Jacksonville State University Annual Financial Report

Fiscal Year 2018

Jacksonville State University
(A Component Unit of the State of Alabama)
Annual Financial Report
Fiscal Year 2018

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STATE

VICE PRESIDENT FOR FINANCE AND ADMINISTRATION/CFO
JACKSONVILLE STATE UNIVERSITY

LETTER OF TRANSMITTAL

July 1, 2019

Board of Trustees
Jacksonville State University

Dear Trustees,

On behalf of President Beehler, I am pleased to present to you the audited Annual Financial Statements of Jacksonville State University ("JSU") as of and for the years ended September 30, 2018 and 2017.

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

CDPA, PC, Certified Public Accountants, has performed the audit for the year ended September 30, 2018, and has issued an "unmodified" opinion, the most favorable outcome of the audit process. The audit opinion provides reasonable rather than absolute assurance that the financial statements are free of any material misstatements.

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

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion & Analysis.

Respectfully submitted,

Jim Brigham

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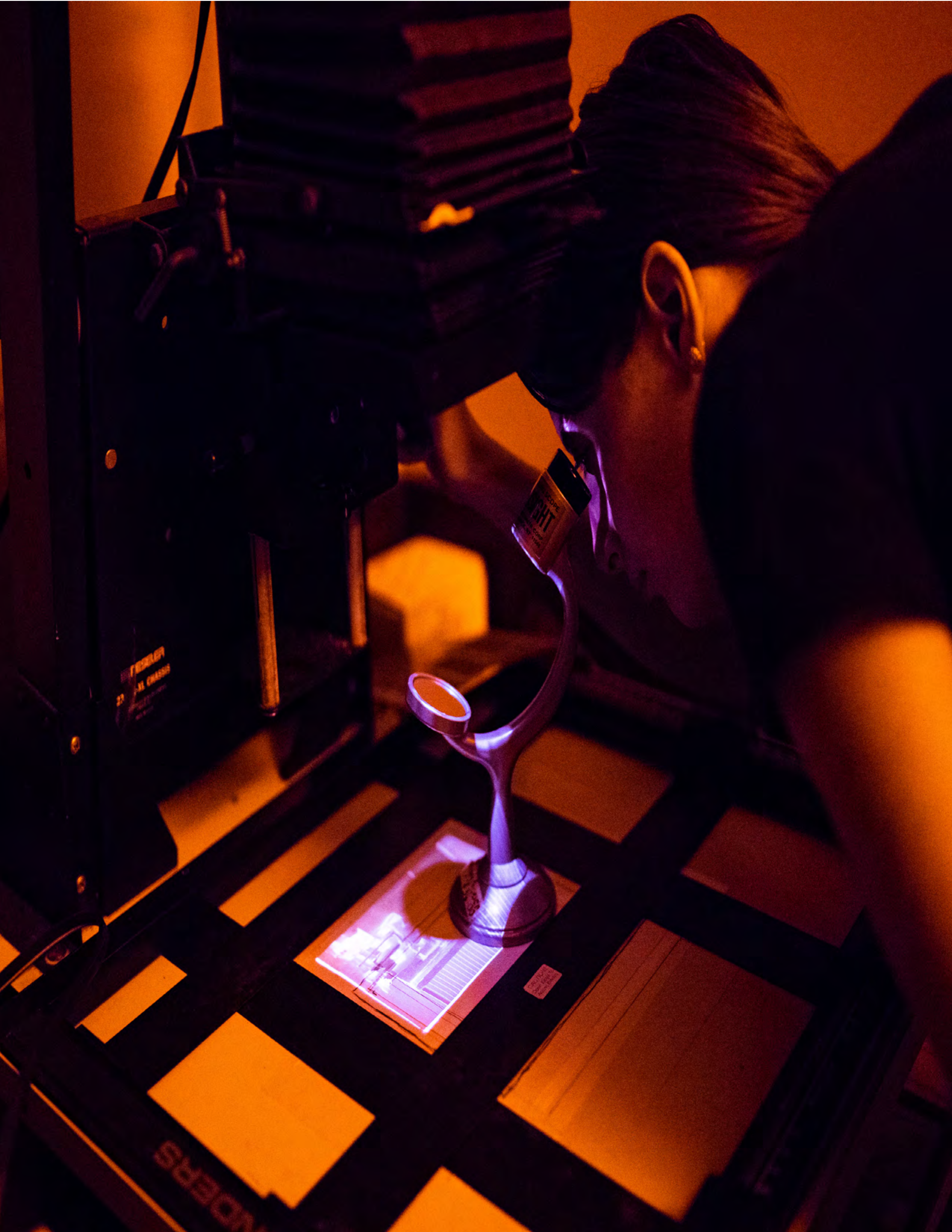

JACKSONVILLE STATE UNIVERSITY

University President

John M. Beehler, Ph.D., CPA


BIBB·GRAVES·HALL

JACKSONVILLE STATE UNIVERSITY

Jacksonville State University **Financial Statements**


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PART I

FINANCIAL STATEMENTS


JACKSONVILLE STATE UNIVERSITY
JACKSONVILLE, ALABAMA

CDPA PC
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Trustees
Jacksonville State University

Growing business. Adding Value.

Report on the Financial Statements

We have audited the accompanying financial statements of Jacksonville State University ("JSU" or "the University"), a component unit of the State of Alabama, as of and for the years ended September 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise JSU's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit, Jacksonville State University Foundation, Inc. (JSUF). JSUF's statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Jacksonville State University Foundation, Inc., is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. The financial statements of JSUF were not audited in accordance with *Government Auditing Standards.* Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of JSU and its discretely presented component unit as of September 30, 2018 and 2017, and the changes in its financial position and, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the basic financial statements, in the year ended September 30, 2018, JSU adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The October 1, 2017 net position has been restated to reflect changes resulting from the adoption of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

As discussed in Note 18 to the basic financial statements, during the year ended September 30, 2018, the University campus experienced significant damages as the result of an EF-3 tornado. This event resulted in an insurance recovery gain recognition during the year ended September 30, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 14, the schedule of Jacksonville State University's proportionate share of the net pension liability and OPEB liability on pages 72 and 73 respectively, the schedule of Jacksonville State University's pension and OPEB contributions on pages 74 and 75 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The Listing of Board of Trustees and University Officials on page 76 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019 on our consideration of Jacksonville State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on JSU's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Jacksonville State University's internal control over financial reporting and compliance.

CDPA, P.C.

Athens, AL
June 28, 2019

Introduction

The following discussion and analysis provides an overview of the financial position and activities of Jacksonville State University (University) for the years ended September 30, 2018 and 2017. This discussion has been prepared by management and should be read in conjunction with the financial statements including the notes thereto, which follow this section.

Using the Financial Statements

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

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

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

Statement of Net Position

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

Condensed Statements of Net Position
($ in thousands)

	2018	2017
Assets		
Current Assets	$108,921	$84,657
Capital Assets, net	183,067	112,207
Other Assets	10,191	17,503
Total Assets	302,179	214,367
Deferred Outflow of Resources		
Deferral on Refunding	5,359	5,734
Deferred Outflows Related to Pensions	13,228	13,878
Total Deferred Outflow of Resources	18,587	19,612
Liabilities		
Current Liabilities	74,493	49,874
Non-Current Liabilities	210,591	164,240
Total Liabilities	285,084	214,114
Deferred Inflow of Resources		
Deferred Inflows Related to Pensions	15,708	2,096
Net Position		
Invested in Capital, Net of Debt	109,630	35,263
Restricted-Expendable	13,030	11,414
Restricted-Non-Expendable	949	973
Unrestricted	(103,639)	(29,881)
	$19,970	$17,769

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

Current assets for September 30, 2018 includes $58,827,000 in Accounts Receivable including $33,793,000 due from the state insurance fund that was collected through April 2019. Current assets also include $1,034,000 short term investments. Noncurrent assets include long term investments of $9,994,000.

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

For fiscal year 2018, deferral on refunding reflects the difference between the reacquisition price and the net carrying amount of the refunded bonds of $5,359,000, which will be amortized as a component of interest expense in future periods. The remainder of deferred outflow of resources represents the accounting standards on pensions (GASB 68) and OPEB obligations (GASB 75). The University implemented GASB 75 during fiscal year 2018, which resulted in deferred outflows of resources from OPEB obligations of $1,722,000. The balance of $11,506,000 is due to employee pension cost that has not been considered when calculating our pension liability by the Retirement System of Alabama (RSA) actuarial consultant.

For fiscal year 2017, deferral on refunding reflects the difference between the reacquisition price and the net carrying amount of the refunded bonds in future fiscal years of $5,734,000, which will be amortized as a component of interest expense in future periods. The remainder of deferred outflow of resources represents the accounting standard on pensions (GASB 68). This $13,878,000 is due, in part, to employee pension cost that has not been considered when calculating our pension liability by the Retirement System of Alabama (RSA) actuarial consultant.

Total liabilities are categorized as either current liabilities or noncurrent liabilities on the Statement of Net Position. Current liabilities are those due or likely to be paid in the next fiscal year. They are primarily comprised of accounts payable, accrued payroll, compensated absences, unearned revenue and other expenses and amounts due in the next year on debt. Noncurrent liabilities are comprised mostly of long-term debt and net pension liability. During fiscal year 2018, total liabilities increased $70,970,000 to a total of $285,084,000. During fiscal year 2017, total liabilities increased $20,138,000 to a total of $214,114,000.

Total debt outstanding, which includes capital lease obligations, decreased from $84,607,000 at September 30, 2017 to $80,742,000 at September 30, 2018.

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

For fiscal year 2018, deferred inflow of resources represents pension obligations in the amount of $7,793,000. The University implemented GASB 75 during fiscal year 2018, which resulted in deferred inflows of resources from OPEB obligations of $7,915,000.

For fiscal year 2017, deferred inflow of resources represents pension obligations in the amount of $2,096,000.

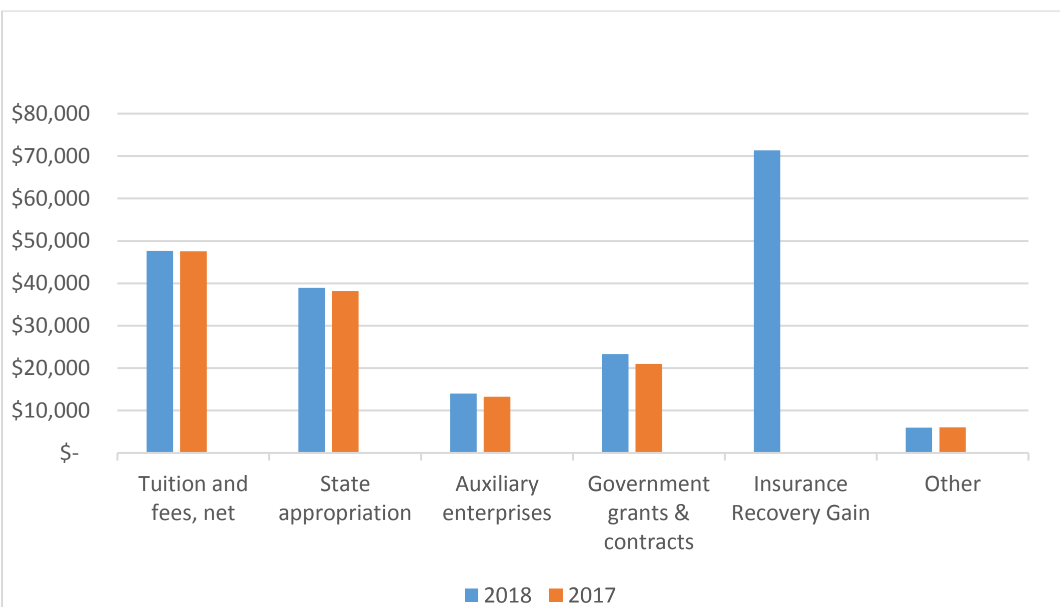
Statement of Revenues, Expenses and Changes in Net Position

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

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

	2018	2017
Operating Revenues	$ 75,777	$ 73,869
Operating Expenses	(151,004)	(126,242)
Operating Loss	(75,227)	(52,373)
Net nonoperating revenues	122,429	49,245
Income before other revenue, expenses, gains or losses	47,202	(3,128)
Other revenues, expenses, gains or losses	12,285	-
Change in Net Position	59,487	(3,128)
Net position at beginning of year	17,769	20,897
Adoption of GASB 75	(57,286)	-
Net position at end of year	$ 19,970	$ 17,769

Operating and Nonoperating Revenues by Year ($ in thousands)



The Statement of Revenues, Expenses and Changes in Net Position for 2018 reflects an overall increase in net position of 12%, or $59,487,000. The Statement of Revenues, Expenses and Changes in Net Position for 2017 reflects an overall decrease in net position of 15%, or $3,128,000. Major changes in revenues for 2018 are described below.

Gross student tuition and fee revenue totaled $72,872,000 in 2018 as compared to $69,852,000 in 2017, an increase of $3,020,000.

Grant and contract revenue from government sponsors totaled $20,320,000 for 2018, as compared to $17,752,000 in 2017. This includes an increase in Pell revenue of $1,118,000 or 6.3%.

State appropriation increased by $689,000 or 2% from $38,209,000 in 2017 to $38,898,000 in 2018.

