowance for doubtful accounts	<u>(15,885,323)</u>	<u>(14,157,569)</u>
Total	<u>\$ 26,905,737</u>	<u>\$ 20,335,143</u>

Student Loans Receivable

	<u>2022</u>	<u>2021</u>
Perkins Loans:		
Loans advanced	<u>\$ 11,077,608</u>	<u>\$ 11,077,608</u>
Less:		
Loans assigned to U.S. Government	(689,930)	(662,436)
Principal collected	(9,653,089)	(9,401,699)
Principal cancellations	<u>(704,395)</u>	<u>(700,823)</u>
	<u>(11,047,414)</u>	<u>(10,764,958)</u>
Total	<u>\$ 30,194</u>	<u>\$ 312,650</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

6. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended September 30, 2022, was as follows:

	Balance 10/1/21 (Restated)	Additions	Reductions	Balance 9/30/22	Current Portion
General tuition, fee and revenue bonds					
Series 1982 Dormitory Revenue Bonds, 3% interest, due semi-annually through 2022	\$ 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	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	43,290,000	-	43,290,000	-	-
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	-	2,000,000	4,850,000	2,870,000
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	600,000	-	600,000	-	-
Series 2022 General Tuition and Fee Revenue Bonds, 5.00% interest, due semi-annually through 2040 on March 1 and September 1	-	41,140,000	700,000	40,440,000	1,460,000
Total general tuition, fee and revenue bonds	51,735,000	41,140,000	47,585,000	45,290,000	4,330,000
Unamortized bond discount	(492,257)	-	(420,076)	(72,181)	-
Unamortized bond premium	15,564	3,989,906	95,458	3,910,012	-
Total general tuition, fee and revenue bonds, net	51,258,307	45,129,906	47,260,382	49,127,831	4,330,000
Direct borrowing and direct placements					
Notes payable	825,000	-	-	825,000	125,000
Other liabilities					
Lease liability	2,678,395	305,226	1,036,822	1,946,799	638,714
Compensated absences	2,826,967	504,332	451,114	2,880,185	475,000
Total long-term liabilities	\$ 57,588,669	\$ 45,939,464	\$ 48,748,318	\$ 54,779,815	\$ 5,568,714

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

6. LONG-TERM LIABILITIES – CONTINUED

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

	Balance 10/1/20	Additions	Reductions	Balance 9/30/21 (Restated)	Current Portion
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 May 1 and November 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, 2.919% interest due semi-annually through 2038 on March 1 and September 1	94,117,015	-	94,117,015	-	-
Series 2018-2 Future Advance Project Funding Bond, 2.963% interest due semi-annually through 2042 on March 1 and September 1	44,451,969	-	44,451,969	-	-
Notes payable	1,185,000	-	360,000	825,000	-
Total direct borrowing and direct placements	139,753,984	-	138,928,984	825,000	-
Other liabilities					
Lease liability	-	3,445,792	767,397	2,678,395	899,196
Compensated absences	2,640,988	671,528	485,549	2,826,967	451,114
Total long-term liabilities	<u>\$ 198,582,461</u>	<u>\$ 4,117,320</u>	<u>\$ 145,111,112</u>	<u>\$ 57,588,669</u>	<u>\$ 6,455,310</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

6. LONG-TERM LIABILITIES – CONTINUED

Bonds Payable

Series 2022 General Tuition and Fee Revenue Bonds

On March 1, 2022, the University issued the General Tuition and Fee Revenue Bonds, Series 2022 Bonds (Series 2022 Bonds), in the amount of \$41,140,000. Proceeds from the Series 2022 Bonds were used for the purpose of providing funds (1) to refund the Series 2010 Bonds, (2) to pay the costs of capital improvements on the campus of the University, as more fully described herein, and (3) to pay the costs incurred in connection with the issuance of the Series 2022 Bonds.

The Series 2022 Bonds will fully mature by September 1, 2040. Interest payments are due semi-annually on March 1 and September 1, of each year, beginning September 1, 2022, at a rate of 5.00%.

