

**ALABAMA A&M UNIVERSITY**  
**FINANCIAL STATEMENTS**  
**September 30, 2016**  
**With Independent Auditors Report**

**ALABAMA A&M UNIVERSITY**  
**Normal, Alabama**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Alabama A&M University ("the University"), a component unit of the State of Alabama, and its discretely presented component units as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University and its discretely presented component units at September 30, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2017, on our consideration of Alabama A&M University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Alabama A&M University's internal control over financial reporting and compliance.

March 29, 2017

*Banki Fuley White & Co.*

**ALABAMA A&M UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Fiscal Year Ended September 30, 2016**

**INTRODUCTION**

The following discussion presents an overview of the financial position and financial performance of the University during the fiscal year ended September 30, 2016, with comparative information for 2015. This discussion and analysis has been prepared by management along with the financial statements and related footnote disclosures. This discussion should be read in conjunction with, and is qualified in its entirety by, the financial statements and footnotes. The discussion and analysis is designed to focus on current activities, resulting change and currently known facts. The financial statements, footnotes and this discussion are the responsibility of management.

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

**FINANCIAL HIGHLIGHTS**

At September 30, 2016 and 2015, the University has total assets of \$207,784,293 and \$193,454,892 respectively; total deferred out flows of resources of \$7,496,032 and \$8,035,375 respectively, total liabilities of \$198,939,766 and \$184,927,543, respectively; and total deferred inflows of resources of \$803,000 and \$5,098,000 respectively. The University's net position increased by \$4,612,178 during the year ended September 30, 2016.

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

**ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS**

***Statement of Net Position***

The statement of net position is a point in time financial statement, and presents the assets, liabilities, and net position of the University at September 30, 2016. Net position is displayed in three parts: invested in capital assets, net of related debt, restricted and unrestricted. Restricted net position may either be expendable or nonexpendable and are those assets that are restricted by law or external donor. Unrestricted net position, while they are generally designated for specific purposes, are available for use by the University to meet current expenses for any purpose. The statement of net position, along with all of the University's basic financial statements, are prepared under the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred by the University, regardless of when cash is exchanged.

**ALABAMA A&M UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Fiscal Year Ended September 30, 2016**

Assets included in the statements of net position are classified as current or noncurrent. Current assets consist primarily of cash and cash equivalents, investments, and accounts receivable. Noncurrent assets at September 30, 2016, consist primarily of capital assets.

The condensed statements of net position at September 30, 2016 and 2015, follow:

|   | <u>2016</u>           | <u>2015</u>           |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>                                   |                       |                       |
| Current assets                                  | \$ 84,634,208         | \$ 69,679,726         |
| Capital assets                                  | 115,654,053           | 115,726,368           |
| Other noncurrent assets                         | <u>-</u>              | <u>13,423</u>         |
| Total assets                                    | <u>200,288,261</u>    | <u>185,419,517</u>    |
| Deferred outflows of resources                  | <u>7,496,032</u>      | <u>8,035,375</u>      |
| Total assets and deferred outflows of resources | <u>\$ 207,784,293</u> | <u>\$ 193,454,892</u> |
| <b>LIABILITIES</b>                              |                       |                       |
| Current liabilities                             | \$ 64,449,778         | \$ 59,250,758         |
| Noncurrent liabilities                          | <u>134,489,988</u>    | <u>125,676,785</u>    |
| Total liabilities                               | <u>198,939,766</u>    | <u>184,927,543</u>    |
| Deferred Inflows of resources                   | <u>803,000</u>        | <u>5,098,000</u>      |
| <b>NET POSITION</b>                             |                       |                       |
| Invested in capital assets, net of related debt | 53,678,041            | 56,684,192            |
| Restricted-expendable                           | 3,253,434             | 2,890,780             |
| Unrestricted                                    | <u>(48,889,948)</u>   | <u>(56,145,623)</u>   |
| Total net position                              | <u>8,041,527</u>      | <u>3,429,349</u>      |
| Total liabilities and net position              | <u>\$ 207,784,293</u> | <u>\$ 193,454,892</u> |

***Changes in Assets, Liabilities and Net Position***

University cash, cash equivalents, and investments increased between September 30, 2016 and 2015 by \$7,806,121 or 27.5%, primarily due to an increase in student enrollment driven revenues, combined with prudent robust expenses management. Timing differences between incurring expenses and subsequent collections between September 30, 2016 and 2015, lead to a net increase of \$4,683,923 or 14.4% accounts and loans receivables. University aggregate long-term debt increased by \$870,490 or 1.4% due to the issuance of new debt. University net position increased between September 30, 2016 and 2015 by \$4,612,178, primarily due to increases in tuition and fees and revenues from auxiliary enterprises.

**ALABAMA A&M UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Fiscal Year Ended September 30, 2016**

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

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

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

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

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

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**ALABAMA A&M UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Fiscal Year Ended September 30, 2016**

The condensed statements of revenues, expenses and changes in net position for the years ended September 30, 2016 and 2015, follow:

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| <b>Operating revenues:</b>                      |                     |                     |
| Tuition and fees                                | \$ 59,551,891       | \$ 55,937,970       |
| Less: Scholarships and other allowances         | (13,470,975)        | (11,459,839)        |
| Federal, state and private grants and contracts | 44,240,945          | 43,351,287          |
| Gifts and private support                       | 2,244,917           | 2,151,250           |
| Auxiliary enterprises and other                 | <u>19,201,548</u>   | <u>16,577,754</u>   |
| Total operating revenues                        | 111,768,326         | 106,558,422         |
| Operating expenses                              | <u>146,187,601</u>  | <u>142,136,005</u>  |
| Operating loss                                  | (34,419,275)        | (35,577,583)        |
| <b>Nonoperating revenues (expenses):</b>        |                     |                     |
| State appropriations                            | 40,521,522          | 40,102,843          |
| Investment income, net                          | 7,989               | 8,590               |
| Interest expense on capital debt                | (1,310,243)         | (3,002,271)         |
| Other nonoperating revenues (expenses)          | <u>(187,815)</u>    | <u>3,145,875</u>    |
| Net nonoperating revenues                       | <u>39,031,453</u>   | <u>40,255,037</u>   |
| Increase in net position                        | 4,612,178           | 4,677,454           |
| Net position-beginning of the year              | <u>3,429,349</u>    | <u>(1,248,105)</u>  |
| Net position-end of the year                    | <u>\$ 8,041,527</u> | <u>\$ 3,429,349</u> |

***Changes in Revenues and Expenses***

The University's operating revenues increased by \$5,209,904 or 4.9% during the year ended September 30, 2016. The increase was primarily the result of an increase in tuition and fees revenue which resulted in the increased enrollment, additionally, higher auxiliary revenue resulted from the University's acquisition of Normal Hills on September 2015. Fiscal year 2016 was the first year in which there was a full 12 months of Normal Hills Apartments operating revenue being reported as part of University auxiliary.

Interest expenses was also much lower in 2016, as a result of the lower interest rate obtained by the University when it refinanced it's existing debt in September 2015.

***Grants and Contracts***

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



**ALABAMA A&M UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Fiscal Year Ended September 30, 2016**

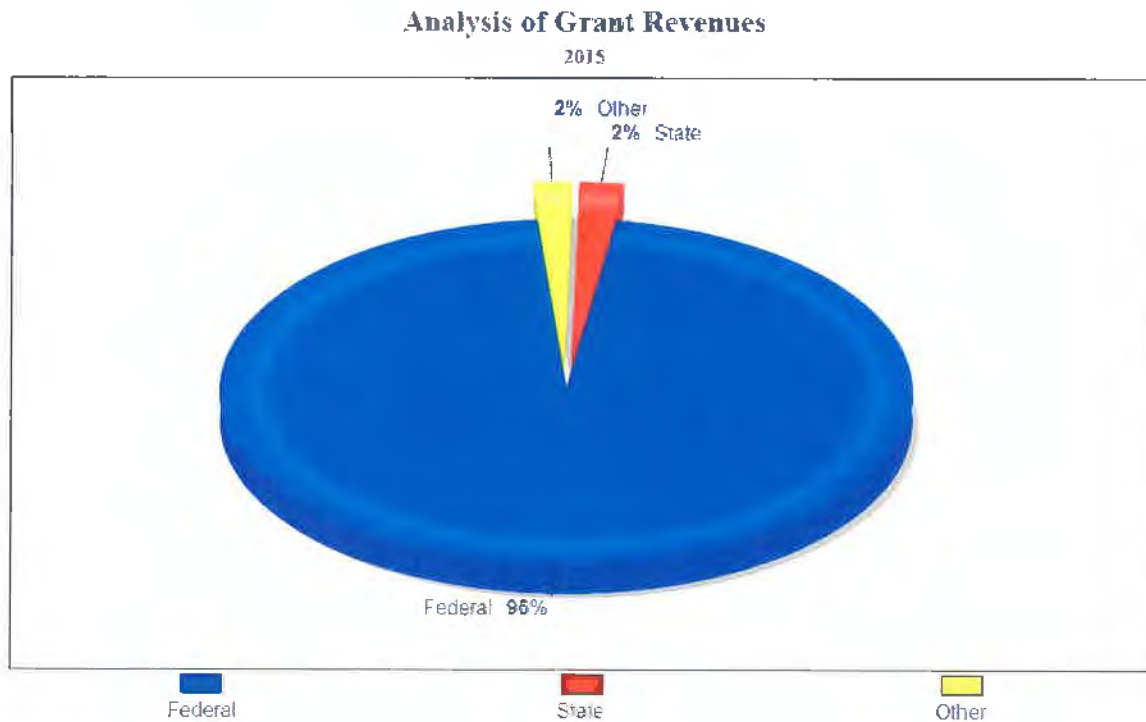
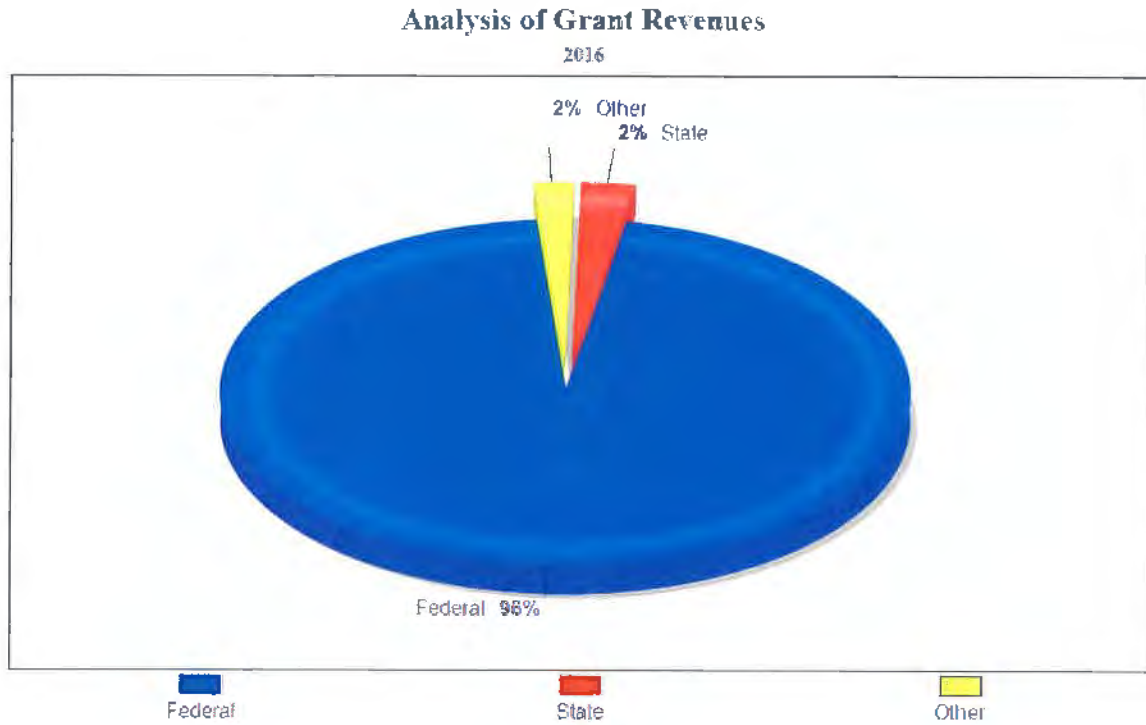
The following table details the University's grant and contract awards for the fiscal years ended September 30, 2016 and 2015, by source:

|   | <u>2016</u>          | <u>2015</u>          |
|---|----------------------|----------------------|
| <b>Federal Sources</b>                        |                      |                      |
| Financial aid (excludes loan programs)        | \$ 15,874,263        | \$ 15,535,309        |
| Department of Education                       | 8,700,001            | 8,514,234            |
| National Aeronautics and Space Administration | 504,888              | 494,107              |
| United States Department of Agriculture       | 5,745,037            | 5,622,366            |
| Other federal agencies                        | <u>9,298,031</u>     | <u>9,099,495</u>     |
| Total federal sources                         | 40,122,218           | 39,265,511           |
| <b>State sources</b>                          |                      |                      |
| Grants and contracts                          | 1,027,580            | 831,411              |
| Other sources                                 | <u>742,864</u>       | <u>693,319</u>       |
| Total all sources                             | <u>\$ 41,892,662</u> | <u>\$ 40,790,241</u> |