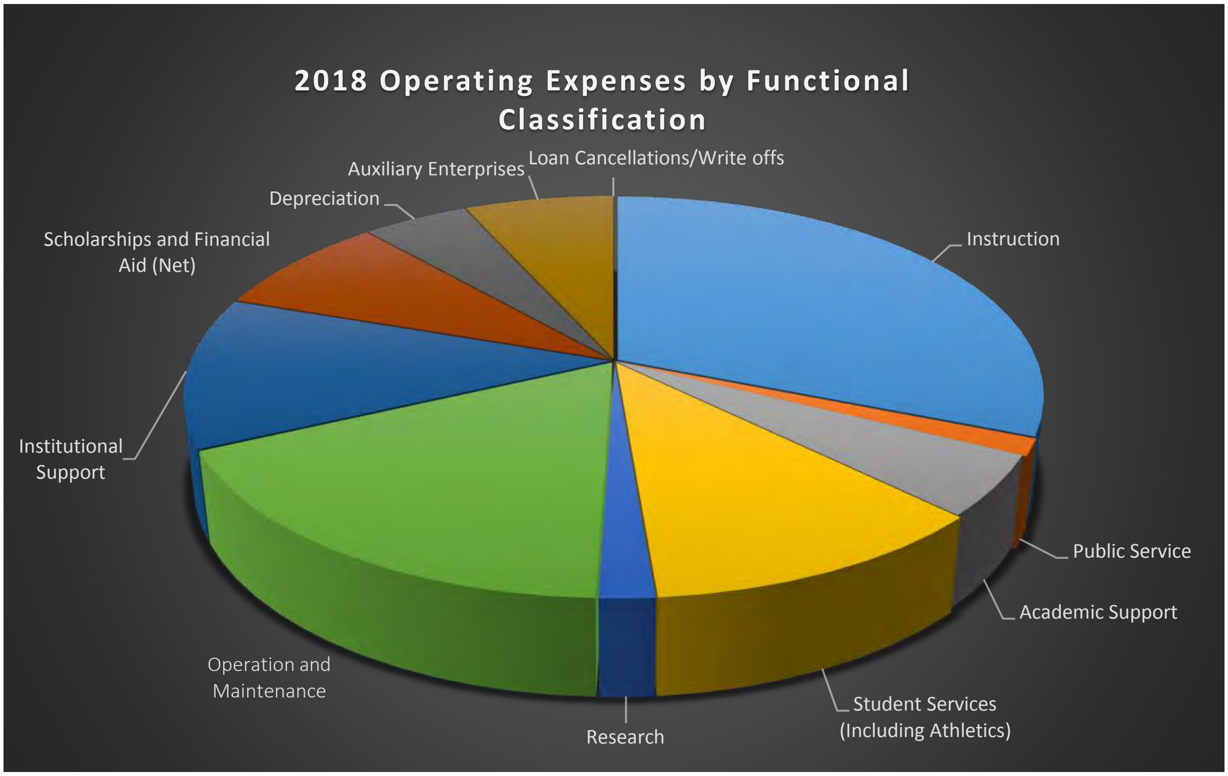
Auxiliary revenues increased by $752,000 or 6% from $13,248,000 in 2017 to $14,000,000 in 2018. This increase is primarily attributable to housing and meal plans.

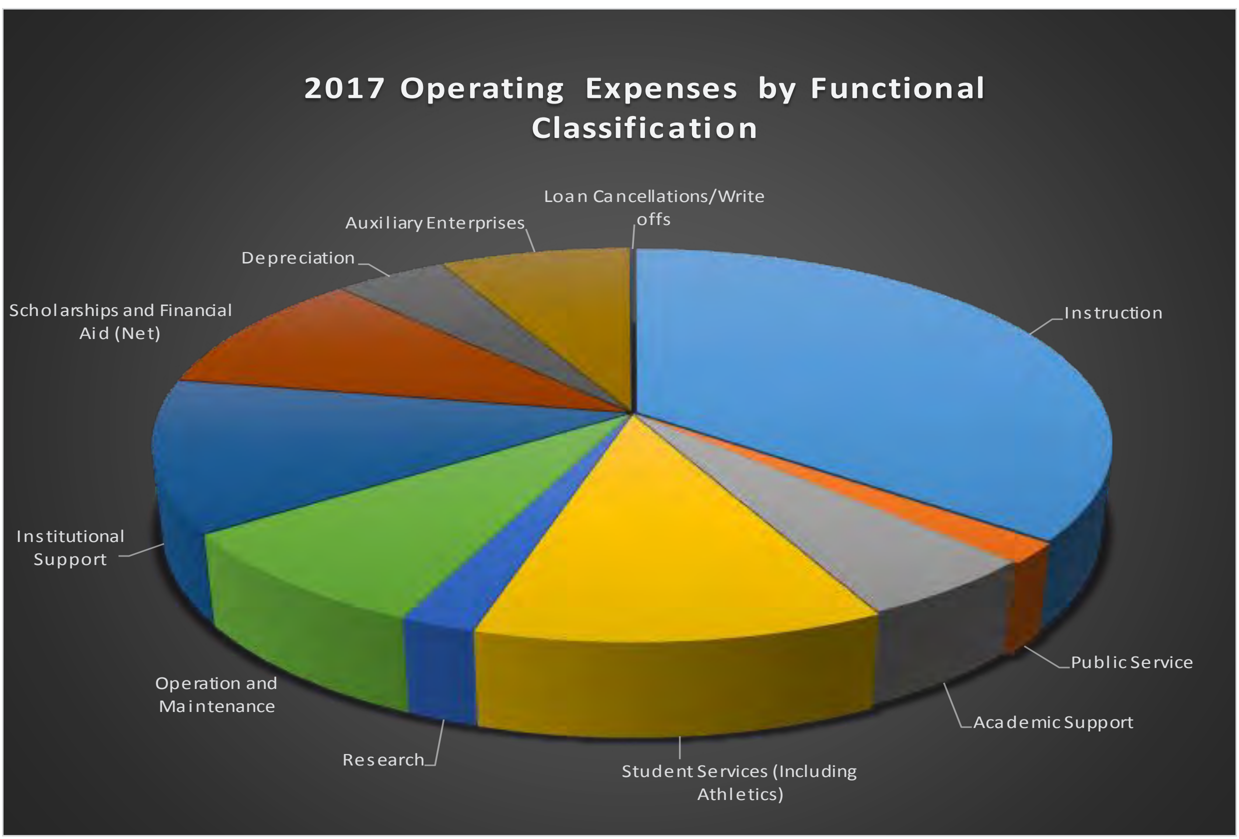
A comparison of operating expenses by functional and natural classification for selected fiscal years follows:

Operating Expenses

Functional Classification ($ in thousands)

		2018	%		2017	%
Instruction	$	46,909	31.1%	$	44,779	35.5%
Public Service		2,054	1.4%		2,204	1.7%
Academic Support		7,409	4.9%		6,833	5.4%
Student Services (Including Athletics)		17,189	11.4%		15,128	12.0%
Research		2,691	1.8%		2,717	2.2%
Operation and Maintenance		26,487	17.5%		10,747	8.5%
Institutional Support		18,489	12.2%		15,846	12.6%
Scholarships and Financial Aid (Net)		12,429	8.2%		12,749	10.1%
Depreciation		7,184	4.8%		5,607	4.4%
Auxiliary Enterprises		10,130	6.7%		9,532	7.6%
Loan Cancellations/Write offs		33	0.0%		100	0.0%
	$	151,004	100.0%	$	126,242	100.0%


2018 Operating Expenses by Functional Classification
Loan Cancellations/Write offs
Auxiliary Enterprises
Depreciation
Scholarships and Financial Aid (Net)
Instruction
Institutional Support
Public Service
Academic Support
Operation and Maintenance
Student Services (Including Athletics)
Research


2017 Operating Expenses by Functional Classification
Loan Cancellations/Write offs
Auxiliary Enterprises
Depreciation
Scholarships and Financial Aid (Net)
Instruction
Institutional Support
Public Service
Operation and Maintenance
Academic Support
Research
Student Services (Including Athletics)

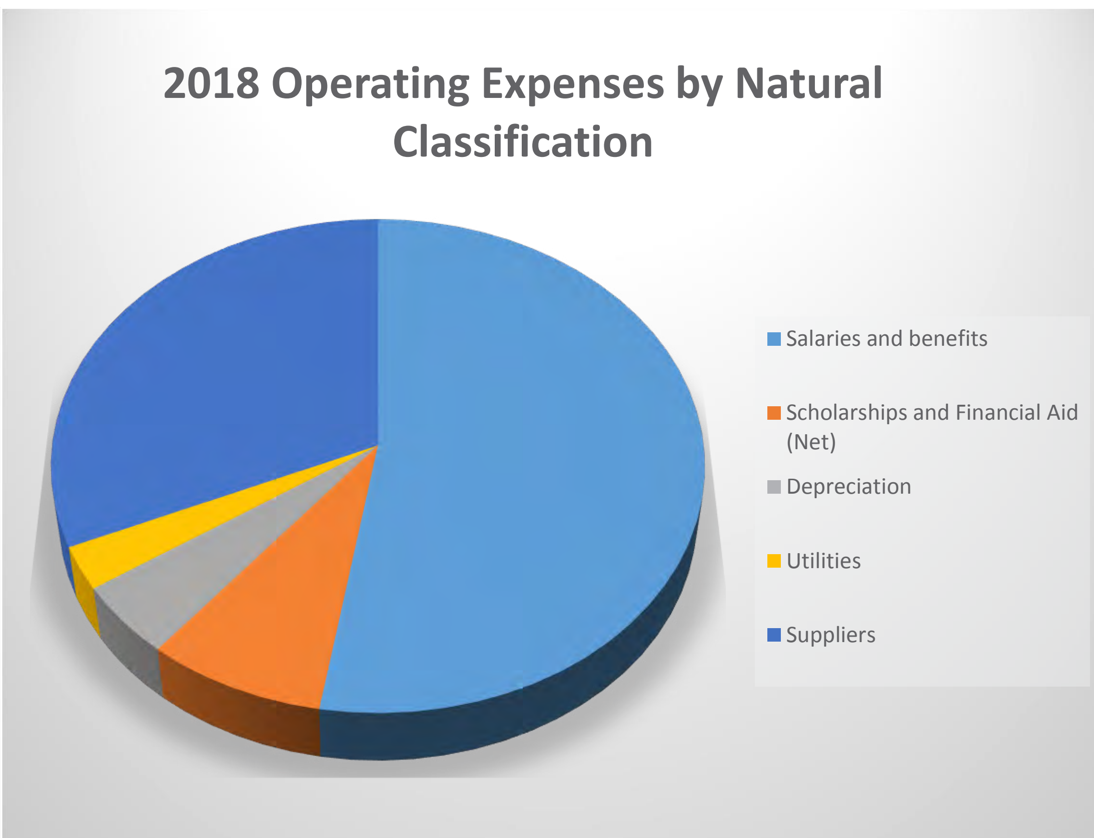
For fiscal year 2018, total operating expenses increased by $24,762,000 or 20% primarily due to increased pension expense of $766,000 and increased salaries and benefits of $2,116,000 or 2.07%.

For fiscal year 2017, total operating expenses increased by $7,563,000 or 6% primarily due to increased pension expense of $2,474,000 and increased salaries and benefits of $2,838,000 or 3.9%.

Operating Expenses

Natural Classification ($ in thousands)

		2018	%		2017	%
Salaries and benefits	$	79,490	52.6%	$	77,374	61.3%
Scholarships and Financial Aid (Net)		12,429	8.2%		12,749	10.1%
Depreciation		7,184	4.8%		5,607	4.4%
Utilities		4,237	2.8%		3,982	3.2%
Suppliers		47,664	31.6%		26,530	21.0%
	$	151,004	100.0%	$	126,242	100.0%



A portion of University resources applied to student accounts for tuition, fees, or room and board are not reported as student aid expense, but are reported in the financial statements as a scholarship allowance, directly offsetting student tuition and fee revenue or auxiliary revenue. Scholarship allowances totaled $25,210,000 in 2018 and $22,283,000 in 2017. In addition to the allowances, students participate in governmental financial aid/loan programs. The loans are neither recorded as revenue or expense in the financial statements, but are recorded in the Statements of Cash Flows as direct lending receipts totaling $30,545,000 and $39,323,000 in 2018 and 2017, respectively.

Condensed Statements of Cash Flows
($ in thousands)

	2018	2017
Cash provided (used) by:		
Operating activities	$ (48,294)	$ (44,845)
Non-capital financing activities	47,849	48,379
Capital and related financing activities	(24,119)	(12,190)
Investing activities	11,058	7,675
Net change in cash	(13,506)	(981)
Cash, beginning of year	49,165	50,146
Cash, end of year	$ 35,659	$ 49,165

During fiscal year 2018, the University's total cash balance decreased by $13.5 million.

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

Capital and Debt Activities

Construction in progress at September 30, 2018 totaled $56,280,000 and included the following major projects: Baseball complex and multiple buildings undergoing major repairs from damage sustained from the EF-3 tornado.

At September 30, 2018, $174,000 remains unexpended from refunding bond proceeds and is committed to capital projects.

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

At September 30, 2017, $1,930,765 remained unexpended from refunding bond proceeds and was committed to capital projects.

Debt and Capital Leases

At September 30, 2018, total debt outstanding, including capital leases, totaled $80,742,000. At September 30, 2017, total debt outstanding, including capital leases, totaled $84,607,000.

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

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

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

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

Other Economic and Financial Conditions

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

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

On March 19, 2018, the University sustained significant damage from an EF-3 tornado. Multiple buildings were damaged and recovery efforts are in process.