The reacquisition price of the Series 2022 Bonds exceeded the net carrying amount of the Series 2010 Bonds by \$397,258. This amount is being netted against the Series 2022 Bonds and amortized over the remaining life of the Series 2010 Bonds. Over the life of the bonds, the University decreased its total debt services requirements by \$12,957,856. The result of this refunding was an economic gain of \$9,285,731.

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

6. LONG-TERM LIABILITIES – CONTINUED

Bonds Payable – Continued

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

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.

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, 2022, 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%.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

6. LONG-TERM LIABILITIES – CONTINUED

Bonds Payable – Continued

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

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.

On September 1, 2022, the Series 2012-B Bonds matured and were paid in full.

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.

On March 1, 2022, the University issued the Series 2022 Bonds, in the amount of \$41,140,000 which fully refunded the Series 2010 Bonds.

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, 2022. 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.

On September 1, 2022, the Series 2009 Bonds matured and were paid in full.

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

Bonds Payable – 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.

On February 1, 2022, the Series 1982 Bonds matured and were paid in full.

Notes 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.

On November 23, 2015, the University entered into a note payable with the Montgomery Public Educational Building Authority in the amount of \$825,000. The note was for the purpose of providing funds to install lighting infrastructure. The note will mature on October 1, 2025. Interest payments are due semi-annually on April 1 and October 1, of each year, beginning April 1, 2016, at a rate of 5.25%.

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

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

	General Tuition and Fee Revenue Bonds			Direct Borrowing and Direct Placements		
	Principal	Interest	Net Cash Flows	Principal	Interest	Net Cash Flows
2023	\$ 4,330,000	\$ 2,156,725	\$ 6,486,725	\$ 125,000	\$ 40,031	\$ 165,031
2024	1,525,000	2,030,675	3,555,675	220,000	30,975	250,975
2025	1,605,000	1,954,425	3,559,425	235,000	19,031	254,031
2026	1,680,000	1,874,175	3,554,175	245,000	6,431	251,431
2027	1,765,000	1,790,175	3,555,175	-	-	-
2028-2032	10,175,000	7,540,125	17,715,125	-	-	-
2033-2037	12,895,000	4,737,375	17,632,375	-	-	-
2038-2042	11,315,000	1,315,788	12,630,788	-	-	-
	<u>\$ 45,290,000</u>	<u>\$ 23,399,463</u>	<u>\$ 68,689,463</u>	<u>\$ 825,000</u>	<u>\$ 96,468</u>	<u>\$ 921,468</u>

Interest expense for the years ended September 30, 2022 and 2021, totaled \$3,141,446 and \$3,335,383, respectively.

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 2022.

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, 2023 and has an interest rate of 2.75% plus the U.S. Dollar Wholesale Funding Rate, known as the Bloomberg Short-Term Bank Yield Index Funding Rate. Short-term debt activity for the years ended September 30, 2022 and 2021, is as follows:

	2022	2021
Balance at beginning of year	\$ -	\$ 5,214,685
Draws	1,209,370	46,381,298
Payments	(1,209,370)	(51,595,983)
Balance at end of year	<u>\$ -</u>	<u>\$ -</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, 2022.

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

Lease Liability

The University leases equipment from external parties for various terms under long-term non-cancelable lease agreements. The leases expire at various dates through 2028. In accordance with GASB Statement No. 87, the University records right-to-use assets and lease liabilities based on the present value of expected payments over the lease term of the respective leases. The expected payments are discounted using the interest rate charged on the lease, if available, or are otherwise discounted using the University's incremental borrowing rate. The interest rates range from 2.84% percent to 3.00%.

Future minimum payments under the lease agreements and the present value of the minimum payments as of September 30, 2022, are as follows:

	Lease Liability		Total
	Principal	Interest	
2023	\$ 638,714	\$ 48,788	\$ 687,502
2024	299,954	32,638	332,592
2025	246,846	24,434	271,280
2026	253,948	18,332	272,280
2027	261,255	11,025	272,280
2028	246,082	3,508	249,590
Total	<u>\$ 1,946,799</u>	<u>\$ 138,725</u>	<u>\$ 2,085,524</u>

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

7. FAIR VALUE MEASUREMENT – CONTINUED

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, 2022 and 2021 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, 2022 and 2021.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