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**ALABAMA A&M UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Fiscal Year Ended September 30, 2016**

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



**ALABAMA A&M UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Fiscal Year Ended September 30, 2016**

In addition to their natural classification, operating expenses are also reported by their functional classification as defined by the National Association of College and University Business Officers. The functional classification of an operating expense (Instruction, Research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. This method reflects, by function of the University, amounts expended in areas such as Instruction, Research and Student Services and is used most commonly for comparative reporting purposes among colleges and universities. Operating expenses by functional classification for the fiscal years ended September 30, 2016 and 2015, are listed below:

**Expenses by Function**

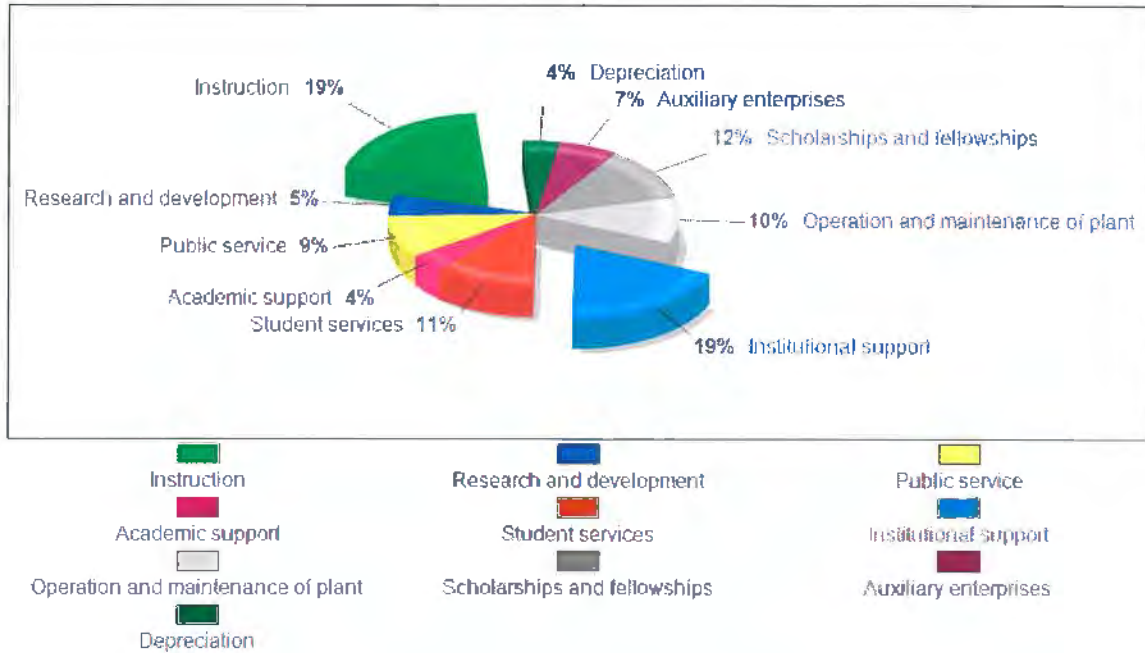
|  | <u>2016</u>               | <u>2015</u>               |
|--|---------------------------|---------------------------|
| <b>Educational and General:</b>          |                           |                           |
| Instruction                              | \$ 28,292,544             | \$ 28,331,136             |
| Research and development                 | 6,842,200                 | 8,674,036                 |
| Public service                           | 13,426,951                | 14,810,019                |
| Academic support                         | 5,961,449                 | 5,441,675                 |
| Student services                         | 15,733,122                | 14,341,896                |
| Institutional support                    | 27,439,834                | 22,927,708                |
| Operation and maintenance of plant       | 14,566,764                | 13,035,747                |
| Scholarships and fellowships             | <u>17,497,051</u>         | <u>16,703,862</u>         |
|  | 129,759,915               | 124,266,079               |
| <br><b>Auxiliary Enterprises</b>         | <br>9,469,374             | <br>10,019,712            |
| <br><b>Depreciation and amortization</b> | <br><u>5,958,312</u>      | <br><u>7,877,214</u>      |
| <br><b>Total Operating Expenses</b>      | <br><u>\$ 145,187,601</u> | <br><u>\$ 142,163,005</u> |

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**ALABAMA A&M UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Fiscal Year Ended September 30, 2016**

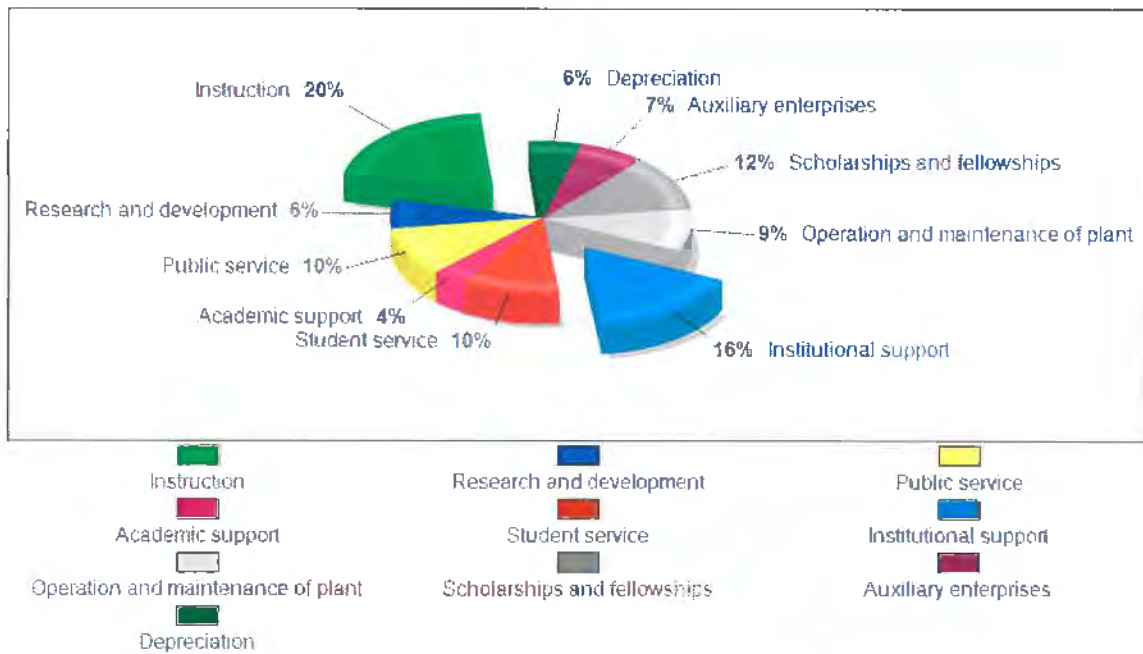
**Analysis of Expenditures by Function**

2016



**Analysis of Expenditures by Function**

2015



**ALABAMA A&M UNIVERSITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Fiscal Year Ended September 30, 2016**

***Statements of Cash Flows***

The statements of cash flows presents information related to cash flows of the University. This statement presents cash flows by category: operating activities, noncapital financing activities, capital and related financing activities and investing activities. The net cash provided to, or used by, the University is presented by category. The condensed statement of cash flows for the years ended September 30, 2016 and 2015, follows:

|   | <b>2016</b>    | <b>2015</b>    |
|---|----------------|----------------|
| Cash received from operating activities                   | \$ 111,389,493 | \$ 109,975,398 |
| Cash payments for operating activities                    | (138,494,053)  | (132,021,869)  |
| Net cash used in operating activities                     | (27,104,560)   | (22,046,471)   |
| Net cash provided by noncapital financing activities      | 40,333,707     | 42,886,521     |
| Net cash used by capital and related financing activities | (5,711,145)    | (12,822,153)   |
| Net cash provided by investing activities                 | 299,370        | 4,848,799      |
| Net increase in cash and cash equivalents                 | 7,817,372      | 12,866,696     |
| Cash and cash equivalents, beginning of the year          | 25,494,840     | 12,628,144     |
| Cash and cash equivalents, end of the year                | \$ 33,312,212  | \$ 25,494,840  |

**ENROLLMENT**

The following table indicates the total historical on-campus enrollment of undergraduate and graduate students for the 2011 through 2015 academic years. Also indicated are the full-time equivalent students and the total number of on-campus credit hours taken by the students attending the University.

**Fall Headcount Enrollment and Full-Time Equivalent**

| <b>Year ended<br/>September 30</b> | <b>Undergraduate</b> | <b>Graduate</b> | <b>Total</b> | <b>Full-Time<br/>Equivalent</b> | <b>Annual Total<br/>Credit Hours<br/>Taken</b> |
|------------------------------------|----------------------|-----------------|--------------|---------------------------------|--|
| 2016                               | 4,851                | 1,008           | 5,859        | 4,903                           | 141,172  |
| 2015                               | 4,210                | 1,123           | 5,333        | 4,843                           | 137,273  |
| 2014                               | 4,055                | 969             | 5,024        | 4,564                           | 127,959  |
| 2013                               | 4,169                | 776             | 4,945        | 4,250                           | 132,020  |
| 2012                               | 4,285                | 810             | 5,095        | 4,397                           | 129,330  |

**ALABAMA A&M UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Fiscal Year Ended September 30, 2016**

**Student Admissions**

The table below shows the total of new freshman and transfer applications received, the number accepted, and the number who enrolled for the fall semesters of 2011 through 2015.

**Fall Semester First-Year Student Admissions**

| <u>Year ended<br/>September 30</u> | <u>Number of<br/>Applicants</u> | <u>Percent<br/>Accepted</u> | <u>Number<br/>Accepted</u> | <u>Percent<br/>Enrolled</u> | <u>Number<br/>Enrolled</u> |
|------------------------------------|---------------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| 2016                               | 8,909                           | 78%                         | 6,908                      | 24%                         | 1,636                      |
| 2015                               | 7,901                           | 65.4%                       | 5,166                      | 28.55%                      | 1,475                      |
| 2014                               | 6,142                           | 84.7%                       | 5,204                      | 23.3%                       | 1,214                      |
| 2013                               | 10,196                          | 53.4%                       | 5,447                      | 19.6%                       | 1,069                      |
| 2012                               | 9,676                           | 56.1%                       | 5,427                      | 19.1%                       | 1,034                      |

**Fall Semester Transfer Student Admissions**

| <u>Year ended<br/>September 30</u> | <u>Number of<br/>Applicants</u> | <u>Percent<br/>Accepted</u> | <u>Number<br/>Accepted</u> | <u>Percent<br/>Enrolled</u> | <u>Number<br/>Enrolled</u> |
|------------------------------------|---------------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| 2016                               | 789                             | 51%                         | 399                        | 56%                         | 224                        |
| 2015                               | 596                             | 48.7%                       | 290                        | 64.1%                       | 186                        |
| 2014                               | 700                             | 36.4%                       | 255                        | 69.0%                       | 176                        |
| 2013                               | 634                             | 37.4%                       | 237                        | 59.9%                       | 142                        |
| 2012                               | 738                             | 37.3%                       | 275                        | 56.7%                       | 156                        |

**Student Costs Per Credit Hour**

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

**Student Cost Per Credit Hour**

| <u>Student Classification</u> | <u>2015-16</u> | <u>2014-15</u> | <u>2013-14</u> | <u>2012-13</u> | <u>2011-12</u> |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Undergraduate, resident       | \$271          | \$250          | \$233          | \$233          | \$222          |
| Undergraduate,<br>nonresident | 542            | 500            | 466            | 466            | 444            |
| Graduate, resident            | 413            | 380            | 354            | 354            | 337            |
| Graduate, nonresident         | 826            | 760            | 708            | 708            | 674            |

**ALABAMA A&M UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Fiscal Year Ended September 30, 2016**

**Annual Full-Time Tuition**

| <u>Student Classification</u> | <u>2014-15</u> | <u>2014-15</u> | <u>2013-14</u> | <u>2012-13</u> | <u>2011-12</u> |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Undergraduate, resident       | \$ 4,804       | \$ 9,096       | \$8,586        | \$ 8,580       | \$ 8,250       |
| Undergraduate,<br>nonresident | 8,869          | 16,596         | 15,576         | 15,570         | 14,910         |
| Graduate, resident            | 4,456          | 8,446          | 7,978          | 7,972          | 7,666          |
| Graduate, nonresident         | 8,173          | 15,286         | 14,344         | 14,344         | 13,732         |

**Room and Board and Estimated Total Cost**

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

**Annual Room and Board and Estimated Total Costs**

| <u>Year ended<br/>September 30</u> | <u>Room<br/>and<br/>Board</u> | <u>Estimated<br/>Tuition, Fees,<br/>Books and<br/>Miscellaneous</u> | <u>Estimated<br/>Total Costs</u> |
|------------------------------------|-------------------------------|---|----------------------------------|
| 2016                               | \$8,140                       | \$14,338  | \$22,478                         |
| 2015                               | \$7,240                       | \$12,268  | \$19,508                         |
| 2014                               | 7,208                         | 11,662  | 18,870                           |
| 2013                               | 7,064                         | 10,728  | 17,792                           |
| 2012                               | 6,980                         | 10,286  | 17,266                           |

**Residence Hall Occupancy Analysis**

| <u>Fall<br/>Semester</u> | <u>Number of<br/>Occupants</u> | <u>Capacity</u> | <u>Percent of<br/>Occupancy</u> |
|--------------------------|--------------------------------|-----------------|---------------------------------|
| 2016                     | 2,510                          | 2,541           | 99%                             |
| 2015                     | 2,086                          | 2,216           | 94%                             |
| 2014                     | 1,908                          | 2,216           | 86%                             |
| 2013                     | 1,839                          | 2,025           | 91%                             |
| 2012                     | 1,601                          | 2,557           | 63%                             |

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Total capital asset additions for the University were approximately \$3,630,373 and \$15,283,857 for the years ended September 30, 2016 and 2015, respectively. During 2016, noncurrent liabilities increased by \$8,463,500, primarily due to an increase in pension liability

During fiscal 2016, the University acquired ownership of Normal Hills Apartments, a residential complex contiguous to campus, from the University's Foundation. The University also successfully refinanced its existing bond debt, along with the debt related to its acquisition of Normal Hills Apartments, and in the process borrowed approximately \$34 million.