The University broke ground on a new baseball stadium in April 2017. The facility is expected to cost $10.5 million and be completed in 2019.

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

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

Tornado Damage and Recovery Effects

On March 19, 2018 the University was hit by an EF-3 tornado damaging approximately 50 buildings and destroying three additional buildings. The affected buildings included campus housing along with academic buildings. The University has insurance to cover most of the damage. On April 26, 2018, the President of the United States declared the areas affected by the tornadoes on March 19th a disaster area. This declaration included all categories of work (listed below):

Category A: Debris Removal
Category B: Emergency Protective Measures
Category C: Roads and Bridges
Category E: Buildings and Contents
Category G: Parks, Recreational Areas, and other Facilities
Category Z: Direct Administrative Costs

FEMA Reimbursements

The University has requested and received reimbursement for the cost of debris removal, campus safety and a portion of lighting. The cost of eligible expenses not reimbursed by insurance will be reimbursed by FEMA through the Public Assistance program. For this disaster, expenses for cleanup and repairs are reimbursed by FEMA at 75 percent with the State of Alabama providing 12.5 percent of the local match, and the University providing the remaining 12.5 percent of the cost.

Capital Contribution

On July 23, 2018, the Health Care Authority of the City of Anniston donated property located on Highway 21 in Jacksonville, Alabama to the University. Having this property available to the University provided much needed space for the School of Health, Professions and Wellness.

Jacksonville State University
Statement of Net Position (in thousands)
September 30, 2018 and 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2018	2017
Current Assets		
Cash and Cash Equivalents	$ 35,659	$ 49,165
Accounts Receivable, Net of Allowance for Doubtful Accounts of $897 and $1,088	58,827	18,457
Prepaid Expenses and Unearned Scholarships	13,401	13,392
Investments	1,034	3,643
Total Current Assets	108,921	84,657
Noncurrent Assets		
Notes Receivable, Net of Allowance for Doubtful Accounts of $126 and $141	197	205
Deposit with Bond Trustee	1,137	1,163
Investments	8,802	16,081
Investment in Real Estate	55	55
Land	6,315	4,924
Capital Assets	323,304	243,597
Less: Accumulated Depreciation	(146,552)	(136,315)
Total Noncurrent Assets	193,258	129,710
Total Assets	$ 302,179	$ 214,367
Deferred Outflow of Resources		
Deferred Outflows of Resources Related to Refunding of Debt	5,359	5,734
Deferred Outflows of Resources Related to Pensions	13,228	13,878
Total Deferred Outflows of Resources	$ 18,587	$ 19,612

Jacksonville State University
Statement of Net Position (in thousands)
September 30, 2018 and 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	2018	2017
Current Liabilities		
Accounts Payable and Accrued Liabilities	$ 27,702	$ 5,118
Wages Payable	3,920	3,563
Student Deposits	16	16
Unearned Revenue	37,708	36,427
Compensated Absences	844	852
Bonds Payable	4,184	3,809
Capital Lease Payable	69	63
Tuition Paid in Advance	50	26
Total Current Liabilities	74,493	49,874
Noncurrent Liabilities		
Compensated Absences	1,493	1,082
Bonds Payable	76,486	80,669
Capital Lease Payable	3	66
Due to State of Alabama	5,947	-
Deposits Held in Custody	1,377	1,441
Net Pension Liability	73,194	80,982
OPEB Liability	52,091	-
Total Noncurrent Liabilities	210,591	164,240
Total Liabilities	$ 285,084	$ 214,114
Deferred Inflows of Resources		
Deferred Inflows of Resources Related to Pensions	$ 15,708	$ 2,096
Net Position		
Invested in Capital Assets, Net of Related Debt	109,630	35,263
Restricted		
Nonexpendable	949	973
Expendable		
Scholarships and Fellowships	8,618	7,650
Loans	2,638	2,591
Debt Service	1,147	1,173
Capital Projects	627	-
Unrestricted	(103,639)	(29,881)
Total Net Position	$ 19,970	$ 17,769

Jacksonville State University Foundation, Inc.
Discretely Presented Component Unit
Statement of Financial Position
December 31, 2017 and 2016

	2017	2016
Assets		
Cash and Cash Equivalents	$ 2,671,264	$ 1,949,462
Cash-Restricted Project Funds	35,864,313	-
Prepaid Insurance	5,442	5,336
Investments	35,199,600	32,693,799
Charitable Remainder Trusts, Restricted	1,184,078	1,136,929
Unconditional Promises to Give, Net	938,363	1,393,941
Note Receivable from JSUF Real Estate Holding Co., LLC	20,916	20,916
Oher Receivables	41,055	-
Property and Equipment, Net	10,842,619	132,043
Total Assets	$ 86,767,650	$ 37,332,426
Liabilities		
Accounts Payable	$ 1,187,788	$ 8,050
Charitable Trusts	216,892	241,085
Refundable Advances	1,953,505	1,808,746
Bonds Payable	44,934,318	-
Accrued Interest on Bonds Payable	309,293	-
Total Liabilities	48,601,796	2,057,881
Net Assets		
Unrestricted	908,175	343,709
Temporarily Restricted	25,646,026	23,460,870
Permanently Restricted	11,611,653	11,469,966
Total Net Assets	38,165,854	35,274,545
Total Liabilities and Net Assets	$ 86,767,650	$ 37,332,426

Jacksonville State University
Statement of Revenues, Expenses and Changes in Net Position (in thousands)
For the Years Ended September 30, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Student Tuition and Fees, Net of Scholarship Allowances of $25,210 and $22,283	$ 47,663	$ 47,569
Federal Grants and Contracts	6,601	5,151
State and Local Grants and Contracts	2,965	3,211
Nongovernmental Grants and Contracts	2,180	1,831
Sales and Services of Educational Departments	81	72
Athletic Income	2,094	2,671
Other Operating Revenues	193	116
Auxiliary Enterprises:		
Residential Life	7,273	6,737
Sales and Service	6,721	6,472
Other	6	39
Total Operating Revenues	75,777	73,869
OPERATING EXPENSES		
Instruction	46,909	44,779
Public Service	2,054	2,204
Academic Support	7,409	6,833
Student Services, including Athletics	17,189	15,128
Research	2,691	2,717
Operation and Maintenance	26,487	10,747
Institutional Support	18,489	15,846
Scholarships and Financial Aid	12,429	12,749
Depreciation	7,184	5,607
Auxiliary Enterprises	10,130	9,532
Loan Cancellations and Writeoffs	33	100
Total Operating Expenses	151,004	126,242
Operating Income (Loss)	(75,227)	(52,373)
NONOPERATING REVENUES (EXPENSES)		
State Appropriations	38,898	38,209
Federal Grants	13,719	12,601
Investment Income	1,172	1,113
Bond Issuance Cost	-	(461)
Bond Fees	(24)	(17)
Loss on Disposal of Capital Assets	(9)	-
Rental of Facilities	221	229
Other Nonoperating Revenue	19	3
Interest on Debt	(2,963)	(2,432)
Insurance Recovery Gain- Tornado	71,367	-
Insurance Recovery Gain- Other	29	-
Net Nonoperating Revenues	122,429	49,245
Excess of Revenues over Expenses	47,202	(3,128)
Capital Contributions Received	12,285	-
Change In Net Position	59,487	(3,128)
Total Net Position - Beginning of Year	17,769	20,897
Adjustment for Change in Accounting Principle (Note 1)	(57,286)	-
Total Net Position - End of Year	$ 19,970	$ 17,769

Jacksonville State University Foundation, Inc.
Discretely Presented Component Unit
Statement of Activities
For the Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support:				
Contributions	$ -	$ 1,466,865	$ 141,687	$ 1,608,552
Investment Income	4,478	654,035	-	658,513
Realized Gain	2,470	471,148	-	473,618
Unrealized Gain	10,931	1,927,888	-	1,938,819
In-kind Gifts	316,549	45,209	-	361,758
Other Income	-	628,377	-	628,377
Management Fee Income	305,929	-	-	305,929
Service Fee Income	734,000	-	-	734,000
Total Revenue and Support	1,374,357	5,193,522	141,687	6,709,566
Net Assets Released from Restrictions	3,008,366	(3,008,366)	-	-
Net Revenue and Support	4,382,723	2,185,156	141,687	6,709,566
Expenses				
Program Services:				
JSU Supportive Services	3,652,982	-	-	3,652,982
Total Program Services	3,652,982	-	-	3,652,982
Fundraising	127,405	-	-	127,405
Management and General	37,870	-	-	37,870
Total Expenses	3,818,257	-	-	3,818,257
Change in Net Assets	564,466	2,185,156	141,687	2,891,309
Net Assets - Beginning of Year	343,709	23,460,870	11,469,966	35,274,545
Net Assets - End of Year	$ 908,175	$25,646,026	$11,611,653	$38,165,854

Jacksonville State University Foundation, Inc.
Discretely Presented Component Unit
Statement of Activities
For the Year Ended December 31, 2016

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

Jacksonville State University
Statement of Cash Flows (in thousands)
For the Years Ended September 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and Fees	$ 47,731	$ 46,451
Federal Grants and Contracts	400	4,025
State and Local Grants and Contracts	6,470	5,214
Sales and Services of Educational Departments	81	72
Athletic Income	2,084	2,730
Auxiliary	14,062	13,480
Other Operating Revenues	193	116
Payments to Suppliers	(25,329)	(25,140)
Payments for Utilities	(4,237)	(3,982)
Payments for Employees	(58,875)	(53,958)
Payments for Benefits	(18,536)	(20,509)
Payments for Scholarships	(12,338)	(13,344)
Net Cash Used in Operating Activities	(48,294)	(44,845)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State and Local Appropriations	38,898	38,209
Federal Grants	10,889	13,235
Federal Direct Loan Receipts	30,545	39,323
Federal Direct Loan Disbursements	(36,969)	(38,730)
Advance to JSU Foundation	4,307	(4,307)
Deposit Held for Others	(62)	435
Other Nonoperating Revenues (Expenses)	241	214
Net Cash Provided by Noncapital Financing Activities	47,849	48,379
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Other Financing Source – Proceeds of Loan	5,947	44,880
Other Financing Source – Proceeds from Insurance Recovery	42,000	(35,185)
Capital Grants and Gifts	12,285	2,415
Principal Paid on Capital Debt	(3,564)	(3,340)
Payments on Capital Leases	(57)	(64)
Purchases of Capital Assets and Construction	(77,900)	(17,856)
Bond Issuance Costs	(24)	(576)
Interest Paid on Capital Debt	(2,806)	(2,464)
Net Cash Provided in Capital and Related Financing Activities	(24,119)	(12,190)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Income	1,172	245
Proceeds from Sale and Maturity of Investments	18,351	9,161
Purchase of Investments	(8,464)	(1,731)
Net Cash Provied by (Used in) Investing Activities	11,058	7,675
Net Increase (Decrease) in Cash and Cash Equivalents	(13,506)	(981)
Cash and Cash Equivalents - Beginning of Year	49,165	50,146
Cash and Cash Equivalents - End of Year	$ 35,659	$ 49,165

Jacksonville State University
Statement of Cash Flows (in thousands)
For the Years Ended September 30, 2018 and 2017

	2018	2017
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating Income (Loss)	(75,227)	(52,373)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities		
Provision for Doubtful Accounts	(113)	500
Depreciation Expense	7,184	5,607
Changes in Assets and Liabilities:		
Change in Accounts Receivable	(6,262)	(4,963)
Change in Prepaid Expenses and Unearned Scholarships	(9)	(708)
Change in Notes Receivable	8	87
Change in Compensated Absences	404	75
Change in Payables	22,942	1,164
Change in Other Liabilities	-	(8)
Change in Pension Related Deferrals and Liabilities	1,258	2,672
Change in Unearned Revenue	1,521	3,102
Net Cash Used in Operating Activities	$ (48,294)	$ (44,845)

Noncash Investing, Capital, and Financing Activities:

The University held investments with a fair value of $11,028 at September 30, 2018. During the year ended September 30, 2018, the net change in the fair value of these securities was $66.

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

During the years ended September 30, 2018 and 2017, the University received noncash contributed assets of $12,285 and $0, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Jacksonville State University (the "University" or "JSU") are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Jacksonville State University are described below.

A. Reporting Entity

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

B. Component Units

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

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

The financial statements of Jacksonville State University have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The Statement of Revenues, Expenses, and Changes in Net Position distinguishes between operating and nonoperating revenues. Operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of the University. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Nonoperating revenues arise from exchange transactions not associated with the University's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations.

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

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

1. Deposits and Investments

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

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

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

2. Receivables

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

3. Capital Assets

Equipment, furniture, and vehicles with a unit cost over $5,000 and an estimated useful life in excess of one year; buildings and building improvements with a unit cost over $100,000 and an estimated useful life in excess of one year, land improvements with a unit cost over $75,000 and an estimated useful life in excess of one year, and all library books, are recorded at historical cost or estimated historical cost if purchased or constructed. The capitalization threshold for intangible assets such as capitalized software and internally-generated computer software is $1 million, and $200,000 for easements and land use rights and patents, trademarks, and copyrights. In addition, works of art, historical treasures, and similar assets are recorded at their historical cost. Donated capital assets are recorded at fair market value at the date of donation. Land, construction in progress and intangible assets with indefinite lives are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its life is not capitalized.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, was implemented during 2018 (See Note 1-15). Interest expense related to on-going capitalized assets was therefore expensed during the year and not capitalized as in previous years. The statement was implemented prospectively per guidance, therefore there was no restatement of prior year capitalized amounts.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, that significantly increase values, change capacities or extend useful lives, are capitalized. Upon the sale or retirement of fixed assets being depreciated using the straight-line method, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operation.