8. PENSION PLAN

Plan Description

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

Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) 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, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service up to 80% of their average final compensation. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

8. PENSION PLAN – CONTINUED

Contributions

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

Effective October 1, 2021, the covered Tier 2 members contribution rate increased from 6.0% to 6.2% of earnable compensation to the TRS as required by statute. Effective October 1, 2021, the covered Tier 2 certified law enforcement, correctional officers and firefighters contribution rate increased from 7.0% to 7.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the fiscal year ended September 30, 2021, was 12.36% of annual pay for Tier 1 members and 11.22% 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 \$5,940,500 and \$5,579,010 for the years ended September 30, 2022 and 2021, respectively.

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

At September 30, 2022 and 2021, the University reported a liability of \$60,041,352 and \$79,354,026, respectively, for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2021 and 2020, and the total pension liability used to calculate the net pension liability was determined by actuarial valuations as of September 30, 2020 and 2019. 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, 2021 and 2020, the University's proportion was 0.637360% and 0.641522%, respectively, which was an increase (decrease) of (0.004162%) and 0.000347%, respectively, from its proportion measured as of September 30, 2020 and 2019.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

8. PENSION PLAN – CONTINUED

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

For the years ended September 30, 2022 and 2021, the University recognized pension expense of approximately \$2,697,522 and \$5,396,071, respectively. At September 30, 2022 and 2021, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>September 30, 2022</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,780,000	\$ 3,498,000
Net difference between projected and actual earnings on pension plan investments	6,302,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	14,173,000
Change of assumptions	22,000	1,818,000
Employer contributions subsequent to measurement date	5,940,500	-
	<u>\$ 15,044,500</u>	<u>\$ 19,489,000</u>
<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, 2022 AND 2021**

8. PENSION PLAN – CONTINUED

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

The \$5,940,500 reported as deferred outflows of resources related to pensions resulting from the University’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year ending September 30,	
2023	\$ (1,915,000)
2024	(1,620,000)
2025	(2,637,000)
2026	<u>(4,213,000)</u>
	<u>\$ (10,385,000)</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2021, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Projected salary increases	3.25-5.00%
Investment rate of return*	7.45%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2020 and 2019, 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, 2020. The Board of Control accepted and approved these changes in September 2021, which became effective at the beginning of fiscal year 2021.

Mortality rates were based on the Pub-2010 Teacher tables with the following adjustments, projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019:

Group	Membership Table	Set Forward (+) Set Back (-)	Adjustment to Rates
Service Retirees	Teacher Retiree – Below Median	Male: +2, Female: +2	Male: 108% ages < 63, 96% ages > 67; Phasing down 63-67 Female: 112% ages < 69, 98% ages > 74; Phasing down 69-74
Beneficiaries	Contingent Survivor – Below Median	Male: +2, Female: +2	None
Disabled Retirees	Teacher Disability	Male: +8, Female: +3	None

**ALABAMA STATE UNIVERSITY
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8. PENSION PLAN – CONTINUED

Actuarial Assumptions – Continued

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	15.00%	2.80%
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%	9.00%
Real Estate	10.00%	6.50%
Cash Equivalents	5.00%	2.50%
	<u>100.00%</u>	

* Includes assumed rate of inflation of 2.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.45%. 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
SEPTEMBER 30, 2022 AND 2021**

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 7.45%, 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 (6.45%) or 1-percentage point higher (8.45%) than the current rate:

	(6.45%)	(7.45%)	(8.45%)
University’s proportionate share of collective net pension liability	\$ 88,375,000	\$ 60,041,352	\$ 36,177,000

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, 2021 and 2020. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2021 and 2020. 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
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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 Trust is considered a component unit of the State of Alabama (State) and is included in the State's Annual Comprehensive 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 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
NOTES TO THE FINANCIAL STATEMENTS
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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 retired members and covered dependents are eligible to enroll in the PEEHIP Supplemental Medical Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents covered on a retiree contract were enrolled in the United Healthcare (UHC) Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2020, Humana replaced the UHC contract. The MAPDP plan is fully insured by Humana and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the MAPDP plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

Contributions

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

**ALABAMA STATE UNIVERSITY
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SEPTEMBER 30, 2022 AND 2021**

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, 2022 and 2021, the University reported a liability of \$34,013,081 and \$47,188,557, respectively, for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2021 and 2020 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020 and 2019. 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, 2021 and 2020, the University's proportion was 0.65830% and 0.72711%, respectively, which was an increase (decrease) of (0.06881%) and 0.23782%, respectively, from its proportion measured as of September 30, 2021 and September 30, 2020, respectively.