**ALABAMA A&M UNIVERSITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Fiscal Year Ended September 30, 2016**

The new loan proceeds are being used for new construction as well as renovations to existing residential and academic building across campus. This process is part of the University's action plan to address its priority needs as it implements its Master Plan in phases over the next few years.

**ECONOMIC OUTLOOK**

In addition to potential variations in state appropriation funding, the University is subject to declines in general economic conditions in the United States and, specifically, the State of Alabama. State appropriations at the University have been reduced from \$52.8 million in fiscal year 2008 to \$40.5 million in fiscal year 2016. The University also continues to attract federal grant revenue, and this represents an important funding component for the University's research and outreach efforts. The outcome of the federal budget process has important ramifications for the University's research budget.

Further weakening of the economy could have a potential negative impact on the University's enrollment, and extramural funding. However, management believes that the University will continue its high level of excellence in service to students, sponsors, the State of Alabama, and other constituents. We will continue to maintain our competitive pricing on tuition, and combined with the University's quality academic offering and student experience, this has resulted in sustained upward pressure on enrollment over the past four years.

The need to continue to address priority needs and requirements for deferred maintenance, new technology, repairs and new construction projects is a large challenge facing the University in the years to come. Various committees and individuals are assessing the University's performance toward identified goals, which include obtaining greater revenue from non-traditional sources, as well as increased operational efficiencies.

Other than the issues presented above, University administration is not aware of any other currently known facts, decisions, or conditions that are expected to have a significant effect on the University's financial position or results of operations during the fiscal year 2016 beyond those unknown variables having a global effect on virtually all types of business operations.

Clayton Gibson  
Vice President for Business and Finance



**ALABAMA A&M UNIVERSITY**  
**STATEMENTS OF NET POSITION**  
**September 30, 2016 and 2015**

|  | 2016                         |                      | 2015                         |                      |
|--|------------------------------|----------------------|------------------------------|----------------------|
|  | Alabama<br>A&M<br>University | Component<br>Units   | Alabama<br>A&M<br>University | Component<br>Units   |
| <b>ASSETS</b>  |                              |                      |                              |                      |
| <b>Current assets:</b>                                 |                              |                      |                              |                      |
| Cash and cash equivalents                              | \$ 26,964,241                | \$ 2,540,951         | \$ 22,404,627                | \$ 1,198,644         |
| Trusteed fund assets:                                  |                              |                      |                              |                      |
| Cash and cash equivalents                              | 6,347,971                    | -                    | 3,090,213                    | 52,130               |
| Investments  | 2,879,531                    | -                    | 2,877,359                    | -                    |
| Student accounts receivable, net of allowances         | 10,588,911                   | -                    | 8,575,925                    | -                    |
| Loans receivable, net                                  | 9,129,068                    | -                    | 9,488,652                    | -                    |
| Accounts receivable-other, net                         | 17,409,471                   | 753,520              | 14,378,950                   | 496,135              |
| Prepaid expenses                                       | 11,315,015                   | -                    | 8,864,000                    | -                    |
| <b>Total current assets</b>                            | <b>84,634,208</b>            | <b>3,294,471</b>     | <b>69,679,726</b>            | <b>1,746,909</b>     |
| <b>Noncurrent assets:</b>                              |                              |                      |                              |                      |
| Investments  | -                            | 47,876,786           | 13,423                       | 49,808,963           |
| Capital assets, net                                    | <u>115,654,053</u>           | <u>43,936</u>        | <u>115,726,368</u>           | <u>20,004</u>        |
| <b>Total noncurrent assets</b>                         | <b>115,654,053</b>           | <b>47,920,722</b>    | <b>115,739,791</b>           | <b>49,828,967</b>    |
| <b>Deferred outflows of resources:</b>                 |                              |                      |                              |                      |
| Loss on refunding on bonds                             | 2,578,032                    | -                    | 2,762,178                    | -                    |
| Deferred outflows from pension                         | 4,918,000                    | -                    | 5,273,197                    | -                    |
| <b>Total deferred outflows of resources</b>            | <b>7,496,032</b>             | <b>-</b>             | <b>8,035,375</b>             | <b>-</b>             |
| <b>Total assets and deferred outflows of resources</b> | <b>\$ 207,784,293</b>        | <b>\$ 51,215,193</b> | <b>\$ 193,454,892</b>        | <b>\$ 51,575,876</b> |
| <b>LIABILITIES</b>                                     |                              |                      |                              |                      |
| <b>Current liabilities:</b>                            |                              |                      |                              |                      |
| Accounts payable and accrued expenses                  | \$ 11,653,160                | \$ -                 | \$ 13,587,623                | \$ 170,433           |
| Compensated absences                                   | 2,744,261                    | -                    | 2,737,615                    | -                    |
| Student deposits                                       | 3,367,780                    | -                    | 3,204,377                    | -                    |
| Deposits held in custody for others                    | -                            | 1,533,262            | -                            | 1,093,704            |
| Unearned revenue                                       | 42,952,262                   | -                    | 38,097,512                   | -                    |
| Accrued interest on bonds payable                      | 430,459                      | -                    | -                            | -                    |
| Bonds payable, current portion                         | 3,301,856                    | -                    | 1,623,631                    | -                    |
| <b>Total current liabilities</b>                       | <b>64,449,778</b>            | <b>1,533,262</b>     | <b>59,250,758</b>            | <b>1,264,137</b>     |
| <b>Noncurrent liabilities:</b>                         |                              |                      |                              |                      |
| Bonds payable, noncurrent portion, net                 | 59,372,988                   | -                    | 60,180,723                   | -                    |
| Pension liability                                      | <u>75,117,000</u>            | <u>-</u>             | <u>65,496,062</u>            | <u>-</u>             |
| <b>Total noncurrent liabilities</b>                    | <b>134,489,988</b>           | <b>-</b>             | <b>125,676,785</b>           | <b>-</b>             |
| <b>Total liabilities</b>                               | <b>198,939,766</b>           | <b>1,533,262</b>     | <b>184,927,543</b>           | <b>1,264,137</b>     |
| <b>Deferred inflows of resources</b>                   |                              |                      |                              |                      |
| Deferred inflows from pension                          | <u>803,000</u>               | <u>-</u>             | <u>5,098,000</u>             | <u>-</u>             |
| <b>Total deferred inflows of resources</b>             | <b>803,000</b>               | <b>-</b>             | <b>5,098,000</b>             | <b>-</b>             |

**ALABAMA A&M UNIVERSITY**  
**STATEMENTS OF NET POSITION (CONT'D)**  
**September 30, 2016 and 2015**

|  | <u>2016</u>                               |                            | <u>2015</u>                               |                            |
|--|---|----------------------------|---|----------------------------|
|  | <u>Alabama<br/>A&amp;M<br/>University</u> | <u>Component<br/>Units</u> | <u>Alabama<br/>A&amp;M<br/>University</u> | <u>Component<br/>Units</u> |
| <b>NET POSITION</b>  |   |                            |   |                            |
| Invested in capital assets, net of related debt                          | 53,678,041                                | -                          | 56,684,192                                | -                          |
| Restricted expendable  | 3,253,434                                 | 7,767,829                  | 2,890,780                                 | 9,368,965                  |
| Restricted nonexpendable   | -   | 40,976,196                 | -   | 40,763,912                 |
| Unrestricted   | <u>(48,889,948)</u>                       | <u>937,906</u>             | <u>(56,145,623)</u>                       | <u>178,862</u>             |
| <br>Total net position   | <br><u>8,041,527</u>                      | <br><u>49,681,931</u>      | <br><u>3,429,349</u>                      | <br><u>50,311,739</u>      |
| <br>Total liabilities, deferred inflow of resources<br>and net positions | <br><u>\$ 207,784,293</u>                 | <br><u>\$ 51,215,193</u>   | <br><u>\$ 193,454,892</u>                 | <br><u>\$ 51,575,876</u>   |

**ALABAMA A&M UNIVERSITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**For the years ended September 30, 2016 and 2015**

|   | 2016                         |                      | 2015                         |                      |
|---|------------------------------|----------------------|------------------------------|----------------------|
|   | Alabama<br>A&M<br>University | Component<br>Units   | Alabama<br>A&M<br>University | Component<br>Units   |
| <b>REVENUES</b>                               |                              |                      |                              |                      |
| <b>Operating revenues:</b>                    |                              |                      |                              |                      |
| Student tuition and fees                      | \$ 59,551,891                | \$ -                 | \$ 55,937,970                | \$ -                 |
| Less: Scholarships and other allowances       | (13,470,975)                 | -                    | (11,459,839)                 | -                    |
| Federal appropriations                        | 2,348,283                    | -                    | 2,561,046                    | -                    |
| Federal grants and contracts                  | 40,122,218                   | -                    | 39,265,511                   | -                    |
| State and local grants and contracts          | 1,027,580                    | -                    | 831,411                      | -                    |
| Nongovernmental grants and contracts          | 742,864                      | -                    | 693,319                      | -                    |
| Gifts and privates support                    | 2,244,917                    | -                    | 2,151,250                    | -                    |
| Sales and services of educational departments | 3,043,735                    | -                    | 2,938,358                    | -                    |
| Auxiliary revenue                             | 15,967,737                   | -                    | 13,435,517                   | -                    |
| Interest earned on loans to students          | 45,494                       | -                    | 92,652                       | -                    |
| Other operating revenues (expenditures)       | <u>144,582</u>               | <u>4,701,095</u>     | <u>111,227</u>               | <u>7,573,476</u>     |
| Total operating revenues                      | <u>111,768,326</u>           | <u>4,701,095</u>     | <u>106,558,422</u>           | <u>7,573,476</u>     |
| <b>EXPENSES</b>                               |                              |                      |                              |                      |
| <b>Operating expenses:</b>                    |                              |                      |                              |                      |
| Salaries and wages                            | 54,019,173                   | -                    | 53,828,245                   | -                    |
| Fringe benefits                               | 22,210,958                   | -                    | 16,890,891                   | -                    |
| Scholarships and fellowships                  | 17,497,051                   | -                    | 16,282,814                   | -                    |
| Utilities                                     | 4,521,360                    | -                    | 5,068,923                    | -                    |
| Supplies and other services                   | 41,980,747                   | -                    | 42,187,918                   | -                    |
| Depreciation and amortization                 | 5,958,312                    | -                    | 7,877,214                    | 625,260              |
| Other operating expenses                      | -                            | <u>5,330,903</u>     | -                            | <u>6,655,263</u>     |
| Total operating expenses                      | <u>146,187,601</u>           | <u>5,330,903</u>     | <u>142,136,005</u>           | <u>7,280,523</u>     |
| Operating income (loss)                       | <u>(34,419,275)</u>          | <u>(629,808)</u>     | <u>(35,577,583)</u>          | <u>292,953</u>       |
| <b>NONOPERATING REVENUES (EXPENSES)</b>       |                              |                      |                              |                      |
| State appropriations                          | 40,521,522                   | -                    | 40,102,843                   | -                    |
| Investment income                             | 7,989                        | -                    | 8,590                        | -                    |
| Interest expense                              | (1,310,243)                  | -                    | (3,002,271)                  | -                    |
| Other nonoperating revenues (expenses)        | <u>(187,815)</u>             | <u>-</u>             | <u>3,145,875</u>             | <u>(667,107)</u>     |
| Net nonoperating revenues                     | <u>39,031,453</u>            | <u>-</u>             | <u>40,255,037</u>            | <u>(667,107)</u>     |
| Increase (decrease) in net position           | 4,612,178                    | (629,808)            | 4,677,454                    | (374,154)            |
| Net position at beginning of the year         | <u>3,429,349</u>             | <u>50,311,739</u>    | <u>(1,248,105)</u>           | <u>50,685,893</u>    |
| Net position at end of the year               | <u>\$ 8,041,527</u>          | <u>\$ 49,681,931</u> | <u>\$ 3,429,349</u>          | <u>\$ 50,311,739</u> |