The method of depreciation and useful lives of the capital assets are as follows:

Assets	Depreciation Method	Useful Lives
Buildings and Improvements	Straight Line	40 Years
Improvements Other Than Buildings	Straight Line	5 Years
Equipment:		
Furniture, Office Equipment, Automobiles, Computer Hardware and Software, Cameras	Straight Line	4 Years
Athletic Equipment, Grounds Equipment	Straight Line	8 Years
Library Materials	Composite	8 Years
Capitalized Software	Straight Line	8 Years
Internally-Generated Computer Software	Straight Line	8 Years
Easement and Land Use Rights	Straight Line	20 Years
Patents, Trademarks, and Copyrights	Straight Line	20 Years

4. Long-Term Obligations

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

5. Compensated Absences

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

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

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

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

6. Prepaid Expenses and Unearned Scholarships

Prepaid expenses and unearned scholarships consist primarily of prepaid costs resulting from the Fall academic term spanning across the fiscal year end. The University prorates scholarship expense to recognize only the amounts incurred in each fiscal year.

7. Unearned Revenue

Unearned revenue consists primarily of amounts received for Fall student tuition and fees that are not earned until the next fiscal year. Unearned revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

8. Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

9. Deferred Inflows of Resources

Deferred inflows of resources are reported in the Statement of Net Position. Deferred inflows of resources are defined as an acquisition of net position by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position, similar to liabilities.

10. Net Position

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

Invested in Capital Assets, Net of Related Debt - Capital assets, including restricted capital assets, reduced by accumulated depreciation and by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.

Restricted:

Nonexpendable - Net position subject to externally imposed stipulations that it be maintained permanently by the University. Such assets include the University's permanent endowment funds.

Expendable - Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

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

11. Change in Accounting Principle

During the year ended September 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. This statement revises existing standards for measuring and reporting retiree health benefits provided by the University to its employees. The University is required to recognize a liability equal to the net retiree health benefit liability. The implementation of GASB 75 resulted in beginning Net Position restated as follows:

Beginning Net Position October 1, 2017	$17,768,858
Adoption of GASB 75	(57,285,640)
Net Position October 1, 2017, as Restated	$(39,516,782)

12. Federal Financial Assistance Programs

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

13. Scholarship Allowances and Student Aid

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

14. Pensions

The Teachers' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

15. Postemployment Benefits Other Than Pensions (OPEB)

The Alabama Retired Education Employees' Health Care Trust (Trust) financial statements are prepared by 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 Trust and additions to/deductions from the 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. Subsequent events were evaluated by management through the date the financial statements were issued.

16. Recent Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement establishes requirements for accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB) and replaces the requirements of GASB Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans,* for OPEB. This statement is effective for periods beginning after June 15, 2017. The University is currently evaluating the impact of this pronouncement on their financial statements.

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

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

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

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

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

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The University implemented this statement during the year and notes the change did not have a material effect at the financial statement level.

17. Subsequent Events

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, which was the date the financial statements were available to be issued.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

The University's deposits in banks at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975,* Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance. At September 30, 2018 and 2017, JSU deposits held by financial institutions participating in the SAFE program totaled $12,167,434 and $12,202,328, respectively.

The Statement of Net Position classification "cash and cash equivalents" includes all readily available cash such as petty cash, demand deposits, and certificates of deposits with maturities of three months or less.

B. Investments

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

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

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

Investments' fair value measurements are as follows at September 30, 2018:

		Fair Value Measurements Using		
Investments	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Bonds	$5,220,539	$5,220,539	$ -	$ -
Mutual Funds	5,558,325	5,558,325	-	-
Stocks	181,918	181,918	-	-
Real Estate	54,637	-	-	54,637
	$11,015,419	$10,960,782	$ -	$ 54,637
Investments Valued Using Cost-Based Measures				
Certificates of Deposit	12,500			
Total Investments	$11,027,919			

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

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

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

During the year ended September 30, 2018, the University realized gains of $1,856,482 from the disposal of investments. During the year ended September 30, 2017, the University realized gains of $14,789 from the disposal of investments. The calculation of realized losses is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The University had unrealized gains during the years ended September 30, 2018 and 2017 of $65,614 and $576,772, respectively.

Interest Rate Risk – This risk pertains to changes in interest rates that adversely affect the fair value of an investment. While there is an active market for the below investments, generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The University does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate risk.

At September 30, 2018, the University had the following investments subject to interest rate risk:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1 Year	1-5	6-10	Thereafter
Bonds	$5,220,539	$2,170,860	$3,049,679	$ -	$ -
Total	$5,220,539	$2,170,860	$3,049,679	$ -	$ -

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

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

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

Investment Type	Rating	Percentage
Bonds	AAA	100%

Custodial Credit Risk – For an investment, this is the risk that, in the event of the failure of a counterparty, the government will not be able to cover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have an investment policy that limits the amount of securities that can be held by counterparties.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The University does not have a formal investment policy limiting investments to any one issuer to less than five percent of the University's total investments. At September 30, 2018, the University had $4,343,675 in mutual funds issued by Ameriprise Financial, $959,060 in a Large Cap Value Fund issued by Legg Mason Global Asset Management and $4,083,839 in bonds with Regions Bank. At September 30, 2017, the University had $3,680,742 in mutual funds issued by Ameriprise Financial, $901,914 in a Large Cap Value Fund issued by Legg Mason Global Asset Management and $12,699,837 in bonds with Regions Bank.

For the University Trustee that Holds Bond Funds

At September 30, 2018 and 2017, the University had $1,136,700 and $1,163,150, respectively, in accounts administered by its bond trustee. In accordance with the covenants of the University's Revenue Bonds, the trustee is permitted to invest these funds in direct general obligations of the United States or securities the payment of which is unconditionally guaranteed by the United States.

NOTE 3 - RECEIVABLES

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

	2018	2017
Accounts Receivable:		
Federal	$ 16,372,332	$ 3,372,860
State	37,015,656	5,311,656
Other	1,562,681	6,139,818
Student Accounts Receivable	4,773,031	4,719,890
Less: Allowance for Doubtful Accounts	(896,719)	(1,087,660)
Total Accounts Receivable, Net	58,826,981	18,456,564
Notes Receivable:		
Loans	322,584	345,745
Less: Allowance for Doubtful Accounts	(125,645)	(141,020)
Total Notes Receivable, Net	196,939	204,725
Total Receivables, Net	$ 59,023,920	$ 18,661,289

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018, was as follows:

	Balance October 1, 2017	Additions	Deductions	Transfers	Balance September 30, 2018
Land	$ 4,923,579	$ 1,391,800	$ -	$ -	$ 6,315,379
Buildings	176,299,396	22,464,759		11,788,639	210,552,794
Improvement Other than Buildings	12,271,288	915,359	-	3,159,364	16,346,011
Equipment	20,438,577	1,164,295	(1,108,306)	-	20,494,566
Library Holdings	19,484,749	409,873	(265,230)	-	19,629,392
Construction in Progress	15,102,855	56,125,914	-	(14,948,003)	56,280,766
Total	248,520,444	82,472,000	(1,373,536)	-	329,618,908
Less: Accumulated Depreciation					
Buildings	88,833,717	9,061,325	-	-	97,895,042
Improvements Other than Buildings	11,910,942	819,816	-	-	12,730,758
Equipment	17,673,216	1,305,029	(1,098,889)	-	17,879,356
Library Holdings	17,896,900	416,119	(265,230)	-	18,047,789
Total Accumulated Depreciation	136,314,775	11,602,289	(1,364,119)	-	146,552,945
Total Capital Assets, Net	$ 112,205,669	$ 70,869,711	$ (9,417)	$ -	$ 183,065,963

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

	Balance October 1, 2016	Additions	Deductions	Transfers	Balance September 30, 2017
Land	$ 4,923,579	$ -	$ -	$ -	$ 4,923,579
Buildings	175,324,390	920,089	(55)	54,972	176,299,396
Improvement Other than Buildings	12,073,743	186,084	-	11,461	12,271,288
Equipment	18,877,567	1,521,746	(120,150)	159,414	20,438,577
Library Holdings	19,483,557	385,223	(384,031)	-	19,484,749
Construction in Progress	343,855	14,984,847	-	(225,847)	15,102,855
Total	231,026,691	17,997,989	(504,236)	-	248,520,445
Less: Accumulated Depreciation					
Buildings	84,947,490	3,886,227	-	-	88,833,717
Improvements Other than Buildings	11,803,996	106,946	-	-	11,910,942
Equipment	16,608,521	1,184,845	(120,150)	-	17,673,216
Library Holdings	17,852,028	428,902	(384,030)	-	17,896,900
Total Accumulated Depreciation	131,212,035	5,606,920	(504,180)	-	136,314,775
Total Capital Assets, Net	$ 99,814,656	$12,391,069	$ -	$ -	$ 112,205,669

Total interest incurred for the year ended September 30, 2018 was $2,963,219, all of which was charged to expense. Total interest incurred for the year ended September 30, 2017 was $2,573,778. Of this amount, $141,944 was capitalized and the remainder was charged to expense during the year ended September 30, 2017.

NOTE 5 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

B. Benefits Provided

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

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

C. Contributions

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

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

Participating employers' contractually required contribution rate for the years ended September 30, 2018 and 2017 was 12.41% and 12.01%, respectively, of annual pay for Tier 1 members and 11.35% and 10.82%, respectively, of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were $6,264,121 and $5,829,433, respectively, for the years ended September 30, 2018 and 2017.

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

At September 30, 2018 and 2017, the University reported a liability of $73,194,000 and $80,982,000, respectively, for its proportionate share of the collective net pension liability. The 2018 collective net pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016, rolled forward to September 30, 2017 using standard roll forward techniques. The 2016 collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014, rolled forward to September 30, 2015 using standard roll forward techniques. The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2017, the University's proportion was .745%, which was a decrease of .003% from its proportion measured as of September 30, 2016. At September 30, 2016, the University's proportion was .748%, which was an increase of .012% from its proportion measured as of September 30, 2015.

For the years ended September 30, 2018 and 2017, the University recognized pension expense of $6,545,000 and $8,501,000, respectively. At September 30, 2018 and 2017, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 3,138,000	$ -	$ 2,085,000
Changes of assumptions	4,369,000		5,718,000	
Net difference between projected and actual earnings on pension plan investments		4,376,000	1,170,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	873,000	279,000	1,161,000	11,000
Employer contributions subsequent to the measurement date	6,264,121	-	5,829,433	-
	$ 11,506,121	$ 7,793,000	$ 13,878,433	$ 2,096,000

$6,264,121 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2019	459,000
2020	814,000
2021	1,388,000
2022	1,431,000
2023	87,000

E. Actuarial Assumptions

The total pension liability was determined by actuarial valuations as of September 30, 2016 and September 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

	2016	2015
Inflation	2.75%	2.75%
Investment rate of return*	7.75%	7.75%
Projected salary increases	3.25% - 5.00%	3.25% - 5.00%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2016, were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

For the 2016 valuation, post retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

For the 2015 valuation, mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2016 and set back one year for females.

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

	2018		2017	
	Target Allocation	Long-Term Expected Rate of Return*	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%	3.00%	11.00%
Alternatives	10.00%	10.10%	10.00%	10.10%
Real Estate	10.00%	7.50%	10.00%	7.50%
Cash	3.00%	1.50%	3.00%	1.50%
Total	100.00%		100.00%	

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75% in 2018 and 7.75% in 2017. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the University's proportionate share of the net pension liability as of September 30, 2018 calculated using the discount rate of 7.75%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
University's proportionate share of collective net pension liability	$100,958,000	$73,194,000	$49,708,000

The following table presents the University's proportionate share of the net pension liability as of September 30, 2017 calculated using the discount rate of 7.75%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

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

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal years ended September 30, 2017 and 2016. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2017, and in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2016. The auditor's report as of September 30, 2017 dated January 31, 2018 and the auditor's report as of September 30, 2016 dated December 29, 2017, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities along with supporting schedules are also available. The additional financial and actuarial information is available at www.rsa-al.gov.

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

Regular full-time employees that have completed two years of continuous service are eligible for an optional supplemental retirement program, Teachers' Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). The University contributes 1% of gross salary for all eligible employees with an additional match to those employees that opt to contribute to the plan for an additional 2 – 4%. Participants become immediately vested and are eligible for distributions upon severance from employment, upon incurring a disability, upon hardship, and upon attainment of age 59 ½. Distributions may be in the form of lump sum payments or through the purchase of an annuity contract. Employee contributions to the plan during the years ended September 30, 2018 and 2017 were $1,876,540 and $1,802,461, respectively. Jacksonville State University contributed $1,490,119 under this plan for the year ended September 30, 2018 and $1,433,579 for the year ended September 30, 2017. At September 30, 2018 and 2017, the University had payables of $263,343 and $236,183, respectively, due to TIAA-CREF, which were included in accounts payable and accrued liabilities on the Statement of Net Position.

NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

A. Plan Description

The Alabama Retired Education Employees' Health Care Trust (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 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 Public Education Employees' Health Insurance Plan (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 Comprehensive Annual Financial Report.