For the years ended September 30, 2022 and 2021, the University recognized OPEB expense of (\$1,702,853) and (\$873,417), respectively, with no special funding situations.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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, 2022 and 2021, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>September 30, 2022</u>	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 804,750	\$ 11,833,214
Changes of assumptions	12,113,430	13,183,762
Net difference between projected and actual earnings on OPEB plan investments	-	1,060,987
Changes in proportion and differences between Employer contributions and proportionate share of contributions	14,612,610	8,646,436
Employer contributions subsequent to the measurement date	1,053,957	-
	<u>\$ 28,584,747</u>	<u>\$ 34,724,399</u>
	<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>

**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

The \$1,053,957 reported as deferred outflows of resources related to OPEB resulting from the College's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2023.

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,	
2023	\$ (2,675,629)
2024	(2,866,256)
2025	(3,020,853)
2026	2,040,866
2027	884,038
Thereafter	<u>(1,555,775)</u>
	<u>\$ (7,193,609)</u>

Actuarial Assumptions

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

Inflation	2.50%
Salary Increases ¹	3.25% - 5.00%
Long-Term Investment Rate of Return ²	7.00%
Municipal Bond Index Rate at the Measurement Date	2.29%
Municipal Bond Index Rate at the Prior Measurement Date	2.25%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2051
Single Equivalent Interest Rate at the Measurement Date	3.97%
Single Equivalent Interest Rate at the Prior Measurement Date	3.05%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.50%
Medicare Eligible	**
Ultimate Trend Rate	
Pre-Medicare Eligible	4.50% in 2028
Medicare Eligible	4.50% in 2025

¹Includes 2.75% 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
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

9. POST-EMPLOYMENT BENEFITS (OPEB) – CONTINUED

Actuarial Assumptions – Continued

Mortality rates were based on the Pub-2010 Teacher tables with the following adjustments, projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with year 2019:

Group	Membership Table	Set Forward (+) Set Back (-)	Adjustment to Rates
Active Members	Teacher Employee – Below Median	None	65%
Service Retirees	Teacher Retiree – Below Median	Male: +2, Female: +2	Male: 108% ages < 63, 96% ages > 67; Phasing down 63-67 Female: 112% ages < 69, 98% ages > 74; Phasing down 69-74
Beneficiaries	Contingent Survivor – Below Median	Male: +2, Female: +2	None
Disabled Retirees	Teacher Disability	Male: +8, Female: +3	None

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2021.

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, 2020 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
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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, 2021 was 3.97%. The discount rate used to measure the total OPEB liability at the prior measurement date was 3.05%. 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. Currently, the monthly employer rate is \$800 per non-university active member. Approximately, 12.990% of the employer contributions were used to assist in funding retiree benefit payments in 2021 and it is assumed that the 12.990% will increase at the same rate as expected benefit payments for the closed group reaching 20.00%. 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 2119. The long-term rate of return is used until the assets are expected to be depleted in 2051, after which the municipal bond rate is used.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

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 (5.50% Decreasing to 3.50% for Pre- Medicare, Known Decreasing to 3.50% for Medicare Eligible)	Current Healthcare Trend Rate (6.50% Decreasing to 4.50% for Pre- Medicare, Known Decreasing to 4.50% for Medicare Eligible)	1% Increase (7.50% Decreasing to 5.50% for Pre- Medicare, Known Decreasing to 5.50% for Medicare Eligible)
University’s proportionate share of collective net OPEB liability	\$ 26,689,135	\$ 34,013,081	\$ 43,449,276

The following table presents the University’s proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 3.97%, 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 (2.97%)	Current Discount Rate (3.97%)	1% Increase (4.97%)
University’s proportionate share of collective net OPEB liability	\$ 41,837,594	\$ 34,013,081	\$ 27,736,958