**ALABAMA A&M UNIVERSITY**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended September 30, 2016 and 2015**

|  | <u>2016</u>            | <u>2015</u>            |
|--|------------------------|------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                        |                        |
| Cash received from tuition and fees  | \$ 44,067,930          | \$ 44,107,619          |
| Cash received from federal appropriations  | 2,348,283              | 2,561,046              |
| Cash received from grants and contracts  | 43,716,891             | 44,781,608             |
| Cash received from private gifts and support   | 2,244,917              | 2,151,250              |
| Cash received from sales and services of educational departments   | 3,043,735              | 2,938,358              |
| Cash received from auxiliary enterprises   | 15,967,737             | 13,435,517             |
| Other receipts and payments (net)  | 144,582                | 111,227                |
| Cash payments to suppliers   | (46,202,822)           | (39,588,070)           |
| Payment for utility services   | (4,521,360)            | (5,068,923)            |
| Cash payments to employees and related benefits  | (70,822,480)           | (71,137,052)           |
| Cash payments for scholarships and fellowships   | (17,497,051)           | (16,282,814)           |
| Cash receipts (payments) for loans to students   | 405,078                | (56,237)               |
| Net cash used by operating activities  | <u>(27,104,560)</u>    | <u>(22,046,471)</u>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |                        |                        |
| State appropriations   | 40,521,522             | 40,102,843             |
| Other nonoperating expenses  | <u>(187,815)</u>       | <u>2,783,678</u>       |
| Net cash provided by noncapital financing activities   | <u>40,333,707</u>      | <u>42,886,521</u>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                        |                        |
| Purchase of capital assets   | (5,885,997)            | (20,247,757)           |
| Proceeds from issuance of debt   | 60,096,812             | 59,042,177             |
| Defeasance and principal paid on debt  | (59,042,176)           | (47,668,172)           |
| Interest cost on capital debt and leases   | <u>(879,784)</u>       | <u>(3,948,401)</u>     |
| Net cash used by capital financing activities  | <u>(5,711,145)</u>     | <u>(12,822,153)</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                        |                        |
| Proceeds from sales of investments   | 2,890,783              | 7,730,991              |
| Purchase of investments  | (2,599,402)            | (2,890,782)            |
| Investment income  | <u>7,989</u>           | <u>8,590</u>           |
| Net cash provided by investing activities  | <u>299,370</u>         | <u>4,848,799</u>       |
| Net increase (decrease) in cash  | 7,817,372              | 12,866,696             |
| Cash and cash equivalents, beginning of the year   | <u>25,494,840</u>      | <u>12,628,144</u>      |
| Cash and cash equivalents, end of the year   | <u>\$ 33,312,212</u>   | <u>\$ 25,494,840</u>   |
| <b>RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b> |                        |                        |
| Decrease in operating income   | \$ (34,419,275)        | \$ (35,577,583)        |
| <b>Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:</b>   |                        |                        |
| Depreciation and amortization expense  | 5,958,312              | 7,877,214              |
| <b>Changes in assets and liabilities:</b>  |                        |                        |
| Receivables, net   | (4,683,923)            | (432,882)              |
| Prepaid expenses   | (2,451,015)            | (370,113)              |
| Accounts payable and accrued expenses  | (1,934,463)            | 2,721,668              |
| Compensated absences   | 6,646                  | (417,916)              |
| Student deposits   | 163,403                | 248,293                |
| Deferred revenues  | 4,854,750              | 3,904,848              |
| Pension liabilities  | <u>5,401,005</u>       | <u>(362,197)</u>       |
| Net cash used by operating activities  | <u>\$ (27,104,560)</u> | <u>\$ (22,046,471)</u> |

**ALABAMA A&M UNIVERSITY FOUNDATION, INC**  
**(A Component Unit of Alabama A&M University)**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended September 30, 2016 and 2015**

|   | <u>2016</u>         | <u>2015</u>         |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                     |
| Change in net position  | \$ 918,807          | \$ 370,601          |
| <b>Adjustments to reconcile changes in net position to net cash provided by operating activities:</b> |                     |                     |
| Depreciation and amortization   | -                   | 625,260             |
| Realized and unrealized gains and losses  | (147,878)           | 42,747              |
| Change in accounts receivable   | (257,385)           | 3,257,275           |
| Change in accounts payable and accrued expenses   | (170,433)           | (1,039,998)         |
| Change in accrued interest  | -                   | (301,529)           |
| Change in funds held for other organizations  | 439,558             | (407,145)           |
| Change in bond issuance cost amortization   | -                   | 734,226             |
| Change in security deposits   | -                   | (169,800)           |
| Net cash provided by operating activities   | <u>782,669</u>      | <u>3,111,637</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |                     |
| Proceeds from sale of investments   | -                   | 147,167             |
| Proceeds from sale of investments   | <u>122,121</u>      | <u>-</u>            |
| Net cash provided by investing activities   | <u>122,121</u>      | <u>147,167</u>      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                       |                     |                     |
| Purchase of equipment   | (23,932)            | -                   |
| Sales of Normal Hills Apartments  | -                   | 6,882,750           |
| Retirement of long-term debt  | <u>-</u>            | <u>(15,050,000)</u> |
| Net cash used by financing activities   | <u>(23,932)</u>     | <u>(8,167,250)</u>  |
| Increase (decrease) in cash and cash equivalents  | <u>880,858</u>      | <u>(4,908,446)</u>  |
| Cash and cash equivalents - beginning of the year   | <u>1,120,687</u>    | <u>6,029,133</u>    |
| Cash and cash equivalents - end of the year   | <u>\$ 2,001,545</u> | <u>\$ 1,120,687</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>   |                     |                     |
| Cash paid during the year for interest  | <u>\$ -</u>         | <u>\$ 1,173,910</u> |

**TRUST FOR EDUCATIONAL EXCELLENCE AT  
ALABAMA A&M UNIVERSITY  
(A Component Unit of Alabama A&M University)  
STATEMENTS OF CASH FLOWS  
For the years ended July 31, 2016 and 2015**

|  | <u>2016</u>        | <u>2015</u>       |
|--|--------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>          |                    |                   |
| Change in net position                               | \$ (1,548,615)     | \$ (744,755)      |
| Net cash used by operating activities                | <u>(1,548,615)</u> | <u>(744,755)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>          |                    |                   |
| Proceeds from sale of investments                    | 6,029,745          | (2,090,998)       |
| Purchase of investments                              | <u>(4,071,811)</u> | <u>2,724,508</u>  |
| Net cash provided by investing activities            | <u>1,957,934</u>   | <u>633,510</u>    |
| Net increase (decrease) in cash and cash equivalents | 409,319            | (111,245)         |
| Cash and cash equivalents, beginning of the year     | <u>130,087</u>     | <u>241,332</u>    |
| Cash and cash equivalents, end of the year           | <u>\$ 539,406</u>  | <u>\$ 130,087</u> |

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

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**NOTE 1 - ORGANIZATION**

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

The University has evolved from a small teaching school in 1875 to a modern university of approximately 5,700 students providing baccalaureate and graduate studies in technical, professional, vocational and liberal arts. The four (4) undergraduate colleges include College of Agriculture, Life and Natural Sciences, College of Business and Public Affairs, College of Education, Humanities and Behavioral Sciences, and College of Engineering, Technology and Physical Sciences. The School of Graduate Studies coordinates graduate programs. The programs offered at the University are primarily accredited by the Southern Association of Colleges and Schools and other various accreditation associations.

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

The University is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, states that a primary government is financially accountable for a component unit if it appoints a voting majority of the organization's governing body and 1) it is able to impose its will on that organization, and 2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama and the Governor appoints the University's Board of Trustees. In addition, the University receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, the University is considered for financial reporting purposes to be a component unit of the State of Alabama.

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

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

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**NOTE 1 - ORGANIZATION (CONT'D)**

receives and holds gifts, grants, bequests, money, property and other things for the benefit of the University, its faculty and its students, and gives the University such resources for educational and research purposes. The Trust primarily receives public funds, gifts, grant income, interest, dividends, real estate and any and all property rights of every kind and character to be held, invested and reinvested for educational purposes at the University. Although the University does not control the timing or amount of receipts from the Foundation and Trust, the majority of resources, or income thereon, which they hold and invest are restricted to support the activities of the University. Because these restricted resources held by the Foundation and Trust can only be used by, or for the benefit of, the University, they are considered component units of the University. These component units are described in greater detail in **NOTE 18**.

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

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

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

The University is also affiliated with the North Alabama Center for Educational Excellence. This entity is not considered a component unit of the University under the provisions of GASB Statement Number 61.

The Alabama A&M University Research, Innovation, Science and Engineering Foundation (RISE) is a newly formed entity, and is a component unit of the University. The purpose of RISE is to enhance technology transfers, faculty research and contractual opportunities areas while providing educational opportunities for graduate and undergraduate students. Because RISE is still a relatively new entity, there was no significant activity to report during fiscal year 2016.

Per agreement, RISE will reimburse the University for any expenses incurred on its behalf, as well as contribute a portion of its indirect cost earned, to the University. As of September 30, 2016, approximately \$431,132 was owed to the University by RISE, representing primarily personnel costs processed on behalf of RISE by the University, and is included in the University's accounts receivable balance at year end

**Basis of Accounting**

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



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

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**NOTE 1 - ORGANIZATION (CONT'D)**

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

**Measurement Focus and Basis of Accounting and Financial Statement Presentation**

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

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

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

**Revenue and Expense Recognition**

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

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

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

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**NOTE 1 - ORGANIZATION (CONT'D)**

**Implementation of New Accounting Standards**

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

**Cash and Cash Equivalents**

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

**Investments**

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

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

**Receivables**

**Student receivables** are amounts due from students of the University for tuition and fees and are recorded at their estimated net realizable value. The University establishes reserves for balances determined to be impaired or otherwise uncollectible.

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible amounts is based on collection history. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

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

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

**Restricted Assets**

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

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

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**NOTE 1 - ORGANIZATION (CONT'D)**

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

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

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

**Capital Assets**

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

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

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

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

**Net Position**

The University's net position is classified as follows:

**Invested in capital assets, net of related debt** - this component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred inflows and outflows of resources attributable to the acquisition, construction, or improvement of those assets or related debt would also be included in this component of net position.

Unexpended related debt proceeds and the related debt attributable to the unspent amount, as well as deferred inflows of resources, if applicable, are not reported in net investment in capital assets, but in restricted or unrestricted net position.

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

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**NOTE 1 - ORGANIZATION (CONT'D)**

**Restricted-nonexpendable** - this component of net position consists of Nonexpendable and Expendable elements.

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

**Expendable** - Net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources whose use by the University are subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations, or that expire by the passage of time. The University currently does not have any restricted-nonexpendable net position.

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

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

**Bond Issue Costs and Deferred Loss on Bond Refunding**

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

**Unearned Revenue**

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

Amounts received from grant sponsors for which the only unmet term of the agreement is timing are classified as deferred inflows of resources in accordance with GASB Statement No. 65. All other unearned revenue is classified as a current liability.

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

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**NOTE 1 - ORGANIZATION (CONT'D)**

Under the provisions of GASB 65, bond issue costs for the University are expensed when incurred but capitalized by its component units which are nonprofit organizations and amortized over the life of the debt.

**Compensated Absences**

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

**Use of Estimates**

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

**Income Taxes**

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

**Scholarship Allowances and Student Financial Aid**

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

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

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

**NOTE 2 - CONCENTRATION OF CREDIT AND MARKET RISK**

The University maintains cash accounts with several large financial institutions. All accounts at each financial institution are guaranteed by the FDIC up to \$250,000 per bank, with the remaining amounts being secured by the SAFE program (See NOTE 3). The University also

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

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**NOTE 2 - CONCENTRATION OF CREDIT AND MARKET RISK (CONT'D)**

places its cash equivalents and short-term investments in investment grade, short-term debt instruments and limits the amount of credit exposure to any one commercial issuer. The University believes that no significant concentration of credit risk exists with respect to these cash investments.

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

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

The maximum loss the University would incur is the value of student accounts and loans receivable, which at September 30, 2016 and 2015, totaled \$10,588,911 and \$8,575,925.

**NOTE 3 - CASH AND CASH EQUIVALENTS AND INVESTMENTS**

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

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

Additional collateral was not required for University funds on deposit with QPD institutions. At September 30, 2016 and 2015, the net public deposits subject to collateral requirements for all institutions participating in the pool totaled approximately \$10,674,000,000 and \$9,690,000,000, respectively.

The University had cash and cash equivalents totaling \$33,312,212 and \$25,494,840 at September 30, 2016 and 2015, respectively. In the unlikely event a public entity should suffer a loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss. As a result, the University believes its custodial risk related to cash and cash equivalents is remote.

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

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**NOTE 4 - INVESTMENTS**

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

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

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

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

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

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

**Foreign currency risk** - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The University does not have a formal policy for foreign currency risk. At September 30, 2016 and 2015, there were no investments held that are directly impacted by fluctuations in foreign currency exchange rates.