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

B. 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.

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

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The MAPDP plan is fully insured by United Healthcare 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 United Healthcare 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.

C. 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.

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, 2018, the University reported a liability of $52,091,455 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the University's proportion was .70%, which was a decrease of .03% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the System recognized OPEB expense of $2,720,519, with no special funding situations. At September 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	-	5,408,651
Net difference between projected and actual earnings on OPEB plan investments	-	277,339
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	2,228,714
Employer contributions subsequent to the measurement date	1,721,996	-
Total	$ 1,721,996	$ 7,914,704

$1,721,996 reported as deferred outflows of resources related to OPEB resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:	
2019	1,529,634
2020	1,529,634
2021	1,529,634
2022	1,529,634
2023	1,460,299
Thereafter	335,869

Actuarial assumptions

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

Inflation	2.75%
Projected Salary Increases *	3.25% - 5.00%
Long-Term Investment Rate of Return **	7.25%
Municipal Bond Index Rate at the Measurement Date	3.57%
Municipal Bond Index Rate at the Prior Measurement Date	2.93%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2042
Singe Equivalent Interest Rate the Measurement Date	4.63%
Singe Equivalent Interest Rate the Prior Measurement Date	4.01%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	7.75%
Medicare Eligible	10.10%
Ultimate Trend Rate	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022

**Includes 3.00% wage inflation*
***Compounded annually, net of investment expense, and includes inflation*

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

There were no ad hoc postemployment benefit changes, including ad hoc cost of living adjustments, during fiscal year 2017.

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2016 valuation were based on a review of recent plan experience done concurrently with the September 30, 2016 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.

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

Asset Class	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%
Total	**100.00%**	

*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, 2017 was 4.63%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.01%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 27.08% of the employer contributions were used to assist in funding retiree benefit payments in 2016 and it is assumed that the amount will increase by 3.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2115. The long term rate of return is used until the assets are expected to be depleted in 2042, after which the municipal bond rate is used.

Sensitivity of the University proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.

The following table presents the University 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 (6.75% decreasing to 4 % for pre-Medicare, 4% for Medicare eligible, and 1 % for Optional Plans)	**Current Healthcare Trend Rate (7.75% decreasing to 5% for pre-Medicare, 5% for Medicare Eligible, and 2 % for Optional Plans)**	**1% Increase (8.75% decreasing to 6% for pre-Medicare, 6% for Medicare Eligible, and 3% for Optional Plans)**
Net OPEB Liability	$42,057,670	$52,091,455	$65,037,787

The following table presents the University proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 4.63%, 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 (3.63%)	Current Rate (4.63%)	1% Increase (5.63%)
		(Amounts in Thousands)	
Net OPEB Liability	$62,967,732	$52,091,455	$43,421,704

OPEB plan fiduciary net position

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

NOTE 8 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Jacksonville State University's construction project commitments as of September 30, 2018 are estimated at $5,800,000 consisting primarily of the auxiliary gym improvements, window replacement and various heating, ventilation and air conditioning projects. Jacksonville State University's construction project commitments as of September 30, 2017 are estimated at $11,740,814 consisting primarily of the baseball stadium, practice field, scoreboards, student housing renovations, and various heating, ventilation and air conditioning projects.

Jacksonville State University had been awarded approximately $14,251,007 as of September 30, 2018, and $15,755,385, as of September 30, 2017 respectively, in contracts and grants on which performance had not been initiated, nor funds received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

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

The University is in the process of evaluating several construction contracts relating to the reconstruction and replacement of assets damaged during the March 19, 2018 storms (see Note 18). While the commitment amounts are not known as of the issuance date of these financial statements, they are expected to be significant and material.

NOTE 9 - ACCOUNTS PAYABLE

Accounts payable and accrued liabilities represent amounts due at September 30, 2018 and 2017, for goods and services received prior to the end of the fiscal year.

	2018	2017
Salaries and Wages	3,919,878	3,562,568
Benefits	2,322,412	460,034
Payroll Taxes	1,247,141	1,249,730
Interest Payable	925,509	887,524
Other	23,207,345	2,521,196
Total	$31,622,285	$ 8,681,052

NOTE 10 – CAPITAL LEASE OBLIGATIONS

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

Fiscal Years	Equipment
2018-2019	68,765
2019-2020	5,583
Minimum Lease Payments	74,348
Less: Amounts Representing Interest	2,159
Present Value of Net Minimum Lease Payments	$ 72,189

NOTE 11 – DUE TO STATE OF ALABAMA

Due to the effects of the March 19, 2018 EF-3 tornado (See Note 18), the State of Alabama issued an interest-free loan June 26, 2018 in the amount of $5,946,640. The loan is payable two years from the issue date. The University may have the opportunity to have this loan forgiven during the Fiscal Year ending September 30, 2020.

NOTE 12 - LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended September 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Lease Obligations	$ 129,387	$ -	$ 57,198	$ 72,189	$ 68,765
Revenue Bonds	$80,585,000	-	3,590,000	76,995,000	3,965,000
Bond Discounts	(100,004)	-	(7,548)	(92,456)	(7,547)
Bond Premiums	3,993,452	-	226,114	3,767,338	226,114
Total Bonds	$84,478,448	-	$3,808,566	$80,669,882	$4,183,567
Other Liabilities:					
Compensated Absences	1,858,852	1,323,116	844,371	2,337,597	844,371
Due to State of Alabama	-	5,946,940	-	5,946 ,640	-

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

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

The Board of Trustees issued Tuition and Fee Revenue Bonds in 2009, 2011, 2014, 2015, 2016 and 2017. The 2009 bonds were issued to cover construction costs and the defeasance of the 1999 Revenue Bond. The 2011 bonds were issued to defease the 2002 Revenue Bond. The 2014 Bonds were issued to defease the 2008 Revenue Bonds. The 2015 and 2016 bonds were issued to partially defease the 2009 Revenue Bonds. The 2017 bonds were issued to defease the balance of the 2009 Revenue Bonds and finance construction costs.

Deferrals on Refunding, Original Issue Discount and Original Issue Premium

The University has deferrals on refunding in connection with the issuance of its 2011, 2014, 2015 and 2016 Series Revenue Bonds. The University has an original issue discount in connection with the issuance of its 2014 Series Revenue Bonds and an original issue premium in connection with the issuance of its 2015, 2016 and 2017 Series Revenue Bonds. Bonds Payable is reported net of the original issue premium and discount.

Amortization activity for the year ended September 30, 2018, was as follows:

	Deferrals on Refunding	Original Issue Discount	Original Issue Premium
Total Deferrals, Discounts and Premiums	$ 6,593,391	$ 123,904	$ 4,251,734
Less: Amount Amortized Prior Years	859,320	23,900	258,282
Balance of Deferrals, Discounts and Premiums	5,734,071	100,004	3,993,452
Less: Current Amount Amortized	375,330	7,548	226,114
Current Amount Loss due to refunding	-	-	-
Balance of Deferrals, Discounts and Premiums	$ 5,358,741	$ 92,456	$ 3,767,338

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

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

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

Fiscal Year	Deferral on Refunding	Original Issue Discount	Original Issue Premium
2019	$ 375,330	$ 7,547	$ 226,114
2020	375,330	7,547	226,114
2021	375,330	7,547	226,114
2022	375,330	7,547	226,114
2023	324,150	7,547	226,114
2024-2028	1,569,568	37,735	1,130,570
2029-2033	1,348,006	16,986	1,015,231
2034-2038	615,697	-	490,967
	$ 5,358,741	$ 92,456	$ 3,767,338

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

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2018-2019	3,965,000	2,755,603	6,720,603
2019-2020	4,070,000	2,649,083	6,719,083
2020-2021	3,425,000	2,540,508	5,965,508
2021-2022	3,720,000	2,441,388	6,161,388
2022-2023	3,825,000	2,325,042	6,150,042
2023-2024	2,785,000	2,212,055	4,997,055
2024-2025	2,870,000	2,105,426	4,975,426
2025-2026	2,970,000	1,993,420	4,963,420
2026-2027	3,075,000	1,877,926	4,952,926
2027-2028	3,175,000	1,758,534	4,933,534
2028-2029	3,475,000	1,638,478	5,113,478
2029-2030	3,585,000	1,514,846	5,099,846
2030-2031	3,680,000	1,386,431	5,066,431
2031-2032	6,600,000	1,248,742	7,848,742
2032-2033	3,230,000	1,014,531	4,244,531
2033-2034	3,360,000	883,319	4,243,319
2034-2035	3,495,000	749,303	4,244,303
2035-2036	3,660,000	590,687	4,250,687
2036-2037	3,845,000	403,062	4,248,062
2037-2038	4,015,000	231,656	4,246,656
2038-2039	4,170,000	78,187	4,248,187
	$ 76,995,000	$ 32,398,227	$ 109,393,227

The Jacksonville State University Board pledged student tuition and fees to repay $61,665,000 in Tuition and Fee Revenue Bonds issued on April 1, 2009 at interest rates ranging from 1.0 to 5.125%. The funds were used to refund the University's outstanding Revenue Bonds Series 1999, then outstanding in the amount of $6,340,000 and also to construct, renovate, and equip a portion of certain capital improvements.

A portion of the 2009 Revenue Bonds was advance refunded in December 2015 with the issuance of the Series 2015 Revenue Bonds and in March 2016 with the issuance of the Series 2016 Revenue Bonds. An escrow fund was established upon issuance of the Series 2015 Bonds that together with investment income will be used for the redemption and retirement of $8,000,000 of the outstanding principal of the 2009 Revenue Bonds plus accrued interest to an early redemption date of December 1, 2018. An escrow fund was also established upon issuance of the Series 2016 Bonds that together with investment income will be used for the redemption and retirement of an additional $8,000,000 of the 2009 Revenue Bonds plus accrued interest to an early redemption date of December 1, 2018. On January 31, 2017, the remaining 2009 Revenue Bonds were advance refunded with the issuance of the Series 2017 Revenue Bonds. An escrow fund was also established upon issuance of the Series 2017 Bonds that together with investment income will be used for the redemption and retirement of an additional $32,895,000 of the 2009 Revenue Bonds plus accrued interest to an early redemption date of December 1, 2018. The amount of escrowed funds associated with the refunded Series 2009 balance together with investment income will equal the outstanding principal amount plus accrued interest needed through December 1, 2018, the early redemption date. At September 30, 2018 and 2017, the outstanding principal balance of the unfunded bonds totaled $- and $-, respectively.

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

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

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

The Jacksonville State University Board pledged student tuition and fees to repay $11,060,000 in Tuition and Fee Revenue Bonds issued on August 1, 2011 at interest rates ranging from 2.0 to 4.0%. The funds were used to advance refund the University's outstanding Revenue Bonds Series 2002, then outstanding in the amount of $10,385,000, and to pay issuance costs. Future revenues in the amount of $5,690,131 at September 30, 2018 and $6,828,281 September 30, 2017 are pledged to repay principal and interest on the bonds. Estimated pledged revenues in the amount of $47,569,000 were received during the fiscal year ended September 30, 2018 with $1,138,150, or 2.4% of pledged revenues, being used to pay principal and interest payments during 2018. Pledged revenues in the amount of $47,569,273 were received during the fiscal year ended September 30, 2017 with $1,140,606, or 2.4% of pledged revenues, being used to pay principal and interest payments during 2017. These bonds are scheduled to mature in fiscal year 2023.

The Jacksonville State University Board pledged student tuition and fees to repay $12,055,000 in Tuition and Fee Revenue Bonds issued on August 1, 2014 at interest rates ranging from 1.75 to 3.1%. The funds were used to advance refund the University's outstanding Revenue Bonds Series 2008, then outstanding in the amount of $10,000,000. Future revenues in the amount of $13,559,331 at September 30, 2018 and $14,024,091 at September 30, 2017 are pledged to repay principal and interest on the bonds. Estimated pledged revenues in the amount of $47,569,000 were received during the fiscal year ended September 30, 2018 with $465,590 or 1.0% of pledged revenues, being used to pay principal and interest payments during 2018. Pledged revenues in the amount of $47,569,273 were received during the fiscal year ended September 30, 2017 with $468,990 or 1.0% of pledged revenues, being used to pay principal and interest payments during this 2017. These bonds are scheduled to mature in fiscal year 2031.

The Jacksonville State University Board pledged student tuition and fees to repay $8,950,000 Tuition and Fee Revenue Bonds issued on December 14, 2015 at interest rates ranging from 1.85 to 4.0%. The funds were used to advance refund a portion of the University's outstanding Revenue Bonds Series 2009, then outstanding in the amount of $8,000,000. Future revenues in the amount of $12,968,425 at September 30, 2018 and $13,372,495 at September 30, 2017 are pledged to repay principal and interest on the bonds. Estimated pledged revenues in the amount of $47,569,000 were received during the fiscal year ended September 30, 2018 with $404,070, or .8% of pledged revenues, being used to pay principal and interest payments during 2018. Pledged revenues in the amount of $47,569,273 were received during the fiscal year ended September 30, 2017 with $400,220, or .8% of pledged revenues, being used to pay principal and interest payments during 2017. These bonds are scheduled to mature in fiscal year 2033.