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s Fiduciary Net Position is in the Trust’s financial statements for the fiscal years ended September 30, 2021 and 2020. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2021 and 2020. Additional financial and actuarial information is available at www.rsa-al.gov.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

10. CONSTRUCTION COMMITMENTS

As of September 30, 2022, the University had commitments on construction of capital projects as follows:

Gross commitments	\$ 15,762,438
Spent-to-date	<u>(8,787,918)</u>
Net commitments	<u>\$ 6,974,520</u>

11. COMPONENT UNITS

Details of the Foundation's net assets at December 31, 2021 and 2020, and the Trust's net assets at July 31, 2022 and 2021, are as follows:

	FY 2022–2021			FY 2021–2020		
	Foundation	Trust	Totals	Foundation	Trust	Totals
ASSETS						
CURRENT ASSETS						
Unrestricted assets:						
Cash and cash equivalents	\$ 5,149,470	\$ -	\$ 5,149,470	\$ 2,976,017	\$ -	\$ 2,976,017
Contributions receivable	-	531	531	-	53,025	53,025
Due from Alabama State University	-	241,096	241,096	-	281,377	281,377
Total unrestricted assets	<u>5,149,470</u>	<u>241,627</u>	<u>5,391,097</u>	<u>2,976,017</u>	<u>334,402</u>	<u>3,310,419</u>
Restricted assets:						
Grants and contracts:						
Cash and cash equivalents	533,333	-	533,333	532,830	-	532,830
Short-term investments	3,365,345	-	3,365,345	2,978,747	-	2,978,747
Endowments:						
Cash and cash equivalents	-	11,449,750	11,449,750	-	10,624,339	10,624,339
Short-term investments	-	90,180,398	90,180,398	-	101,884,661	101,884,661
Accrued interest and dividends	-	50,298	50,298	-	30,188	30,188
Total restricted assets	<u>3,898,678</u>	<u>101,680,446</u>	<u>105,579,124</u>	<u>3,511,577</u>	<u>112,539,188</u>	<u>116,050,765</u>
Total current assets	<u>9,048,148</u>	<u>101,922,073</u>	<u>110,970,221</u>	<u>6,487,594</u>	<u>112,873,590</u>	<u>119,361,184</u>
TOTAL ASSETS	<u>\$ 9,048,148</u>	<u>\$ 101,922,073</u>	<u>\$ 110,970,221</u>	<u>\$ 6,487,594</u>	<u>\$ 112,873,590</u>	<u>\$ 119,361,184</u>
LIABILITIES						
CURRENT LIABILITIES						
Accounts payable and accrued liabilities	\$ 180,256	\$ -	\$ 180,256	\$ 6,624	\$ -	\$ 6,624
Due to related party	-	-	-	84,349	-	84,349
Total current liabilities	<u>180,256</u>	<u>-</u>	<u>180,256</u>	<u>90,973</u>	<u>-</u>	<u>90,973</u>
TOTAL LIABILITIES	<u>180,256</u>	<u>-</u>	<u>180,256</u>	<u>90,973</u>	<u>-</u>	<u>90,973</u>
NET ASSETS						
Without donor restrictions	1,660,285	-	1,660,285	1,390,442	-	1,390,442
With donor restrictions	<u>7,207,607</u>	<u>101,922,073</u>	<u>109,129,680</u>	<u>5,006,179</u>	<u>112,873,590</u>	<u>117,879,769</u>
TOTAL NET ASSETS	<u>8,867,892</u>	<u>101,922,073</u>	<u>110,789,965</u>	<u>6,396,621</u>	<u>112,873,590</u>	<u>119,270,211</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,048,148</u>	<u>\$ 101,922,073</u>	<u>\$ 110,970,221</u>	<u>\$ 6,487,594</u>	<u>\$ 112,873,590</u>	<u>\$ 119,361,184</u>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

11. COMPONENT UNITS – CONTINUED

Details of the Foundation’s revenues, expenses, and changes in net assets for the years ended December 31, 2021 and 2020, and the Trust’s revenues, expenses, and changes in net assets for the years ended July 31, 2022 and 2021, are as follows:

	FY 2022–2021			FY 2021–2020		
	Foundation	Trust	Totals	Foundation	Trust	Totals
OPERATING REVENUES						
Contributions	\$ 5,653,997	\$ 75,693	\$ 5,729,690	\$ 2,347,911	\$ 323,658	\$ 2,671,569
Total operating revenues	5,653,997	75,693	5,729,690	2,347,911	323,658	2,671,569
OPERATING EXPENSES						
Educational and general:						
Program services	3,160,814	930,010	4,090,824	1,120,454	1,008,060	2,128,514
Supporting services	409,463	-	409,463	225,634	-	225,634
Total operating expenses	3,570,277	930,010	4,500,287	1,346,088	1,008,060	2,354,148
Operating income (loss)	2,083,720	(854,317)	1,229,403	1,001,823	(684,402)	317,421
NONOPERATING REVENUES (EXPENSES)						
Investment income, net	46,480	2,104,400	2,150,880	18,685	1,735,972	1,754,657
Realized and unrealized gains on investments	341,071	(12,201,600)	(11,860,529)	409,428	13,885,003	14,294,431
Net nonoperating revenues (expenses)	387,551	(10,097,200)	(9,709,649)	428,113	15,620,975	16,049,088
CHANGE IN NET ASSETS	2,471,271	(10,951,517)	(8,480,246)	1,429,936	14,936,573	16,366,509
NET ASSETS AT BEGINNING OF YEAR	6,396,621	112,873,590	119,270,211	4,966,685	97,937,017	102,903,702
NET ASSETS AT END OF YEAR	\$ 8,867,892	\$ 101,922,073	\$ 110,789,965	\$ 6,396,621	\$ 112,873,590	\$ 119,270,211

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, 2022 AND 2021**

11. 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, 2021 and 2020 for the Foundation and July 31, 2022 and 2021 for the Trust).

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

12. 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, 2022:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 1,899,678	\$ 250,000	\$ 2,149,678
Board-designated endowment funds	13,806,874	-	-	13,806,874
	<u>\$ 13,806,874</u>	<u>\$ 1,899,678</u>	<u>\$ 250,000</u>	<u>\$ 15,956,552</u>

University endowment net assets consisted 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>

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

12. ENDOWMENTS – CONTINUED

University Endowments – Continued

Changes in the University’s endowment net assets consist of the following for the year ended September 30, 2022:

	<u>Unrestricted</u>	<u>Restricted Expendable</u>	<u>Restricted Nonexpendable</u>	<u>Total</u>
Endowment net assets at beginning of year	\$ 16,900,413	\$ 2,111,516	\$ 250,000	\$ 19,261,929
Interest and dividends, net of investment expenses	289,140	21,370	-	310,510
Realized and unrealized gains (losses) on investments	(3,382,679)	(233,208)	-	(3,615,887)
Change in endowment net assets	(3,093,539)	(211,838)	-	(3,305,377)
	<u>\$ 13,806,874</u>	<u>\$ 1,899,678</u>	<u>\$ 250,000</u>	<u>\$ 15,956,552</u>

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>

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

12. ENDOWMENTS – CONTINUED

Endowments of the University’s Component Units – Continued

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, 2022 and December 31, 2021, respectively.

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets at beginning of year	\$ 1,390,442	\$ 117,879,769	\$ 119,270,211
Investment return:			
Interest and dividends, net of investment expenses	968	2,149,912	2,150,880
Realized and unrealized losses on investments	-	(11,860,529)	(11,860,529)
Total investment return	968	(9,710,617)	(9,709,649)
Contributions and additions	861,545	4,868,145	5,729,690
Appropriation of endowment assets for expenditure	(592,670)	(3,907,617)	(4,500,287)
Endowment net assets at end of year	<u>\$ 1,660,285</u>	<u>\$ 109,129,680</u>	<u>\$ 110,789,965</u>

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, 2022 AND 2021**

12. ENDOWMENTS – CONTINUED

Endowments of the University’s Component Units – Continued

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.

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.

**ALABAMA STATE UNIVERSITY
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2022 AND 2021**

13. 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.