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

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

**NOTE 4 - INVESTMENTS (CONT'D)**

The following table provides information as of September 30, 2016 and 2015, concerning the fair value of investments and interest rate risk:

| Type of Investments       | 2016                            |           |                     |                     |
|---------------------------|---------------------------------|-----------|---------------------|---------------------|
|                           | Maturity in Years at Fair Value |           | Total Fair Value    | Cost                |
|                           | Less Than 1 Year                | 1-5 Years |                     |                     |
| Fixed maturity:           |                                 |           |                     |                     |
| U.S. Treasury Obligations | \$ 2,879,533                    | \$ -      | \$ 2,879,533        | \$ 2,879,533        |
| Total fixed maturity      | <u>2,879,533</u>                | <u>-</u>  | <u>2,879,533</u>    | <u>2,879,533</u>    |
| Total investments         |                                 |           | <u>\$ 2,879,533</u> | <u>\$ 2,879,533</u> |

| Type of Investments       | 2015                            |           |                     |                     |
|---------------------------|---------------------------------|-----------|---------------------|---------------------|
|                           | Maturity in Years at Fair Value |           | Total Fair Value    | Cost                |
|                           | Less Than 1 Year                | 1-5 Years |                     |                     |
| Fixed maturity:           |                                 |           |                     |                     |
| U.S. Treasury Obligations | \$ 2,890,782                    | \$ -      | \$ 2,890,782        | \$ 2,890,782        |
| Total fixed maturity      | <u>2,890,782</u>                | <u>-</u>  | <u>2,890,782</u>    | <u>2,890,782</u>    |
| Total investments         |                                 |           | <u>\$ 2,890,782</u> | <u>\$ 2,890,782</u> |

**Credit Risk**

The following tables provide information as of September 30, 2016 and 2015, respectively, concerning credit risk and concentration of credit risk:

| Moody's Rating            | 2016                |                     |  |
|---------------------------|---------------------|---------------------|--|
|                           | Fair Value          | Cost                | Fair Value as a % of Total Fixed Maturity Fair Value |
| U.S. Treasury Obligations | \$ 2,879,533        | \$ 2,879,533        | 100.00%  |
|                           | <u>\$ 2,879,533</u> | <u>\$ 2,879,533</u> |  |

| Moody's Rating            | 2015                |                     |  |
|---------------------------|---------------------|---------------------|--|
|                           | Fair Value          | Cost                | Fair Value as a % of Total Fixed Maturity Fair Value |
| U.S. Treasury Obligations | \$ 2,890,782        | \$ 2,890,782        | 100.00%  |
|                           | <u>\$ 2,890,782</u> | <u>\$ 2,890,782</u> |  |



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

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**NOTE 4 - INVESTMENTS (CONT'D)**

At September 30, 2016 and 2015, the University owned debt securities at Federal Home Loan Mortgage Corporation and Federal National Mortgage Association, which represented various percentages of the total fair value of investments.

**Trust for Educational Excellence at Alabama A&M University**

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

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

For the years ended July 31, 2015 and 2014, the Trust's \$1,539,475 and \$2,042,315, respectively, investment income includes the following:

|  | <b>2016</b>         | <b>2015</b>         |
|--|---------------------|---------------------|
| Realized and unrealized appreciation in market value | \$ 582,464          | \$ 955,193          |
| Dividends, interest and other income                 | 957,011             | 1,087,122           |
|  | <b>\$ 1,539,475</b> | <b>\$ 2,042,315</b> |

At July 31, 2015 and 2014, the Trust's major investments are classified as follows:

|                             | <b>2016</b>         | <b>2015</b>         |
|-----------------------------|---------------------|---------------------|
| U.S. Government Obligations | \$10,989,461        | \$11,164,837        |
| Equity mutual funds         | 25,553,126          | 27,615,175          |
| Other                       | 2,651,466           | 2,371,975           |
|                             | <b>\$39,194,053</b> | <b>\$41,151,987</b> |

**NOTE 5 - ACCOUNTS RECEIVABLE**

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

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

**NOTE 5 - ACCOUNTS RECEIVABLE (CONT'D)**

The following is a schedule of total accounts receivable as of September 30, 2016 and 2015:

|                                   | <u>2016</u>          | <u>2015</u>          |
|-----------------------------------|----------------------|----------------------|
| Accounts receivable:              |                      |                      |
| Student accounts receivable       | \$ 27,364,385        | \$ 22,988,878        |
| Grants receivable                 | 9,672,640            | 8,918,120            |
| Other receivables                 | <u>7,811,471</u>     | <u>5,460,830</u>     |
|                                   | 44,848,496           | 37,367,828           |
| <br>                              |                      |                      |
| Allowance for doubtful accounts   | <u>(16,837,866)</u>  | <u>(14,412,953)</u>  |
| <br>                              |                      |                      |
| Accounts receivable, net          | <u>\$ 28,010,630</u> | <u>\$ 22,954,875</u> |
| <br>                              |                      |                      |
| Loans receivable:                 |                      |                      |
| Perkins loans advances            | \$ 20,886,747        | \$ 20,729,724        |
| Less:                             |                      |                      |
| Loans assigned to U.S. Government | (1,054,621)          | (1,054,621)          |
| Principal collected               | (9,664,612)          | (9,148,624)          |
| Principal cancellations           | <u>(1,038,446)</u>   | <u>(1,037,827)</u>   |
|                                   | <u>(11,757,679)</u>  | <u>(11,241,072)</u>  |
| <br>                              |                      |                      |
| Loans receivable, net             | <u>\$ 9,129,068</u>  | <u>\$ 9,488,652</u>  |

**NOTE 6 - CHANGE IN CAPITAL ASSETS**

A summary of the changes in physical plant for the years ended September 30, 2016 and 2015, respectively, is as follows:

|   | <u>Balance<br/>10/01/15</u> | <u>Additions</u>    | <u>Deletions</u>      | <u>Balance<br/>9/30/16</u> |
|---|-----------------------------|---------------------|-----------------------|----------------------------|
| <b>Capital assets not being depreciated</b> |                             |                     |                       |                            |
| Land  | \$ 4,982,207                | \$ 51,300           | \$ -                  | \$ 5,033,507               |
| Construction in progress                    | 2,155,618                   | 3,958,266           | (2,155,618)           | 3,958,266                  |
| Historical treasures                        | <u>3,744,667</u>            | <u>-</u>            | <u>-</u>              | <u>3,744,667</u>           |
|   | <u>10,882,492</u>           | <u>4,009,566</u>    | <u>(2,155,618)</u>    | <u>12,736,440</u>          |
| <br>  |                             |                     |                       |                            |
| <b>Capital assets being depreciated</b>     |                             |                     |                       |                            |
| Land improvements                           | 451,194                     | -                   | -                     | 451,194                    |
| Buildings                                   | 182,085,609                 | 2,101,753           | -                     | 184,187,362                |
| Equipment                                   | 16,074,182                  | 1,655,593           | (271,646)             | 17,458,129                 |
| Library holdings                            | 12,457,665                  | 49,056              | (115,281)             | 12,391,440                 |
| Information technology                      | <u>4,746,754</u>            | <u>210,898</u>      | <u>-</u>              | <u>4,957,652</u>           |
|   | 215,815,404                 | 4,017,300           | (386,927)             | 219,445,777                |
| <br>  |                             |                     |                       |                            |
| <b>Less: accumulated depreciation</b>       |                             |                     |                       |                            |
| Land improvements                           | (26,320)                    | (22,560)            | -                     | (48,880)                   |
| Buildings                                   | (88,497,581)                | (4,501,115)         | -                     | (92,998,696)               |
| Equipment                                   | (10,004,819)                | (1,010,611)         | 286,394               | (10,729,036)               |
| Library holdings                            | (7,875,029)                 | (321,738)           | 115,281               | (8,081,486)                |
| Information technology                      | <u>(4,567,779)</u>          | <u>(102,287)</u>    | <u>-</u>              | <u>(4,670,066)</u>         |
|   | <u>(110,971,528)</u>        | <u>(5,958,311)</u>  | <u>401,675</u>        | <u>(116,528,164)</u>       |
| <br>  |                             |                     |                       |                            |
| Capital assets being depreciated, net       | <u>104,843,876</u>          | <u>(1,941,011)</u>  | <u>14,748</u>         | <u>102,917,613</u>         |
| Capital assets, net                         | <u>\$ 115,726,368</u>       | <u>\$ 2,068,555</u> | <u>\$ (2,140,870)</u> | <u>\$ 115,654,053</u>      |

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

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

|   | <u>Balance<br/>10/01/14</u> | <u>Additions</u>     | <u>Deletions</u>    | <u>Balance<br/>9/30/15</u> |
|---|-----------------------------|----------------------|---------------------|----------------------------|
| <b>Capital assets not being depreciated</b> |                             |                      |                     |                            |
| Land  | \$ 4,982,207                | \$ -                 | \$ -                | \$ 4,982,207               |
| Construction in progress                    | 523,932                     | 1,978,029            | (346,343)           | 2,155,618                  |
| Historical treasures                        | <u>3,744,667</u>            | <u>-</u>             | <u>-</u>            | <u>3,744,667</u>           |
|   | <u>9,250,806</u>            | <u>1,978,029</u>     | <u>(346,343)</u>    | <u>10,882,492</u>          |
| <b>Capital assets being depreciated</b>     |                             |                      |                     |                            |
| Land improvements                           | 451,194                     | -                    | -                   | 451,194                    |
| Buildings                                   | 167,967,118                 | 14,118,491           | -                   | 182,085,609                |
| Equipment                                   | 15,149,118                  | 1,905,133            | (980,069)           | 16,074,182                 |
| Library holdings                            | 12,358,743                  | 603,571              | (504,649)           | 12,457,665                 |
| Information technology                      | <u>4,605,374</u>            | <u>141,380</u>       | <u>-</u>            | <u>4,746,754</u>           |
|   | <u>200,531,547</u>          | <u>16,768,575</u>    | <u>(1,484,718)</u>  | <u>215,815,404</u>         |
| <b>Less: accumulated depreciation</b>       |                             |                      |                     |                            |
| Land Improvements                           | (3,760)                     | (22,560)             | -                   | (26,320)                   |
| Buildings                                   | (84,466,068)                | (4,031,513)          | -                   | (88,497,581)               |
| Equipment                                   | (9,624,214)                 | (1,105,057)          | 724,452             | (10,004,819)               |
| Library holdings                            | (7,775,447)                 | (604,231)            | 504,649             | (7,875,029)                |
| Information technology                      | <u>(4,557,039)</u>          | <u>(10,740)</u>      | <u>-</u>            | <u>(4,567,779)</u>         |
|   | <u>(106,426,528)</u>        | <u>(5,774,101)</u>   | <u>1,229,101</u>    | <u>(110,971,528)</u>       |
| Capital assets being depreciated, net       | <u>94,105,019</u>           | <u>10,994,474</u>    | <u>(255,617)</u>    | <u>104,843,876</u>         |
| Capital assets, net                         | <u>\$ 103,355,825</u>       | <u>\$ 12,972,503</u> | <u>\$ (601,960)</u> | <u>\$ 115,726,368</u>      |

Depreciation expense (including amortization expense on capital lease assets) for the years ended September 30, 2016 and 2015, was \$5,958,311 and \$5,774,101, respectively.

**NOTE 7 - COMPENSATED ABSENCES**

Regular University employees accumulate vacation and sick leave, subject to maximum limitations, at varying rates depending upon their employee classification and length of service. Upon termination of employment, employees are paid all unused accrued vacation at their rate of pay up to 240 hours. As of September 30, 2016 and 2015, accrued annual and sick leave was \$2,744,261 and \$2,737,615, respectively.

**NOTE 8 - BONDS PAYABLE**

**Issuance of 2015 Bonds**

On September 24, 2015, the University entered into a Capital Project Loan Agreement with Rice Capital Access Program, LLC to borrow the aggregate principal amount of \$96,000,000 (Series A 2015 Bonds), through the execution of three (3) promissory notes (the Notes) as follows:

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

**NOTE 8 - BONDS PAYABLE (CONT'D)**

| <b>Bonds Series</b>  | <b>Purpose</b>              | <b>Face Value</b>    |
|----------------------|-----------------------------|----------------------|
| Series A 2015-5 Bond | Refund Series 2000A Bonds   | \$ 14,482,999        |
| Series A 2015-6 Bond | Refund Series 2007A Bonds   | 47,353,000           |
| Series A 2015-7 Bond | Funding of Capital Projects | <u>34,165,000</u>    |
| Total                |                             | <u>\$ 96,000,999</u> |

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

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

Interest on the Series A 2015 Bonds will be equal to, and payable at the same time as, interest is due on the Series A 2015 Bonds and will accrue from the date of the each Bond until the date on which the principal amount of the Bond is due. Principal payments on each Bond will be due as follows:

| <b>Note</b>          | <b>Interest</b>       | <b>Dates</b>         |                       |
|----------------------|-----------------------|----------------------|-----------------------|
|                      |                       | <b>Principal Due</b> | <b>Final Maturity</b> |
| Series A 2015-5 Bond | June 1 and December 1 | June 1 (2016)        | June 1, 2030          |
| Series A 2015-6 Bond | June 1 and December 1 | June 1 (2016)        | June 1, 2032          |
| Series A 2015-7 Bond | June 1 and December 1 | June 1 (2019)        | June 1, 2045          |

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

**Refunding and Defeasance of Debt**

From the issuance of the Series A 2015 Bonds, the University legally defeased its debt associated with the acquisition of certain properties and previously issued bonds as follows:

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

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

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

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

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**NOTE 8 - BONDS PAYABLE (CONT'D)**

The Normal Hills Apartments were originally financed through the issuance of the Series 2000A and 2000B by the Public Educational Building Authority of the City of Huntsville - Alabama A&M in the aggregate amounts of \$18,205,000 and 325,0000, respectively. These 2000B bonds were fully retired in June of 2006 and the 2000A bonds would be retired June 2030.