The Jacksonville State University Board pledged student tuition and fees to repay $9,160,000 in Tuition and Fee Revenue Bonds issued on March 17, 2016 at interest rates ranging from 1.3 to 4.0%. The funds were used to advance refund a portion of the University's outstanding Revenue Bonds Series 2009, then outstanding in the amount of $8,000,000. Future revenues in the amount of $14,270,358 at September 30, 2018 and $14,676,080 at September 30, 2017 are pledged to repay principal and interest on the bonds. Estimated pledged revenues in the amount of $47,569,000 were received during the fiscal year ended September 30, 2018 with $405,723 or .8% of pledged revenues, being used to pay principal and interest payments during 2018. Pledged revenues in the amount of $47,569,273 were received during the fiscal year ended September 30, 2017 with $406,630, or .9% of pledged revenues, being used to pay principal and interest payments during 2017. These bonds are scheduled to mature in fiscal year 2035.

The Jacksonville State University Board pledged student tuition and fees to repay $34,880,000 in Series 2017 Tuition and Fee Revenue Bonds issued on January 31, 2017 at interest rates ranging from 2.0 to 5.0%. The funds were used to advance refund a portion of the University's outstanding Revenue Bonds Series 2009, then outstanding in the amount of $32,895,000, to finance capital improvements and to pay the costs of issuance. Future revenues in the amount of $49,805,060 at September 30, 2018 and $53,510,028 at September 30, 2017 are pledged to repay principal and interest on the bonds. Estimated pledged revenues in the amount of $47,663,000 were received during the fiscal year ended September 30, 2018 with $3,704,969 or 7.7% of pledged revenues, being used to pay principal and interest payments during 2018. Pledged revenues in the amount of $47,569,273 were received during the fiscal year ended September 30, 2017 with $462,243 or 1% of pledged revenues, being used to pay principal and interest payments during this fiscal year. These bonds are scheduled to mature in fiscal year 2039.

The Jacksonville State University Board pledged student tuition and fees to repay $10,000,000 in Series 2017-A Tuition and Fee Revenue Bonds issued on February 6, 2017 at an interest rate of 3.04%. The funds were used to finance the acquisition, construction and installation of capital improvements and to pay the expenses of issuing the Series 2017-A Bond. Future revenues in the amount of $13,099,947 at September 30, 2018 and $13,291,636 at September 30, 2017 are pledged to repay principal and interest on the bonds. Estimated pledged revenues in the amount of $47,663,000 were received during the fiscal year ended September 30, 2018 with $191,689 or .4% of pledged revenues, being used to pay principal and interest payments during 2018. Pledged revenues in the amount of $47,569,273 were received during the fiscal year ended September 30, 2017 with $45,912 or .1% of pledged revenues, being used to pay principal and interest payments during this fiscal year. These bonds are scheduled to mature in fiscal year 2032.

NOTE 13 – RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama, Department of Finance; Division of Risk Management, which operates as a common risk management and insurance program for state-owned properties. The University pays an annual premium based on the amount of coverage requested. The SIF provides coverage up to $3.5 million per occurrence. The SIF purchases commercial insurance for claims in excess of $3.5 million. The University purchases commercial insurance for its automobile coverage, general liability and professional legal liability coverage. In addition, the University has a blanket fidelity bond that covers all employees. At of the issuance date of these financial statements, the SIF is in arbitration related to damages from the March 19, 2018 storms (see Note 19). While the amounts are not yet known, the insurance settlement proceeds may be significant and material.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The University contributes a specified amount monthly to the PEEHIF for each employee; this amount is applied against the employee's premiums for the coverage selected, and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the University's coverage in any of the past three fiscal years.

Claims that occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by the University.

NOTE 14 – ENDOWMENTS

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

The President is authorized through the Board of Trustees to estimate revenue on endowments each year for expenditures. The current practice is to estimate revenue for most endowments at 1% of the assets. The remaining amount, if any, is retained to be used in future years when the amount computed exceeds the investment income. The net appreciation available to be spent for endowed purposes at September 30, 2018 and 2017 is $36,817 and $39,746, respectively.

NOTE 15 – COMPONENT UNITS

During the year ended September 30, 2018 and 2017, Jacksonville State University Foundation, Inc., a discretely presented component unit distributed $1,326,898 and $1,008,344, respectively, to Jacksonville State University for both restricted and unrestricted purposes. At September 30, 2018, Jacksonville State University has recorded a receivable of $28,936 due from the Foundation for scholarships. At September 30, 2018, the University has also recorded a payable of $183,500 due to the Foundation related to the service agreement more fully described in Note 8 and for other services. At September 30, 2017, Jacksonville State University had recorded a receivable of $4,336,227 due from the Foundation for scholarships and funding related to the construction of the Health and Wellness Center. Due to the difference in the fiscal year of the University and the Foundation, inconsistencies exist in the amounts reported as due to or due from and distributed to or received from. The complete audited financial statements of the Foundation can be obtained upon written request to JSUF.

NOTE 16 – RELATED PARTIES

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

NOTE 17 – JOINT OPERATION

On June 23, 2000, Jacksonville State University entered into a Joint Real Property Development and Cooperative Agreement with Gadsden State Community College for the purpose of constructing and equipping an Economic Development Center on the premises of Gadsden State Community College. Each school contributed $1,000,000 with an additional $1,000,000 provided by State of Alabama Building Commission Funds. Each party occupies and utilizes the facility on an equal basis. Each party contributes to the maintenance and operation costs for the use and operation of the facility on an equal basis. Beginning in August 2017 through August 2019, the space allocated for use by JSU, with the exception of one office, will be used by Gadsden State Community College. During this term, JSU is relieved of all obligations to pay or contribute to the costs associated with the Economic Development Center.

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

NOTE 18 – INSURANCE RECOVERY GAIN - TORNADO

On March 19, 2018, the University experienced an EF-3 tornado causing significant damage to many buildings and the surrounding area. In accordance with GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, insurance recoveries during the fiscal year ended September 30, 2018 were used to offset the amount of loss that was recognized. Restoration costs of $75,793,147 for damage sustained has been netted against an impairment of $4,418,104, for a net insurance recovery gain of $71,375,043 as of September 30, 2018. The University has also decreased the damaged buildings by the impairment of $4,418,104 for the year-ended September 30, 2018. A receivable in the amount of $33,793,147 for State insurance funding received after our fiscal year end has also been booked as of September 30, 2018. The University has also received $1,681,945 in FEMA proceeds, to assist in recovery efforts during the year-ended September 30, 2019. Additional insurance proceeds may be received in subsequent years as settlements are negotiated and processed; however, as of the issuance date of these financial statements, those amounts are not yet known.

NOTE 19 – CAPITAL CONTRIBUTION RECEIVED

On July 23, 2018, the Health Care Authority of the City of Anniston donated property located on Highway 21 in Jacksonville, Alabama to the University. The property formerly known as "Jacksonville Hospital" is now utilized to house the School of Health, Professions and Wellness faculty and staff due to the destruction of Wallace Hall. A capital contribution in the amount of $12,284,600 has been recorded along with a corresponding capitalized asset for the building and land donation.

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

Nature of Organization

The overall mission of the Jacksonville State University Foundation, Inc. (the Foundation) is to maximize private gift support for Jacksonville State University (the University) while laying the groundwork for future fundraising success in order to aid the University in fulfilling its own mission of excellence in education, research, and service. The Foundation owns JSUF Real Estate Holding Company, LLC (the Holding Company). The Holding Company's total assets were $24,017 at December 31, 2017 and 2016, and are not included in the financial statements.

Financial Statement Presentation

For financial statement presentation, the Foundation uses the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. Under FASB ASC 958, the Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. These three classifications are defined as follows:

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

Basis of Accounting

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

Fund Accounting

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

Use of Estimates

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

Cash and Cash Equivalents

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

Investments

In accordance with FASB ASC 958-920, *Not-for-Profit Entities: Investments—Debt and Equity Securities*, investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the accompanying statements of financial position. Investments in real estate, limited partnerships and alternative investments are stated at fair value.

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

Pooled Investment Program

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

Assets Held under Split-Interest Agreements

Charitable remainder trust agreements require periodic payment of either the income earned or a fixed percentage of the assets to designated beneficiaries and terminate either at a specific time or upon the death of the designated individual. A liability for each remainder trust, where the Foundation is a trustee, is established and calculated as the present value of future payments to be made to the designated beneficiaries. Upon termination, the remaining assets of the remainder trust are then available for use by the Foundation to be used in accordance with the donor's intent. The Foundation uses an actuarial approach to determine both the contribution and liability amounts to be recognized. For remainder trusts held by the Foundation, the discount rate was 6% during the years ended December 31, 2017 and 2016. There were no new trusts established in 2017 or 2016.

Contributions and Promises to Give

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

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net assets. Restricted amounts received, but not yet earned are reported as deferred restricted amounts.

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

Property and Equipment

Real property and equipment are capitalized at cost if purchased and fair value if donated if the asset is expected to provide a benefit for more than one year. Depreciation is computed for purchased operating equipment of the Foundation based on the straight-line method over the estimated useful lives of the related assets over a period of 3 to 39 years. Realized gains and losses from the sale or disposal of real property, equipment, and other assets are computed based on the difference between the proceeds received and the net carrying value of the asset.

Impairment of Long-Lived Assets

In accordance with FASB ASC 360-10-15, *Impairment or Disposal of Long-Lived Assets*, the Foundation records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The Foundation evaluates its investment in long-lived assets used in operations for impairment annually. Long-lived asset disposals are required to be reported at the lower of carrying amount or fair value less selling costs. There was no impairment of long-lived assets at December 31, 2017.

In-Kind Gifts

In-kind gifts are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in- kind contributions are offset by like amounts included in expenses. In-kind gifts totaled $361,758 and $384,605 for the years ended December 31, 2017 and 2016, respectively.A substantial number of volunteers have donated significant amounts of their time to the Foundation; however, these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Income Tax

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

The Foundation follows the provisions of FASB ASC Topic 740, *Accounting for Uncertainty in Income Taxes*. As of December 31, 2016, the Foundation had no uncertain tax positions that qualify for disclosure in financial statements. The Foundation files an annual Form 990 with the IRS and its tax returns for previous open tax years may be subject to examination by taxing authorities.

Subsequent events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued

Reclassifications

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

NOTE A. – PROMISES TO GIVE

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

Unconditional promises to give at December 31 are as follows:

	2017	2016
Receivable in less than one year	$ 415,330	$ 430,292
Receivable in one to five years	485,084	947,039
Receivable in more than five years	1,788,261	1,711,186
Total unconditional promises to give	2,688,675	3,088,517
Less allowance for bad debt	(1,372,110)	(1,352,861)
Less discounts to net present value	(378,202)	(341,715)
Net unconditional promises to give	$ 938,363	$ 1,393,941

Discount rates used were 4.5% and 3.75% at December 31, 2017 and 2016, respectively.

NOTE B. – INVESTMENTS

Investments which include charitable remainder trusts are reported at fair value based on quoted market prices or quoted prices for similar or identical assets and consist primarily of mutual funds, stocks, bonds, and alternative investments. The following are the Foundation's investments by type at December 31, 2017:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Money market	$ 678,372	$ 678,372	$ -
Mutual funds	23,915,625	25,444,945	1,529,320
Government obligations	1,451,428	1,436,470	(14,958)
Mortgage backed securities	478,292	474,586	(3,706)
Corporate obligations	3,793,887	3,844,074	50,187
Municipal bonds	1,959,179	1,968,624	9,445
Common stock	16,724	20,084	3,360
Real estate investment trust	262,500	303,060	40,560
Alternative investments	2,751,136	2,213,463	(537,673)
Total	$ 35,307,143	$ 36,383,678	$ 1,076,535

The estimated fair value of debt securities at December 31, 2017, by contractual maturities, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay with or without call or prepayment penalties.

	Estimated Market Value
Due in one year or less	$ 705,600
Due after one through five years	3,461,024
Due after five through ten years	3,557,130
	$ 7,723,754

Investment expenses were $415,276 and $413,449 for the years ended December 31, 2017 and 2016, respectively.

Endowment Investment and Spending Policies

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

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

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to exceed an absolute rate of return equal to the minimum payout obligation, plus all management fees, brokerage and custodial expenses, plus 3% in order to combat the economic impact of long-term inflation. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on U.S. Treasury securities, high quality corporate and municipal bonds and equity- based investments to achieve its long-term return objectives within prudent risk parameters.

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The current spending policy is to distribute an amount equal to 4% of the average quarterly total balance for the previous twelve quarters at year end (December 31). Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 2% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of fund as of December 31, 2017 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 10,072,332	$ 11,611,653	$ 21,683,985

Changes in endowment net assets as of December 31, 2017 are as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Endowment net assets, beginning of year	$ -	$ 8,938,405	$ 11,469,966	$ 20,408,371
Contributions	-	-	141,687	141,687
Investment Income	-	402,526	-	402,526
Net appreciation	-	1,592,069	-	1,592,069
Amounts appropriated for expenditure	-	(860,668)	-	(860,668)
Endowment net assets, end of year	$ -	$ 10,072,332	$ 11,611,653	$ 21,683,985

Endowment net asset composition by type of fund as of December 31, 2016 is as follows:

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds	$ -	$ 8,938,405	$ 11,469,966	$ 20,408,371

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

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

NOTE C. – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31:

	2017	2016
Land	$ 132,043	$ 132,043
Construction in progress including capitalized interest	10,710,576	-
Total	$ 10,842,619	$ 132,043

NOTE D. – SPLIT INTEREST AGREEMENT

Of the $1,184,078 held in trust, an investment in land with income from a ground lease was purchased in 2006 for $262,780. The ground lease has an initial term that commenced on March 1, 2003. Initial minimum payments on the 20 year lease were $1,750 per month from 2003 through 2013 increasing to $2,067 per month beginning in 2014. The present value of the estimated future payments is $104,663 at December 31, 2017.