14. EFFECT OF NEW PRONOUNCEMENTS

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

GASB 96, Subscription-Based Information Technology Arrangements. This Statement provides accounting and financial reporting guidance for subscription-based information technology arrangements. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2022.

GASB 100, Accounting Changes and Error Corrections. This Statement prescribes accounting and financial reporting for each category of accounting change and error corrections. Requirements for this Statement are effective for financial statements whose fiscal year begins after June 15, 2023.

GASB 101, Compensated Absences. This Statement aligns recognition and measurement guidance for all types of compensated absences under a unified model which will result in governments recognizing a liability that more appropriately reflects when they incur an obligation for compensated absences. Requirements for this Statement are effective for financial statements whose fiscal year begins after December 15, 2023.

15. SUBSEQUENT EVENTS

On May 30, 2023, the University was notified by the U.S. Department of Education that they had been placed on Heightened Cash Monitoring 1 (HCM1). As a result, once disbursements are made to eligible students, the University must submit disbursement records to the Common Origination and Disbursement (COD) System prior to drawing down funds to cover those disbursements.

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, 2022

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

	<u>2022</u>	<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	0.637360%	0.641522%	0.641175%	0.671550%	0.67234%	0.71222%	0.77107%	0.71222%
Employer's proportionate share of the collective net pension liability	\$ 60,041,352	\$ 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	\$ 49,111,112	\$ 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	122.26%	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	76.44%	67.72%	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 5,940,500	\$ 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	\$ 5,940,500	\$ 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	\$ 49,111,112	\$ 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	12.10%	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 2022, the measurement period is October 1, 2020 – September 30, 2021
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, 2022

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

	2022	2021	2020	2019	2018
Employer's proportion of collective net OPEB liability	0.65830%	0.72711%	0.48929%	0.56287%	0.59637%
Employer's proportionate share of the collective net OPEB liability	\$ 34,013,081	\$ 47,188,557	\$ 18,459,776	\$ 46,260,910	\$ 44,295,403
Employer's covered payroll during the measurement period	\$ 49,111,112	\$ 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	69.26%	101.39%	40.25%	101.32%	97.22%
Plan fiduciary net position as a percentage of the total collective net OPEB liability	27.11%	19.80%	28.14%	14.81%	15.37%

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

	2022	2021	2020	2019	2018
Contractually required contribution	\$ 1,053,957	\$ 1,222,219	\$ 1,425,104	\$ 1,395,363	\$ 1,384,486
Contributions in relation to the contractually required contribution	\$ 1,053,957	\$ 1,222,219	\$ 1,425,104	\$ 1,395,363	\$ 1,384,486
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 49,111,112	\$ 46,540,741	\$ 45,861,391	\$ 45,658,735	\$ 45,563,104
Contributions as a percentage of covered payroll	2.15%	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 Schedules

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

Measurement period:

For fiscal year 2022, the measurement period is October 1, 2020 – September 30, 2021
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

Changes in Actuarial Assumptions

Changes to the actuarial assumptions as a result of the experience study for the five-year period ending June 30, 2020, are summarized below:

Price Inflation	2.50%
Investment Return	7.00%
Wage Inflation	2.75%
Mortality Rates (Pre-Retirement, Post-Retirement, Healthy and Disabled)	Update to Pub-2010 Public Mortality Plans Mortality Tables. For future mortality improvement, generational mortality improvement with mortality improvement scale MP-2020, with an adjustment of 66 2/3% to the table beginning in year 2019.
Retirement Rates	Deceased rates of retirement at most ages and extended retirement rates at age 80.
Withdrawal Rates	Changed from age-based table broken down by service bands to a pure service-based table. Used a liability weighted methodology in analyzing rates.
Disability Rates	Lowered rates of disability retirement at most ages.
Salary increases	No change to total assumption rates of salary increases, but increased merit salary by 0.25% to offset the recommended decrease in wage inflation assumption by 0.25%.

**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, 2022**

Recent Plan Changes

Beginning in plan year 2021, the 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 Health Plan is changed each year to reflect the 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, 2018, 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	23 years, closed
Asset Valuation Method	Market value of assets
Inflation	2.75%
Health Care Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
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.