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

Essentially, an in-substance defeasance allows an issuer, such as the University, to collateralize outstanding debt with a portfolio of risk-free government securities, thereby instantly removing the debt from the issuer's balance sheet. This occurs because the government securities generate the cash flow needed to pay all interest and principal on the outstanding bonds when due. Under generally accepted accounting principles, and Government Accounting Standards Board (GASB) Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, if the portfolio of securities includes only high quality securities such as direct obligations of the United States Government, the bonds are treated as *defeased*, or legally retired.

Cash from the Series A 2015-5 Bonds received on September 25, 2015, was placed in an escrow under the control of a trust company, and irrevocably pledged to the payment of the outstanding Series 2000A bonds, effecting the defeasance. The total funded to the defeasance escrow was \$14,813,962, with \$13,370,933 funded from the Series A 2015-5, and the remaining \$1,443,029 provided from liquidation of an existing debt reserve account. Of the total \$14,813,962 funded to the defeasance escrow, approximately \$14,796,666 was for payment of the outstanding bond debt as of September 25, 2015. The remaining difference of approximately \$17,000 were additional funds contributed to the escrow by the University to ensure sufficient funds were available to fully redeem the debt at redemption, and represents a loss on defeasance of the Series A 2015-5 Bonds.

The Series 2000A bonds were then redeemed and paid off on October 2, 2015, using the funds in the defeasance escrow account. In a legal context, the defeasance on September 25, 2015, renders the outstanding bonds *paid*, thereby removing all obligations of the issuer, the University, for payment of the bonds. Therefore, as of September 30, 2015, the Series 2000A bonds were no longer treated as debt for accounting purposes.

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

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

**NOTE 8 - BONDS PAYABLE (CONT'D)**

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

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

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

**Series 2007 Revenue Refunding and Capital Improvement Bonds**

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

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

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

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

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

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

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**NOTE 8 - BONDS PAYABLE (CONT'D)**

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

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

The outstanding bond debt for the Series 2007 bond as of the defeasance date of September 25, 2015, was approximately \$44,906,921, and the total funded to the defeasance escrow was \$47,615,789. This is because the yield on the portfolio of government securities in the defeasance escrow is less than the rate on the refunded Series 2007 bond, known as negative arbitrage. Thus, to match the debt service payments on the refunded outstanding bonds up until all bonds are redeemed, the difference was derived by contributing more principal to the defeasance escrow.

The transaction resulted in a loss of \$2,744,822, representing the difference between what was funded to the defeasance escrow less the carrying value of the previous debt balance. In accordance with **GASB Statement 65, *Items Previously Reported as Assets and Liabilities***, the loss is to be amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. In this case for the Series A 2015-6 defeasance the shorter period is the life of the old debt.

Despite the initial loss from negative arbitrage, the refunding was still feasible and resulted in a substantial long term savings in excess of the general industry standard of present value savings of at least 3% because of the extremely low interest rates on the new loan, and the significant time remaining from the date the Series 2007 bond was refunded, through until the final maturity date.

The advanced refunding and reduction in the interest rate paid on outstanding debt resulted in a savings and reduction in annual debt service of approximately \$1,399,589; and an economic gain of approximately \$2,847,579 over the remaining life of the refunded Series 2007 bond.

**Issuance of Series A 2015-7 for New Construction**

On September 25, 2015, the University issued the Series A 2015-6 Bonds, receiving proceeds of \$34,165,000 with interest rate equal to the 30 year Treasury rate plus 0.225%. These funds were borrowed so as to allow the University to engage in construction and renovations to residential and academic buildings across campus, at a competitive interest rate. The interest rate for the Bonds will be fixed, and will be a weighted average based on the prevailing market rates during the period the University draws down funds, during construction.

As of September 30, 2015, the balance of the new Series 2015-7 loan is \$477,881, representing the payment of primarily cost of issuance fees allocated to the loan at funding.

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

**NOTE 8 - BONDS PAYABLE (CONT'D)**

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

**Termination of Swap Agreement**

On May 1, 1997, the University entered into a Debt Service Forward Delivery Agreement (the "Agreement") with First Union Bank of North Carolina in connection with the University's Series 1995 Revenue Bonds. The Agreement provided the investment company the ability to deliver to the University's debt service escrow account qualified securities for purchase, with the ultimate goal being to provide cash or an investment higher yield to the University.

The Agreement was subsequently amended on June 23, 1998 to terminate the old Agreement with respect to the Series 1995 Bonds, and applied the original Agreement to the University's Series 1998 Bond. The Agreement was subsequently amended on March 6, 2000, and then again on May 24, 2007 for the Series 2007 bonds.

On September 29, 2015, the University paid \$444,000 to Wells Fargo Capital Markets to terminate the Agreement, and release the Series 2007 debt escrow funds.

A summary of the University's bonds payable activity for the years ended September 30, 2016 and 2015, is as follows:

|   | <u>Balance<br/>10/01/15</u> | <u>Addition</u>     | <u>Reduction</u>    | <u>Balance<br/>09/30/16</u> | <u>Due Within<br/>One Year</u> |
|---|-----------------------------|---------------------|---------------------|-----------------------------|--------------------------------|
| Rice Capital Access Program 2015-5<br>Series: Normal Hills Operations due in<br>varying amounts including interest at<br>2.024% through June 3, 2030  | \$ 14,330,237               | \$ -                | \$ 427,335          | \$ 13,902,902               | \$ 868,470                     |
| Rice Capital Access Program 2015-6<br>Series; Dormitory Construction and<br>Renovation due in varying amounts<br>including interest at 2.116% through<br>June 1, 2032                             | 46,996,236                  | -                   | 1,196,296           | 45,799,940                  | 2,433,386                      |
| Rice Capital Access Program 2015-7:<br>Dormitory Construction and<br>Renovation due in varying amounts<br>including interest at 30 yr FFB rate at<br>time of draw + .225% through June<br>1, 2045 | <u>477,881</u>              | <u>2,494,121</u>    | <u>-</u>            | <u>2,972,002</u>            | <u>-</u>                       |
|   | 61,804,354                  | 2,494,121           | 1,623,631           | 62,674,844                  | <u>\$ 3,301,856</u>            |
| Less: unamortized loss on 2015-6 series   | <u>(2,762,177)</u>          | <u>-</u>            | <u>(184,145)</u>    | <u>(2,578,032)</u>          |                                |
| Bonds payable   | <u>\$ 59,042,177</u>        | <u>\$ 2,494,121</u> | <u>\$ 1,439,486</u> | 60,096,812                  |                                |
| Less current portion  |                             |                     |                     | <u>(3,301,856)</u>          |                                |
|   |                             |                     |                     | <u>\$ 56,794,956</u>        |                                |



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

**NOTE 8 - BONDS PAYABLE (CONT'D)**

|   | <u>Balance<br/>10/01/14</u> | <u>Additions</u>     | <u>Reductions</u>    | <u>Balance<br/>09/30/15</u> | <u>Due within<br/>one Year</u> |
|---|-----------------------------|----------------------|----------------------|-----------------------------|--------------------------------|
| Dormitory Revenue Bonds, Series 1980,<br>due in varying amounts including interest<br>at 3.00% to May 1, 2018   | \$ 445,000                  | \$ -                 | \$ 445,000           | \$ -                        | \$ -                           |
| Revenue Refunding and Capital<br>Improvement Bonds, Series 2007, due in<br>varying amounts including interest at<br>3.50% to 5.00% to May 1, 2033   | 47,330,000                  | -                    | 47,330,000           | -                           | -                              |
| Rice Capital Access Program 2015-5<br>Series: Normal Hills Operations due in<br>varying amounts including interest at<br>2.024% through June 3, 2030  | -                           | 14,330,237           | -                    | 14,330,237                  | 427,335                        |
| Rice Capital Access Program 2015-6<br>Series; Dormitory Construction and<br>Renovation due in varying amounts<br>including interest at 2.116% through<br>June 1, 2032                         | -                           | 46,996,236           | -                    | 46,996,236                  | 1,196,296                      |
| Rice Capital Access Program 2015-7:<br>Dormitory Construction and Renovation<br>due in varying amounts including interest<br>at 30yr FFB rate at time of draw +<br>.225% through June 1, 2045 | -                           | 477,881              | -                    | 477,881                     | -                              |
|   | 47,775,000                  | 61,804,354           | 47,775,000           | 61,804,354                  | <u>\$ 1,623,631</u>            |
| Less unamortized loss on defeasance 2007  | (2,103,113)                 | -                    | 2,103,113            | -                           |                                |
| Less unamortized gain on defeasance<br>2015-5 and 2015-6 series   | -                           | (3,582,789)          | -                    | (3,582,789)                 |                                |
| Plus unamortized premium  | 1,996,285                   | -                    | 1,996,285            | -                           |                                |
| Bonds payable   | <u>\$ 47,668,172</u>        | <u>\$ 58,221,565</u> | <u>\$ 47,668,172</u> | 58,221,565                  |                                |
| Less current portion  |                             |                      |                      | (1,623,631)                 |                                |
|   |                             |                      |                      | <u>\$ 56,597,934</u>        |                                |

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

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

**NOTE 8 - BONDS PAYABLE (CONT'D)**

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

| <u>Fiscal Year</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Total</u>         |
|--------------------|----------------------|----------------------|----------------------|
| 2017               | \$ 3,301,856         | \$ 1,233,409         | \$ 4,535,265         |
| 2018               | 3,371,285            | 1,163,980            | 4,535,265            |
| 2019               | 3,436,024            | 1,177,313            | 4,613,337            |
| 2020               | 3,518,304            | 1,173,106            | 4,691,410            |
| 2021               | 3,652,727            | 1,038,683            | 4,691,410            |
| 2022-2026          | 19,587,603           | 3,869,447            | 23,457,050           |
| 2027-2031          | 20,592,690           | 1,718,852            | 22,311,542           |
| 2032-2036          | 3,943,497            | 226,987              | 4,170,484            |
| 2037-2041          | 675,559              | 105,168              | 780,727              |
| 2042-2045          | 595,299              | 29,281               | 624,580              |
|                    | <u>\$ 62,674,844</u> | <u>\$ 11,736,226</u> | <u>\$ 74,411,070</u> |

**NOTE 9 - DEFINED BENEFIT PLAN**

**Plan Description**

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

The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control.

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

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

**NOTE 9 - DEFINED BENEFIT PLAN (CONT'D)**

The TRS was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operating of the TRS is vested in the Board of Control (currently 14 members).

The actuarial accrued liability ("AAL"), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL and the actuarial valuation of assets at September 30, 2014 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were \$31,844,843 and \$21,740,280, respectively, resulting in an under-funded AAL of \$10,104,563.

Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2015 annual financial report of TRS. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

**Funding Policy**

Employees are required to contribute 7.5 percent of their salary to the Teachers' Retirement System. The University is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year, the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the University and its employees equal the required contributions for 2016 and 2015 as follows:

|   | 2016   |                    | 2015   |                    |
|---|--------|--------------------|--------|--------------------|
|   | Tier 1 | Tier 2             | Tier 1 | Tier 2             |
| Total Percentage of Covered Payroll               | 19.44% | 16.84%             | 19.21% | 17.08%             |
| Total Percentage of Covered Payroll               | 20.44% | 17.84%             | 20.21% | 18.05%             |
| <b>Contributions:</b>                             |        |                    |        |                    |
| Percentage contributed by the University          | 11.94% | 10.84%             | 11.71% | 11.05%             |
| Percentage contributed by Employees               | 7.50%  | 6.00%              | 7.50%  | 6.00%              |
| Percentage contributed by Employees               | 8.50%  | 7.00%              | 8.50%  | 7.00%              |
| Amount contributed by the University (both Tiers) |        | \$5,419,382        |        | \$5,272,972        |
| Amount contributed by Employees (both Tiers)      |        | <u>3,330,131</u>   |        | <u>3,310,944</u>   |
| Total Contributions                               |        | <u>\$8,749,513</u> |        | <u>\$8,583,916</u> |

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

**NOTE 9 - DEFINED BENEFIT PLAN (CONT'D)**

**Net Pension Liability**

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

| <b>Net Pension Liability</b>   | <b>(In Thousands)</b>     |
|--|---------------------------|
| Valuation Date:  | <b>September 30, 2013</b> |
| Measurement Date:  | <b>September 30, 2014</b> |
| Reporting Date:  | <b>September 30, 2015</b> |
| <b>Net Pension Liability:</b>  |                           |
| Total Pension Liability (TPL)  | \$ 32,213,446             |
| Fiduciary Net Position (FNP)   | <u>(21,747,731)</u>       |
| Net Pension Liability (NPL)  | <u>\$ 10,465,715</u>      |
| <br>   |                           |
| Plan Fiduciary Net Position as a percentage of Total Pension Liability | 67.51134 %                |
| University Percentage of TRS Net Pension Liability                     | 0.72 %                    |

The TPL was determined by an actual values as of September 30, 2014, using the following key assumptions:

|  |               |
|--|---------------|
| Inflation  | 3.00%         |
| Salary increases, including inflation  | 3.50% - 8.25% |
| Long-term Investment Rate of Return, net of pension plan investment expense, including inflation | 8%            |

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.