The following is a schedule by years of future minimum rentals due under the ground lease at December 31, 2017:

2018	$ 24,804
2019	24,804
2020	24,804
2021	24,804
2022	24,804
2023 and beyond	4,134
	$ 128,154

NOTE E. – REFUNDABLE ADVANCES

Refundable advances are amounts held on behalf of another organization.

NOTE F. - BONDS PAYABLE

On October 31, 2017, the Public Education Building Authority of Jacksonville Foundation issued $42,410,000 of Higher Educational Facilities Revenue Bonds (JSU Foundation Project), Series 2017-A and $400,000 Higher Educational Facilities Taxable Revenue Bonds (JSU Foundation Project), Series 2017-B. The Foundation, which is considered the borrower of the funds, assumed all the obligations of the bonds. The bonds have varying fixed rates based on maturity dates which range from July 1, 2020 through July 1, 2057. The proceeds of the bonds are to be used for funding of the:

1. Costs of issuing the bonds ($1,122,555);
2. Development, construction, furnishing and start-up expenses of a fitness and wellness center; and,
3. Interest on the bonds from the issuance date through the date the bond obligations are paid.

Interest is payable semi-annually on January 1 and July 1 beginning January 1, 2018 with annual interest rates ranging from 3% to 5%. The bonds were issued at a total premium of $2,162,453 which is being amortized over the term of the bonds. Amortization for the year ended December 31, 2017 was $38,135.

The University provides the cash flow necessary to service the bonds through a services agreement with the Foundation. These fees paid under this agreement are sufficient to service the debt, operating expenses and reserve requirements of the project. Termination of the services agreement triggers a termination fee to be paid by the University in an amount equal to the greater of the fair market value of the project or the outstanding principal amount of the bonds plus accrued interest through the date of termination.

Redemptions of bond principal are due each July 1 as follows:

2018	$ -
2019	-
2020	130,000
2021	270,000
2022	300,000
2023 and thereafter	42,110,000
	$ 42,810,000

NOTE G. – RESTRICTION/LIMITATIONS ON NET ASSETS

Temporarily restricted net assets were available for the following purposes at December 31, 2017:

Faculty awards and chairs	$ 4,325,169
Scholarships and grants	15,833,133
For other purposes	5,487,724
Total	$ 25,646,026

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

NOTE H. – FAIR VALUE MEASUREMENTS

The Foundation adopted ASC 820, *Fair Value Measurements and Disclosures.* In accordance with ASC 820, fair value is defined as the price that the Foundation would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. ASO 820 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below.

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

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

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

There were no changes in the valuations techniques during the current year.

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

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

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

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

The following tables set forth by level within the fair value hierarchy, the Foundation's assets that are measured at fair value on a recurring basis as of December 31, 2017 and 2016:

	December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money market	$ 678,372	$ 678,372	$ -	$ -
Mutual funds	25,444,945	25,444,945	-	-
Government obligations	1,436,470	-	1,436,470	-
Mortgage backed securities	474,586	-	474,586	-
Corporate obligations	3,844,074	-	3,844,074	-
Municipal bonds	1,968,624	-	1,968,624	-
Common stock	20,084	20,084	-	-
Real estate investment trust	303,060	-	303,060	-
Alternative investments	2,213,463	-	2,213,463	-
Total investments	$ 36,383,678	$ 26,143,401	$ 10,240,277	$ -

	December 31, 2017	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Money market	$ 1,021,105	$ 1,021,105	$ -	$ -
Mutual funds	22,840,956	22,840,956	-	-
Government obligations	1,604,544	-	1,604,544	-
Mortgage backed securities	217,270	-	217,270	-
Corporate obligations	3,926,357	-	3,926,357	-
Municipal bonds	1,842,952	-	1,842,952	-
Common stock	20,335	20,335	-	-
Real estate investment trust	303,061	-	303,061	-
Alternative investments	2,054,148	-	2,054,148	-
Total investments	$ 33,830,728	$ 23,882,396	$ 9,948,332	$ -

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

Level 1 measurements

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

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

Level 2 measurements

Fixed income securities:

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

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

Corporate obligations and Municipal bonds: Comprised of debt instruments issued by private corporations and municipalities which contain fixed interest rates and maturity dates. The primary inputs to the valuation include quoted prices for identical or similar assets in markets that are not active, contractual cash flows, benchmark yields and credit spreads that the Foundation can access.

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

NOTE I. - RELATED PARTIES

The Foundation operates as a separate entity supported by contributions from unrelated donors and income from endowment fund investments. Each endowment fund investment is charged a management fee by the Foundation totaling $289,085 and $304,354 for the years ended December 31, 2017 and 2016, respectively. The fees approximate the costs of the administrative services performed by the University on behalf of the Foundation. Additional management fees are charged to external entities for administrative services that are provided by the Foundation and are included in unrestricted revenue and support on the statement of activities.

On July 17, 2017, the Foundation entered into a services agreement with the University in order to develop and continue fitness and wellness programs provided for the students, faculty, employees and alumni of the University. The services provided include but are not limited to the management of the development and construction of a fitness and wellness center (the "Center") expected to open in 2019. Other services to be provided to the University by the Foundation include procuring financing for the development and construction, arranging staffing, licensing, insurance, marketing, security and other services required for the operation of the Center prior to and after opening. In return, the Foundation will receive a fee for services. In order to facilitate the construction and start-up of the Center, the University paid a one-time up-front service fee of $4 million during 2017. Thereafter, an annual fee defined by the terms of the agreement will be paid on March 1 and September 1 to the Foundation. During 2017, the prorated annual fee paid to the Foundation was $734,000 and is included in revenue and support on the statement of activities. The services agreement expires on October 31, 2062.

On October 17, 2017, the Foundation entered into a ground lease with the University for a period of 45 years. The ground lease is for the land on which the Center will be located and requires the Foundation to make annual rental payments to the University of $100 in base rent and additional rent as specified in the agreement. An initial rent payment of $4 million was due and payable on the commencement date of the agreement.

As discussed above, the Foundation received $4 million from the University to fund the project costs incurred prior to the bond issuance. This advance was repaid to the University from the bond proceeds. Management concluded that these two transactions were in essence advances and repayments with no impact on revenues and expenses.

NOTE J. – CREDIT RISK AND CONCENTRATIONS

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

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

Required Supplementary Information

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

	For the measurement period ended			
	September 30, 2017	September 30, 2016	September 30, 2015	September 30, 2014
JSU's proportion of the net pension liability	0.744717%	0.748031%	0.736438%	0.732539%
JSU's proportionate share of the net pension liability	$73,194,000	$80,982,000	$77,073,000	$66,548,000
JSU's covered-employee payroll	$49,516,590	$47,766,000	$46,684,000	$46,482,000
JSU's proportionate share of the net pension liability as a percentage of its covered-employee payroll	147.82%	169.54%	165.10%	143.17%
Plan fiduciary net position as a percentage of the total pension liability	71.50%	67.93%	67.51%	71.01%

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

This schedule presents only four years of information, rather than ten years, as only four years of trend information is available at September 30, 2018.

Jacksonville State University

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

	2017
JSU's proportion of the net OPEB liability	0.701339%
JSU's proportionate share of the net OPEB liability	$52,091,455
JSU's covered-employee payroll	$52,485,542
JSU's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	99.25%
Plan fiduciary net position as a percentage of the total OPEB liability	15.37%

Notes to the Schedule of University Contributions

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

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

The Health Plan was changed in 2017 to reflect the ACA maximum annual out-of-pocket amounts.

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2014 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	Projected Unit Credit
Amortization Method	Level percent of pay
Remaining Amortization Period	27 year, closed
Asset Valuation Method	Market Value of Assets
Inflation	3.00%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.50%
Medicare Eligible	5.75%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2019 for Pre-Medicare Eligible 2017 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

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

	2018	2017	2016	2015
Contractually Required Contribution	$ 6,264,121	$ 5,829,433	$ 5,623,694	$ 5,266,235
Contributions in relation to the contractually required contribution	6,264,121	5,829,433	5,623,694	5,266,235
Contribution deficiency (excess)	-	-	-	-
System's covered-employee payroll	$ 52,486,000	$ 49,517,000	$ 47,766,000	$ 46,684,000
Contributions as a percentage of covered-employee payroll	11.93%	11.77%	11.77%	11.28%

Notes to the Schedule of University Contributions

This schedule presents only four years of information, rather than ten years, as only four years of trend information is available at September 30, 2018.

Jacksonville State University
Schedule of Jacksonville State University's Contributions
Alabama Retired Education Employees' Health Care Trust

	2017
Contractually Required Contribution	$ 1,742,931
Contributions in relation to the contractually required contribution	(1,742,931)
Contribution deficiency (excess)	-
System's covered-employee payroll	$ 52,485,542
Contributions as a percentage of covered-employee payroll	3.32%

Notes to the Schedule of University Contributions

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

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

The Health Plan was changed in 2017 to reflect the ACA maximum annual out-of-pocket amounts.

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of September 30, 2014 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	Projected Unit Credit
Amortization Method	Level percent of pay
Remaining Amortization Period	27 year, closed
Asset Valuation Method	Market Value of Assets
Inflation	3.00%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.50%
Medicare Eligible	5.75%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2019 for Pre-Medicare Eligible 2017 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation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Additional Information

Jacksonville State University
Listing of Board of Trustees and University Officials
September 30, 2018

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

Officials

Dr. John M. Beehler	President
Dr. James Brigham	Vice President for Finance & Administration

*Resigned April 16, 2019

PART II

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

To the Board of Trustees
Jacksonville State University

We have audited the financial statements of Jacksonville State University as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise Jacksonville State University's basic financial statements, and have issued our report thereon dated June 28, 2019. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Jacksonville State University Foundation, Inc., a discretely presented component unit of Jacksonville State University, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Jacksonville State University Foundation, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jacksonville State University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Jacksonville State University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Jacksonville State University's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jacksonville State University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

CDPA, PC

Athens, AL
June 28, 2018

CDPA PC
CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Trustees
Jacksonville State University

Growing business. Adding Value.

Report on Compliance for Each Major Federal Program

We have audited Jacksonville State University's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Jacksonville State University's major federal programs for the year ended September 30, 2018. Jacksonville State University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The financial statements of Jacksonville State University Foundation, Inc. were not audited in accordance with the *OMB Compliance Supplement*, and, accordingly, this report does not extend to Jacksonville State University Foundation, Inc.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Jacksonville State University's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jacksonville State University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Jacksonville State University's compliance.

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Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

Jacksonville State University's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Jacksonville State University's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of Jacksonville State University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Jacksonville State University's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Jacksonville State University's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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

CDPA, PC

Athens, AL
June 28, 2019

PART III

SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

Jacksonville State University
Schedule of Expenditures of Federal Awards
For the Year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Assistance Period	Passed Through to Subrecipients	Total Federal Expenditures
MAJOR PROGRAMS					
Student Financial Assistance Cluster					
U.S. Department of Education Direct Programs					
Federal Pell Grant Program	84.063	N.A.	7/1/16-6/30/19	$ -	$ 13,519,859
Federal Direct Student Loans	84.268	N.A.	7/1/16-6/30/19	-	36,969,037
Federal Work-Study Program	84.033	N.A.	7/1/16-6/30/19	-	269,326
Federal Supplemental Education Opportunity Grants	84.007	N.A.	7/1/17-6/30/19	-	315,971
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	N.A.	7/1/16-6/30/19	-	47,580
Total Student Financial Assistance Cluster				-	51,121,773
Research and Development Cluster					
U.S. Department of Defense Direct Programs					
GenCyber Grants Program	12.903	N.A.	3/30/17-3/29/18	-	20,506
Total U.S. Department of Defense Direct Programs				-	20,506
U.S. Department of Education Direct Programs					
Investing in Innovation (i3) Fund	84.411	U411B130037	1/1/14-12/31/18	94,498	1,169,480
Investing in Innovation (i3) Fund	84.411	U411B150025-15A	1/1/16-12/31/20	105,738	1,638,967
Funds for the Improvement of Postsecondary Education	84.116	N.A.	10/1/14-9/30/18	-	17,541
Total U.S. Department of Education				200,236	2,825,988

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

Jacksonville State University
Schedule of Expenditures of Federal Awards
For the Year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Assistance Period	Passed Through to Subrecipients	Total Federal Expenditures
National Science Foundation					
Engineering Grants	47.041	N.A.	9/1/17-8/31/20	-	15,303
Education and Human Resources	47.076	N.A.	9/1/15-8/31/20	-	59,651
Total National Science Foundation				-	74,954
U.S. Department of Interior, Fish and Wildlife Service					
Cooperative Endangered Species Conservation Fund	15.615	N.A.	8/1/16-9/30/18	-	10,652
Total U.S. Department of Interior, Fish and Wildlife Service				-	10,652
Total Research and Development Cluster				200,236	2,932,100
U.S. Department of Homeland Security (DHS)					
Federal Emergency Management Agency (FEMA)					
Passed through the Alabama Emergency Management Agency (AEMA)					
Disaster Grants- Public Assistance (PA)	97.036	N.A.	10/1/17-9/30/18	-	1,681,945
Total Major Programs				$ 200,236	$ 55,735,818
NON-MAJOR PROGRAMS					
National Security Agency					
Information Security Grant Program	12.902	N.A.	8/28/17-8/27/18	-	109,601
U.S. Department of Education Direct Programs					
Higher Education Institutional Aid	84.031	N.A.	10/1/14-9/30/19	-	237,982
Funds for the Improvement of Postsecondary Education	84.116	N.A.	10/1/15-9/30/18	-	133,305