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

**NOTE 9 - DEFINED BENEFIT PLAN (CONT'D)**

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

| Asset Class                | Target Allocation | Long-term Expected Rate of Return |
|----------------------------|-------------------|-----------------------------------|
| Fixed Income               | 25.00 %           | 5.00 %                            |
| US Large Stocks            | 34.00 %           | 9.00 %                            |
| US Mid Stocks              | 8.00 %            | 12.00 %                           |
| US Small Stocks            | 3.00 %            | 15.00 %                           |
| Int'l Developed Mkt Stocks | 15.00 %           | 11.00 %                           |
| Int'l Emerging Mkt Stocks  | 3.00 %            | 16.00 %                           |
| Real Estate                | 10.00 %           | 7.50 %                            |
| Cash                       | 2.00 %            | 1.50 %                            |
| Total                      | <u>100.00 %</u>   |                                   |

**Contributions**

Employer contributions to the plan are as follows:

| 2013                | 2014                | 2015                |
|---------------------|---------------------|---------------------|
| <u>\$ 4,400,917</u> | <u>\$ 5,178,938</u> | <u>\$ 5,296,334</u> |

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

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

|                       | 1% Decrease<br>(7.00%) | Current<br>Discount Rate<br>(8.00%) | 1% Increase<br>(9.00%) |
|-----------------------|------------------------|-------------------------------------|------------------------|
| Net Pension Liability | \$ 99,374,000          | \$ 75,117,000                       | \$ 54,543,000          |

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

**NOTE 9 - DEFINED BENEFIT PLAN (CONT'D)**

**Schedule of Deferred Outflows and Inflow of Resources**

Deferred outflows of resources and deferred inflows of resources by source reported by the University at September 30, 2015 for each plan are as follows:

|   | <b>Collective<br/>Deferred<br/>Outflows of<br/>Resources<br/><u>(In Thousands)</u></b> | <b>Collective<br/>Deferred<br/>Inflows of<br/>Resources<br/><u>(In Thousands)</u></b> |
|---|--|---|
| Differences between expected and actual experience  | \$ -   | \$ 407  |
| Changes of assumptions  | -  | -   |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | -  | 396   |
| Net difference between projected and actual earnings  | <u>4,918</u>   | <u>-</u>  |
| Total   | <u>\$ 4,918</u>  | <u>\$ 803</u>   |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at September 30, 2015 will be recognized in pension expense as follows:

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

|      | <b><u>(In Thousands)</u></b> |
|------|------------------------------|
| 2017 | \$ 724                       |
| 2018 | \$ 724                       |
| 2019 | \$ 724                       |
| 2020 | \$ 1,974                     |
| 2021 | \$ (31)                      |

**Pension Expense**

The fiscal years ended September 30, 2016 and 2015, the University recognized pension expense of \$5.7 million and \$4.9 million, respectively.

**NOTE 10 - ADDITIONAL BENEFIT PLAN**

Regular full-time employees who have completed one year of continuous service as of the first of October are eligible for an optional supplemental retirement program, Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), which is a defined contribution plan. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. The employee's contributions are funded as it accrues and are immediately and fully vested. The University does not match employee contributions.

During fiscal years ended September 30, 2016 and 2015, employees' contributions to TIAA-CREF were \$341,151 and \$316,730, respectively.

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

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**NOTE 11 - OTHER POST-RETIREMENT EMPLOYEE BENEFITS**

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

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

PEEHIP is a cost-sharing multiple-employer defined benefit healthcare plan administered by the Public Education Employee Health Insurance Board. PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan are subject to a lifetime contract maximum of \$1,000,000 for each covered individual. The Code of Alabama 1975, Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers. The required rates of retirees are as follows as of September 30, 2015:

**Retired Member Rates:**

|   |        |
|---|--------|
| Individual Coverage/Non-Medicare Eligible   | \$ 151 |
| Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependant(s)       | \$ 391 |
| Family Coverage/Non-Medicare Eligible Retired Member and Dependant Medicare Eligible Dependent(s) | \$ 250 |
| Individual Coverage/Medicare Eligible Retired Member  | \$ 10  |
| Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)           | \$ 250 |
| Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible                  | \$ 109 |
| Number of retirees for the year ended   | \$ 521 |

The required healthcare contribution rate of the employer was \$780 per full-time active employee per month in the year ended September 30, 2015. Retirees health care is covered as a part of this payment. The required contribution rate is determined by PEEHIP in accordance with state statute. The complete financial report for PEEHIP can be obtained by contacting the TRS Communication Department at 1-800-214-2158.

**NOTE 12 - INCOME TAX STATUS**

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

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

**NOTE 13 - RELATED PARTIES**

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

**NOTE 14 - COMMITMENTS AND CONTINGENCIES**

**Litigation**

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

**Grants and Contracts**

At September 30, 2016 and 2015, the University has been awarded approximately \$9,228,110 and \$8,648,872, respectively, in grants and contracts for which resources had not been received and for which reimbursable expenditures had not been made for the purposes specified. These awards, which represent commitments of sponsors to provide funds for research or training projects, have not been reflected in the accompanying basic financial statements as the eligibility requirements of the awards have not been met. Advances include amounts received from grant and contract sponsors which have not been earned under the terms of the agreements and, therefore, have not yet been included in revenues in the accompanying basic financial statements. Federal awards are subject to audit by federal agencies. The University's management believe any adjustment from such audits will not be material.

**NOTE 15 - OPERATING EXPENSES**

Operating expenses by functional classification for the fiscal years ended September 30, 2016 and 2015, are as follows:

| <b>Expenses by Function</b>        |                       |                       |
|------------------------------------|-----------------------|-----------------------|
|                                    | <b>2016</b>           | <b>2015</b>           |
| <b>Educational and General:</b>    |                       |                       |
| Instruction                        | \$ 28,292,544         | \$ 28,331,136         |
| Research and development           | 6,842,200             | 8,674,036             |
| Public service                     | 13,426,951            | 14,810,019            |
| Academic support                   | 5,961,449             | 5,441,675             |
| Student services                   | 15,733,122            | 14,341,896            |
| Institutional support              | 27,439,834            | 22,927,708            |
| Operation and maintenance of plant | 14,566,764            | 13,035,747            |
| Scholarships and fellowships       | 17,497,051            | 16,703,862            |
| Auxiliary Enterprises              | 9,469,374             | 10,019,712            |
| Depreciation and amortization      | 5,958,312             | 7,877,214             |
| Total operating expenses           | <u>\$ 145,187,601</u> | <u>\$ 142,163,005</u> |



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

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**NOTE 16 - RISKS AND UNCERTAINTIES**

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

**NOTE 17 - RECENTLY ISSUED ACCOUNTING STANDARDS**

The GASB issued Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68 (“GASB 73”), in June 2015. The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement is effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, which are effective for fiscal years beginning after June 15, 2016. The University has determined there was no impact from the adoption of GASB 73.

The GASB issued Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (“GASB 74”), in June 2015. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or “OPEB”) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016. The University is evaluating whether there will be any material impact from its adoption of GASB 74.

The GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, (“GASB 75”), in June 2015. The objective of this Statement is to improve accounting and financial reporting by state and governments for OPEB. This Statement is effective for fiscal years beginning after June 15, 2017. The University is evaluating whether there will be any material impact from its adoption of GASB 75.

The GASB issued Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, (“GASB 76”) in June 2015. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (“GAAP”). This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This Statement is effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. The University has determined there was no impact from the adoption of GASB 76.

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

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**NOTE 17 - RECENTLY ISSUED ACCOUNTING STANDARDS (CONT'D)**

The GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* ("GASB 79"), in December 2015. The objective of this statement is to address accounting and financial reporting for certain external investment pools and pool participants. This statement is effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. These provisions are effective for reporting periods beginning after December 15, 2015. The University has determined that there will be no material impact from its adoption of GASB 79.

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

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

**NOTE 18 - COMPONENT UNITS**

Details of the Foundation's net position at September 30, 2016 and 2015 and the Trust's net position at July 31, 2016 and 2015, are as follows:

|   | 2016                 |                      |                      | 2015                 |                      |                      |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|   | Foundation           | Trust                | Totals               | Foundation           | Trust                | Totals               |
| <b>ASSETS</b>                             |                      |                      |                      |                      |                      |                      |
| <b>Current assets:</b>                    |                      |                      |                      |                      |                      |                      |
| Cash and cash equivalents                 | \$ 2,001,545         | \$ 539,406           | \$ 2,540,951         | \$ 1,068,557         | \$ 130,087           | \$ 1,198,644         |
| Restricted cash and cash equivalents      | -                    | -                    | -                    | 52,130               | -                    | 52,130               |
| Receivables,                              | <u>753,520</u>       | <u>-</u>             | <u>753,520</u>       | <u>496,135</u>       | <u>-</u>             | <u>496,135</u>       |
| Total current assets                      | <u>2,755,065</u>     | <u>539,406</u>       | <u>3,294,471</u>     | <u>1,616,822</u>     | <u>130,087</u>       | <u>1,746,909</u>     |
| <b>Non-current assets:</b>                |                      |                      |                      |                      |                      |                      |
| Investments                               | 8,569,933            | 39,194,053           | 47,763,986           | 8,544,176            | 41,151,987           | 49,696,163           |
| Real estate held for investment           | -                    | 112,800              | 112,800              | -                    | 112,800              | 112,800              |
| Capital assets, net                       | <u>43,936</u>        | <u>-</u>             | <u>43,936</u>        | <u>20,004</u>        | <u>-</u>             | <u>20,004</u>        |
| Total non-current assets                  | <u>8,613,869</u>     | <u>39,306,853</u>    | <u>47,920,722</u>    | <u>8,564,180</u>     | <u>41,264,787</u>    | <u>49,828,967</u>    |
| <b>Total assets</b>                       | <u>\$ 11,368,934</u> | <u>\$ 39,846,259</u> | <u>\$ 51,215,193</u> | <u>\$ 10,181,002</u> | <u>\$ 41,394,874</u> | <u>\$ 51,575,876</u> |
| <b>LIABILITIES</b>                        |                      |                      |                      |                      |                      |                      |
| <b>Current liabilities:</b>               |                      |                      |                      |                      |                      |                      |
| Accounts payable and other liabilities    | \$ -                 | \$ -                 | \$ -                 | \$ 170,433           | \$ -                 | \$ 170,433           |
| Funds held for other organizations        | <u>1,533,262</u>     | <u>-</u>             | <u>1,533,262</u>     | <u>1,093,704</u>     | <u>-</u>             | <u>1,093,704</u>     |
| Total current liabilities                 | <u>1,533,262</u>     | <u>-</u>             | <u>1,533,262</u>     | <u>1,264,137</u>     | <u>-</u>             | <u>1,264,137</u>     |
| <b>NET POSITION</b>                       |                      |                      |                      |                      |                      |                      |
| <b>Restricted:</b>                        |                      |                      |                      |                      |                      |                      |
| Temporarily                               | 7,897,766            | (129,937)            | 7,767,829            | 7,738,003            | 1,630,962            | 9,368,965            |
| Permanently                               | <u>1,000,000</u>     | <u>39,976,196</u>    | <u>40,976,196</u>    | <u>1,000,000</u>     | <u>39,763,912</u>    | <u>40,763,912</u>    |
| Total restricted                          | <u>8,897,766</u>     | <u>39,846,259</u>    | <u>48,744,025</u>    | <u>8,738,003</u>     | <u>41,394,874</u>    | <u>50,132,877</u>    |
| Unrestricted                              | <u>937,906</u>       | <u>-</u>             | <u>937,906</u>       | <u>178,862</u>       | <u>-</u>             | <u>178,862</u>       |
| Total net position                        | <u>9,835,672</u>     | <u>39,846,259</u>    | <u>49,681,931</u>    | <u>8,916,865</u>     | <u>41,394,874</u>    | <u>50,311,739</u>    |
| <b>Total liabilities and net position</b> | <u>\$ 11,368,934</u> | <u>\$ 39,846,259</u> | <u>\$ 51,215,193</u> | <u>\$ 10,181,002</u> | <u>\$ 41,394,874</u> | <u>\$ 51,575,876</u> |