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

Jacksonville State University
Schedule of Expenditures of Federal Awards
For the Year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Assistance Period	Passed Through to Subrecipients	Total Federal Expenditures
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407	N.A.	10/1/15-9/30/20	-	95,571
Passed through Alabama State Department of Education					
Mathematics and Science Partnerships	84.366	N.A.	10/1/17-6/30/18	-	281,590
AMSTI MSP	84.366	N.A.	10/1/16-6/30/18	-	153,997
Passed through Alabama Commission on Higher Education					
IMPACTSEED Improving Physics & Chemistry Teaching in Secondary Education	84.367	N.A.	1/20/17-6/19/18		74,833
Passed through the National Writing Project					
Jacksonville State University Writing Project	84.367	N.A.	5/1/17-8/31/18	-	11,230
Total U.S. Department of Education				-	988,508
U.S. Department of Health and Human Services					
Passed through Alabama Department of Public Health					
National Bioterrorism Hospital Preparedness Program	93.889	N.A.	7/1/17-6/30/18	-	25,231
Passed through the University of Alabama					
Foster Care Title IV-E	93.658	N.A.	10/1/17-8/31/18	-	43,625
Total U.S. Department of Health and Human Services				-	68,856

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

Jacksonville State University
Schedule of Expenditures of Federal Awards
For the Year ended September 30, 2018

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Assistance Period	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Small Business Administration					
Passed through the University of Alabama					
Small Business Development Centers	59.037	N.A.	10/1/17-9/30/18	-	81,539
U.S. Department of Defense					
Passed through the University of Alabama					
Procurement Technical Assistance for Business Firms	12.002	N.A.	8/1/17-7/31/18	-	44,022
Procurement Technical Assistance for Business Firms	12.002	N.A.	8/1/18-7/31/19		2,838
U.S. Department of Justice					
Passed through the Alabama Department of Economic and Community Affairs					
Edward Byrne Memorial JAG Program	16.738	N.A.	7/1/17-6/30/18	-	49,021
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	N.A.	1/1/17-12/31/17	-	11,936
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	N.A.	1/1/18-12/31/18	-	7,918
Total U.S. Department of Justice				-	68,875
General Services Administration					
Passed through the Alabama Department of Economic and Community Affairs					
Donation of Federal Surplus Personal Property (N)	39.003	N.A.	10/1/17-9/30/18	-	9,444
Total Non-Major Programs				-	1,373,683
Total Federal Awards				$ 200,236	$ 57,109,501

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

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Jacksonville State University (the "University") under programs of the federal government for the year ended September 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position or cash flows of the University.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Expenditures for federal awards that were awarded before December 26, 2014 are recognized following the cost principles contained in OMB Circular A-102 Common Rule, OMB Circular A-110 or the OMB Cost Principles Circulars, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Expenditures for federal awards that were newly awarded or had incremental funding actions with changed terms and conditions on or after December 26, 2014 are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The awards are classified into Type A and Type B categories in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Programs classified as Type A are as follows:

Student Financial Assistance Cluster

Research and Development Cluster

Federal Emergency Management Agency (FEMA)

Federal CFDA Numbers

Catalog of Federal Domestic Assistance (CFDA) numbers are assigned to contracts and grants on the basis of program type.

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

The following schedule is a reconciliation of total federal expenditures as shown on the Schedule of Expenditures of Federal Awards to the revenue items shown on the Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2018.

Federal Grants and Contracts– Operating Revenue	$ 6,601,298
Federal Grants – Nonoperating Revenue	13,719,381
Fall 2018 Unearned Federal Grant Revenue	4,773,363
Fall 2017 Unearned Federal Grant Revenue	(4,953,578)
Federal Direct Student Loans	36,969,037
Expenditures per Schedule of Expenditures of Federal Awards	$57,109,501


JACKSONVILLE STATE UNIVERSITY

PART IV

SCHEDULES OF FINDINGS AND QUESTIONED COSTS

Jacksonville State University
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Student Financial Assistance Cluster
84.063	Federal Pell Grant Program
84.268	Federal Direct Student Loans
84.033	Federal Work-Study Program
84.007	Federal Supplemental Educational Opportunity Grants
84.379	Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)
	Federal Emergency Management Agency (FEMA)
97.036	Disaster Grant-Public Assistance (PA)
	Research and Development Cluster
12.903	GenCyber Grants Program
84.411	Investing in Innovation (i3) Fund
84.116	Funds for the Improvement of Postsecondary Education
47.074	Biological Sciences
47.076	Education and Human Resources
15.615	Cooperative Endangered Species Conservation Fund
15.608	Fish and Wildlife Management Assistance

Auditee qualified as low-risk auditee?	__x__ yes	____ no

Section II – Financial Statement Findings

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

Section III – Federal Award Findings and Questioned Costs

REFERENCE	PROGRAM	QUESTIONED COSTS
2018.001	Student Financial Assistance	$ 2,126

U.S. Department of Education
Federal Pell Grant Program – CFDA 84.063
Award Year – July 1, 2017 through June 30, 2018

CRITERIA

34 CFR §690.63 – Calculation of a Federal Pell Grant for a Payment Period

CONDITION/CONTEXT

The University is responsible for accurately calculating the annual award of Federal Pell Grant as well as the amount of Pell Grant to be disbursed each payment period depending on the student's enrollment status, expected family contribution (EFC) and cost of attendance (COA). During our review, we noted that 2 out of 60 students selected for testing were not disbursed their allowable amount of Pell Grant due to human error in the manual process of determining summer eligibility for Pell Grant.

CAUSE/EFFECT

The University was using the Banner Pell Calculation, but were reviewing each student's eligibility for Pell and other aid, individually based on their registration. Once they reviewed their registered hours, they would then use the Banner Pell Calculation to determine the award amount. During the manual review of registered hours, these 2 students were overlooked in the review process and therefore were not awarded their eligible Pell Grant.

REPEAT

N/A

RECOMMENDATION

We recommend that the University automate the determination, calculation and disbursement of summer term Pell. For any manual processes that remain, we recommend a secondary detective control to ensure that similar errors are detected in the future within the same term.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

See letter from management on page 91.

FINANCIAL AID OFFICE
JACKSONVILLE STATE UNIVERSITY

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Management's View & Corrective Action Plan

Reference: 2018.001 **Student Financial Assistance**

Management Response:

Management agrees with the audit finding regarding awarding of Federal Pell Grant during each payment period. The two students identified in the review have been awarded and disbursed Pell Grant for Summer 2018. To further address this finding, clear steps for review of summer enrollees, tracking of the review, and subsequent review of the enrollees based on their initial review status has been implemented for the current year.

Completed: April 2018

Contact person responsible – Jessica Wiggins, Director of Financial Aid

Status of Prior Year Findings and Questioned Costs

Reference: 2017.001
Type: Student Financial Aid Finding

During the prior year, it was noted that 3 students did not timely receive their Pell disbursements during the applicable payment period due to inadequate staffing, which led to a breakdown in internal controls. The errors were detected by management and corrected by late disbursement. Management employed a third party servicer, FA Solutions, to gain adequate staffing to allow for all eligible scheduled Pell disbursements to be processed timely.

Person Responsible: Jessica Wiggins, Director of Financial Aid

Status: Resolved

Reference: 2017.002
Type: Student Financial Aid Finding

During the prior year, the University failed to timely calculate and return unearned title IV funds for which it was responsible for 25 students. The error occurred due to inadequate staffing which led to a breakdown in internal controls. FA Solutions provided additional staffing allowing for all Return to Title IV Calculations to be completed as soon as possible and no later than the required 45 days of the determined withdrawal date for a student.

Person Responsible: Jessica Wiggins, Director of Financial Aid

Status: Resolved

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Status of Prior Year Findings and Questioned Costs (continued)

Reference: 2017.003
Type: Student Financial Aid Finding

During the prior year, we noted that 2 drawdowns did not employ appropriate controls to ensure that the amounts of funds requested were appropriate and that the institution did not receive and maintain excess cash. Supervisor reviews were not documented and reconciliations to document the amount of cash requested compared with cash disbursements were not maintained. Management increased staffing by adding 2 accountants to the business office and revised procedures for drawdowns. Segregation of duties between reconciliations, drawdowns, and deposits was implemented and policies to document activities and review were put into place. Budget Accountant performs financial aid reconciliation on a spreadsheet and initials. This is then submitted to the Controller who reviews the backup documentation and checks that Banner negative cash/accounts receivable is greater than requested drawdown amount. If no issues exist, the Controller initials the reconciliation giving Staff Accountant the approval to draw down the requested amounts. Staff Accountant double checks cash balances in Banner before drawdown then completes drawdown in G5 and attaches all G5 printouts and emails the original reconciliation packet, initials, and gives packet to Staff Accountant who checks Regions bank activity and initials when money is received. After money is received, Staff Accountant gives Regions documentation and reconciliation packet to Grants Accountant to have deposited into the correct funds according to the original reconciliation spreadsheet instructions. After deposits have been made, Grants Accountant attaches deposit receipts to reconciliation packet and initials. At this point, the packet with all added materials is returned to the Budget Accountant for filing.

Person Responsible: Alice Wudarczyk, Assistant Controller-Student Accounts

Status: Resolved

Reference: 2017.004
Type: Student Financial Aid Finding

During the prior year, the University failed to perform a monthly loan reconciliation due to inadequate staffing, which led to a breakdown in internal controls. The errors were detected by management and reconciliation was performed as soon as was administratively feasible. Management engaged financial aid consultants to manage the student financial services department, to identify and resolve non-compliance that occurred as a result of the breakdown in controls, and to supplement the staffing needs of the student financial services department while in the process of hiring permanent staff. FA Solutions provided additional staffing allowing for monthly reconciliations of institutional records with Direct Loan funds.

Person Responsible: Alice Wudarczyk, Assistant Controller-Student Accounts

Status: Resolved

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Status of Prior Year Findings and Questioned Costs (continued)

Reference: 2017.005
Type: Student Financial Aid Finding

During the prior year, we noted that a manual control process performed on a weekly basis by student financial aid personnel to review student accounts for overawards was not documented. The absence of these control activities could lead to noncompliance. With the employment of FA Solutions, the University began to use Banner reports along with an additional report that was written by the JSU IT staff to ensure they were not over awarding students. Management put policies and procedures in place with the third party servicer to ensure control activities were adequate related to monitoring for over awarding of funds, and proper documentation is performed. FA Solutions provided additional staffing and utilized a Banner report and a JSU Information Technology created report to ensure students were not over awarded. FA Solutions followed the policies and procedures created together with JSU to ensure monitoring for over awards took place.

Person Responsible: Alice Wudarczyk, Assistant Controller-Student Accounts

Status: Resolved

Reference: 2017.006
Type: Research and Development Grant Finding

During the prior year, we noted the annual Grant Performance Report was submitted timely but did not include accurate data. The reporting of inaccurate data was due to the manual nature of the process and a lack of management oversight to ensure accuracy. The error was not detected by management. The multi-year spreadsheet used to track and reconcile the accounts was updated to adequately reflect data, the annual and accumulative budgets, and expenditures. A second review of data is done prior to approval by VP and submission to the sponsor.

Person Responsible: Treva McAboy, Sponsored Programs Accountant
Status: Resolved

Reference: 2017.007
Type: Research and Development Grant Finding

During the prior year, we noted that JSU failed to maintain documentation to evidence their evaluation and monitoring of subrecipients. The lack of policies and procedures combined with staff turnover led to inadequate subrecipient monitoring. The increase of 2 accountants in the business office and revision of procedures for monitoring subrecipients enabled the University to ensure proper controls were implemented.

Person Responsible: Treva McAboy, Sponsored Programs Accountant
Status: Resolved

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Status of Prior Year Findings and Questioned Costs (continued)

Reference: 2017.008
Type: Research and Development Grant Finding

During the prior year, we noted that JSU improperly charged a grant for 9 months of salary for one employee. Management's system of internal control around time and effort analysis was not comprehensive enough to timely identify this unallowable charge. Management identified the error and subsequently refunded the granting agency. A revised and expanded policy now exists for Time and Effort reporting. Anyone paid more than 50% from a restricted fund is required to certify their time and effort quarterly, with approvals from the program director and sponsored programs accountant. These certifications are housed in the office of the sponsored programs accountant

Person Responsible: Treva McAboy, Sponsored Programs Accountant

Status: Resolved

Reference: 2017.009
Type: Research and Development Grant Finding

During the prior year, we noted the internal control design lacked appropriate segregation of duties around procurement and cash management. Reconciliation, authorization, and performance of cash drawdowns was performed by one person. Additionally, the majority of purchasing was performed, reviewed for allowability under the grant and approved by one person. The lack of segregation of duties in the areas of cash management and procurement could lead to noncompliance with the grant and Federal regulations. The University has taken steps to ensure adequate separation of duties. Each step of the drawdown process (reconciliation and generation of invoice, drawdown and deposit) is each handled by a different accountant.

Person Responsible: Treva McAboy, Sponsored Programs Accountant

Status: Resolved

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Acknowledgements

Front and Back Covers: Jacksonville State University, courtesy of Matt Reynolds

Photography: Jacksonville State University Photographic Services

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