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

**NOTE 18 - COMPONENT UNITS (CONT'D)**

Details of the Foundation's revenues, expenses and changes in net position at September 30, 2016 and 2015 and the Trust's revenues, expenses, and changes in net position at July 31, 2016 and 2015 are as follows:

|  | 2016                |                      |                      | 2015                |                      |                      |
|--|---------------------|----------------------|----------------------|---------------------|----------------------|----------------------|
|  | Foundation          | Trust                | Totals               | Foundation          | Trust                | Totals               |
| <b>OPERATING REVENUES</b>                              |                     |                      |                      |                     |                      |                      |
| Net rental revenue/ other                              | \$ 876,375          | \$ -                 | \$ 876,375           | \$ 3,057,082        | \$ -                 | \$ 3,057,082         |
| Contributions  | 2,397,750           | -                    | 2,397,750            | 2,408,038           | -                    | 2,408,038            |
| Investment income                                      | 35,373              | 957,011              | 992,384              | 108,788             | 1,087,122            | 1,195,910            |
| Realized and unrealized gain (loss) on investments     | <u>(147,878)</u>    | <u>582,464</u>       | <u>434,586</u>       | <u>(42,747)</u>     | <u>955,193</u>       | <u>912,446</u>       |
| Total revenues   | <u>3,161,620</u>    | <u>1,539,475</u>     | <u>4,701,095</u>     | <u>5,531,161</u>    | <u>2,042,315</u>     | <u>7,573,476</u>     |
| <b>OPERATING EXPENSES</b>                              |                     |                      |                      |                     |                      |                      |
| <b>Educational and general:</b>                        |                     |                      |                      |                     |                      |                      |
| Scholarships   | 1,600,546           | 2,397,750            | 3,998,296            | 1,874,157           | 1,872,500            | 3,746,657            |
| Rental operating expenses                              | -                   | -                    | -                    | 527,088             | -                    | 527,088              |
| Program administration                                 | 637,441             | -                    | 637,441              | 594,567             | -                    | 594,567              |
| Depreciation and amortization                          | -                   | -                    | -                    | 625,260             | -                    | 625,260              |
| Transfers  | 4,826               | -                    | 4,826                | -                   | 323,958              | 323,958              |
| Investment fees  | -                   | 690,340              | 690,340              | -                   | 590,612              | 590,612              |
| Interest expense                                       | <u>-</u>            | <u>-</u>             | <u>-</u>             | <u>872,381</u>      | <u>-</u>             | <u>872,381</u>       |
| Total expenses   | <u>2,242,813</u>    | <u>3,088,090</u>     | <u>5,330,903</u>     | <u>4,493,453</u>    | <u>2,787,070</u>     | <u>7,280,523</u>     |
| <b>NONOPERATING INCOME:</b>                            |                     |                      |                      |                     |                      |                      |
| Loss on disposal of Normal Hills Apartments            | <u>-</u>            | <u>-</u>             | <u>-</u>             | <u>667,107</u>      | <u>-</u>             | <u>667,107</u>       |
| Total nonoperating expenses                            | <u>-</u>            | <u>-</u>             | <u>-</u>             | <u>667,107</u>      | <u>-</u>             | <u>667,107</u>       |
| <b>CHANGE IN NET POSITION</b>                          |                     |                      |                      |                     |                      |                      |
| Increase (decrease) in net position                    | 918,807             | (1,548,615)          | (629,808)            | 370,601             | (744,755)            | (374,154)            |
| Total net position, beginning of the year, as restated | <u>8,916,865</u>    | <u>41,394,874</u>    | <u>50,311,739</u>    | <u>8,546,264</u>    | <u>42,139,629</u>    | <u>50,685,893</u>    |
| Total net position, end of the year                    | <u>\$ 9,835,672</u> | <u>\$ 39,846,259</u> | <u>\$ 49,681,931</u> | <u>\$ 8,916,865</u> | <u>\$ 41,394,874</u> | <u>\$ 50,311,739</u> |

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Alabama A&M University (“the University”), which comprise the statement of financial position as of September 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2017.

**Internal Control Over Financial Reporting**

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

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

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



To the Board of Trustees of  
Alabama A&M University  
Normal, Alabama  
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### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

March 29, 2017

*Banks, Finley White 'Co.*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE  
REQUIRED BY THE UNIFORM GUIDANCE**

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

**Report on Compliance for Each Major Federal Program**

We have audited Alabama A&M University's ("the University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2016. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

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

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



### ***Opinion on Each Major Federal Program***

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

### **Report on Internal Control Over Compliance**

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

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

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

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

March 29, 2017

*Banks, Finley White & Co.*



**ALABAMA A&M UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended September 30, 2016

| <u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>       | <u>CFDA<br/>NUMBER</u> | <u>CONTRACT NUMBER</u> | <u>EXPENDITURES</u> |
|---|------------------------|------------------------|---------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                           |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Agricultural Research - Basic and Applied Research              | 10.001                 | 58-6420-4-016          | \$ 14,958           |
| <b>Total Agricultural Research - Basic and Applied Research</b> |                        |                        | <u>14,958</u>       |
| <b>Pass-Through Alabama Department of Agriculture</b>           |                        |                        |                     |
| Specialty Crop Block Grant Program - Farm Bill                  | 10.170                 | 12-25-B-1443           | 5,584               |
| <b>Total Specialty Crop Block Grant Program - Farm Bill</b>     |                        |                        | <u>5,584</u>        |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                           |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Agricultural Research Special Research                          | 10.200                 | 2011-38324-31002       | 12,272              |
| Agricultural Research Special Research                          | 10.200                 | 2011-38821-30969       | 7,614               |
| Agricultural Research Special Research                          | 10.200                 | 2014-388624-22535      | 95,931              |
| Agricultural Research Special Research                          | 10.200                 | 2015/6-33100-08901     | 2,842,323           |
| <b>Total Agricultural Research Special Research</b>             |                        |                        | <u>2,958,140</u>    |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                           |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Cooperative Forestry Research                                   | 10.202                 | 2015/6-32100-08901     | 321,518             |
| Cooperative Forestry Research                                   | 10.202                 | 2016/7-32100-08901     | 31,076              |
| <b>Total Cooperative Forestry Research</b>                      |                        |                        | <u>352,594</u>      |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                           |                        |                        |                     |
| <b>1905 Institution Capacity Building Grant Total</b>           |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| 1890 Institution Capacity Building Grant                        | 10.216                 | 2012-38820-20150       | 64,178              |
| 1891 Institution Capacity Building Grant                        | 10.216                 | 2012-38820-20177       | 19,990              |
| 1892 Institution Capacity Building Grant                        | 10.216                 | 2012-38821-20067       | 60,065              |
| 1893 Institution Capacity Building Grant                        | 10.216                 | 2012-38821-20091       | 55,094              |
| 1894 Institution Capacity Building Grant                        | 10.216                 | 2012-38821-20128       | 6,856               |
| 1895 Institution Capacity Building Grant                        | 10.216                 | 2013-38821-12110       | 91,917              |
| 1896 Institution Capacity Building Grant                        | 10.216                 | 2013-38821-21123       | 41,195              |
| 1897 Institution Capacity Building Grant                        | 10.216                 | 2013-38821-21130       | 150,052             |
| 1898 Institution Capacity Building Grant                        | 10.216                 | 2013-38821-21134       | 25,486              |
| 1899 Institution Capacity Building Grant                        | 10.216                 | 2013-38821-21250       | 41,522              |
| 1900 Institution Capacity Building Grant                        | 10.216                 | 2013-38821-21452       | 5,040               |
| 1901 Institution Capacity Building Grant                        | 10.216                 | 2014-38821-22414       | 129,607             |
| 1902 Institution Capacity Building Grant                        | 10.216                 | 2015-38821-24337       | 66,940              |
| 1903 Institution Capacity Building Grant                        | 10.216                 | 2015-38821-24348       | 38,131              |
| 1904 Institution Capacity Building Grant                        | 10.216                 | 2015-38821-24349       | 38,384              |
| 1905 Institution Capacity Building Grant                        | 10.216                 | 2015-38821-24366       | 145,905             |
| <b>Pass-Through Alcorn State University</b>                     |                        |                        |                     |
| 1890 Institution Capacity Building Grant                        | 10.216                 | 2015-38821-24360       | 5,625               |
| <b>Pass-Through Auburn University</b>                           |                        |                        |                     |
| 1890 Institution Capacity Building Grant                        | 10.216                 | 2015-38821-24366       | 5,311               |
| <b>Pass-Through Delaware State University</b>                   |                        |                        |                     |
| 1890 Institution Capacity Building Grant                        | 10.216                 | 2014-38821-22442       | 10,028              |
| <b>Pass-Through Fort Valley State University</b>                |                        |                        |                     |
| 1890 Institution Capacity Building Grant                        | 10.216                 | 2014-38821-22437       | 19,010              |
| <b>Pass-Through Tuskegee University</b>                         |                        |                        |                     |
| 1890 Institution Capacity Building Grant                        | 10.216                 | 2011-38821-30921       | 40                  |
| 1891 Institution Capacity Building Grant                        | 10.216                 | 2014-38821-22444       | 14,728              |
| 1892 Institution Capacity Building Grant                        | 10.216                 | RD675-167/4944406      | (91)                |
| <b>Pass-Through W. Virginia State University</b>                |                        |                        |                     |
| 1890 Institution Capacity Building Grant                        | 10.216                 | 2013-38821-21453       | (8,852)             |
| <b>Total Institution Capacity Building Grant</b>                |                        |                        | <u>1,026,161</u>    |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                           |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Higher Education Challenge Grant                                | 10.217                 | 2014-70003-22361       | 32,520              |
| Higher Education Challenge Grant                                | 10.217                 | 2016-70003-24772       | 1,000               |
| <b>Total Higher Education Challenge Grant</b>                   |                        |                        | <u>33,520</u>       |

ALABAMA A&M UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended September 30, 2016

| <u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>   | <u>CFDA<br/>NUMBER</u> | <u>CONTRACT NUMBER</u> | <u>EXPENDITURES</u> |
|---|------------------------|------------------------|---------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Higher Education - Multicultural Scholars Grant   | 10.220                 | 2015-38413-23538       | 4,750               |
| <b>Pass-Through University of North Carolina</b>  |                        |                        |                     |
| Higher Education - Multicultural Scholars Grant   | 10.220                 | 2014-38413-21797       | 22,931              |
| <b>Total Higher Education - Multicultural Scholars Grant</b>  |                        |                        | <u>27,681</u>       |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Agriculture and Food Research Initiative (AFRI)   | 10.310                 | 2016-67016-24945       | 12,755              |
| Agriculture and Food Research Initiative (AFRI)   | 10.310                 | 2016-67020-25276       | 4,682               |
| Agriculture and Food Research Initiative (AFRI)   | 10.310                 | 2016-68006-24785       | 70,306              |
| <b>Pass-Through Auburn University</b>   |                        |                        |                     |
| Agriculture and Food Research Initiative (AFRI)   | 10.310                 | 2011-68005-30410       | 1,230               |
| <b>Pass-Through Cornell University</b>  |                        |                        |                     |
| Agriculture and Food Research Initiative (AFRI)   | 10.310                 | 2011-67005-30010       | 114,653             |
| <b>Pass-Through Tuskegee University</b>   |                        |                        |                     |
| Agriculture and Food Research Initiative (AFRI)   | 10.310                 | 2014-68006-21862       | 82,873              |
| <b>Pass-Through University of Nebraska</b>  |                        |                        |                     |
| Agriculture and Food Research Initiative (AFRI)   | 10.310                 | 2012-68003-30155       | 14,952              |
| <b>Total Agriculture and Food Research Initiative (AFRI)</b>  |                        |                        | <u>301,451</u>      |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Beginning Farmer and Rancher Development Program  | 10.311                 | 2012-49400-19567       | 18,032              |
| Beginning Farmer and Rancher Development Program  | 10.311                 | 2012-68006-30189       | 10,742              |
| <b>Total Beginning Farmer and Rancher Development Program</b>                                       |                        |                        | <u>28,774</u>       |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers                             | 10.443                 | 2011-38821-30968       | 2,372               |
| Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers                             | 10.443                 | 59-2501-14-003         | 27,024              |
| Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers                             | 10.443                 | 59-2501-15-003         | 180,791             |
| <b>Total Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers</b>                |                        |                        | <u>210,187</u>      |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Cooperative Extension   | 10.500                 | 2010-45200-04423       | 62,391              |
| Cooperative Extension   | 10.500                 | 2011-45200-04423       | 118,015             |
| Cooperative Extension   | 10.500                 | 2012-49200-20125       | 23,765              |
| Cooperative Extension   | 10.500                 | 2014-41520-22199       | 133,421             |
| Cooperative Extension   | 10.500                 | 2015/6-45100-08901     | 2,024,365           |
| Cooperative Extension   | 10.500                 | 2015-41510-08901       | 102,672             |
| Cooperative Extension   | 10.500                 | 2015-46000-08901       | 8,141               |
| <b>Total Cooperative Extension</b>  |                        |                        | <u>2,472,770</u>    |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Child and Adult Care Food Programs  | 10.558                 |                        | 14,216              |
| <b>Total Child and Adult Care Food Programs</b>   |                        |                        | <u>14,216</u>       |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Summer Food Service Program For Children  | 10.559                 |                        | 88,831              |
| <b>Total Summer Food Service Program For Children</b>   |                        |                        | <u>88,831</u>       |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program              | 10.561                 | 2014-41510-08901       | 16,540              |
| <b>Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program</b> |                        |                        | <u>16,540</u>       |
| <b>Pass-Through Auburn University</b>   |                        |                        |                     |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program              | 10.561                 | 15-NEP-376366-AAMU     | 4,187               |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program              | 10.561                 | 15-NEP-37639-AAMU      | 33,208              |
| State Administrative Matching Grants for the Supplemental Nutrition Assistance Program              | 10.561                 | 16-NEP-376373-AAMU     | 963,133             |
| <b>Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program</b> |                        |                        | <u>1,000,528</u>    |

ALABAMA A&M UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended September 30, 2016

| <u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>                  | <u>CFDA<br/>NUMBER</u> | <u>CONTRACT NUMBER</u> | <u>EXPENDITURES</u>     |
|--|------------------------|------------------------|-------------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                                      |                        |                        |                         |
| <b>Direct Programs:</b>  |                        |                        |                         |
| Forestry Research  | 10.652                 | 14-DG-11330124-080     | 41,731                  |
| Forestry Research  | 10.652                 | 14-JV-11330124-072     | 2,363                   |
| Forestry Research  | 10.652                 | 15-CA-11330124-080     | 3,783                   |
| Forestry Research  | 10.652                 | 15-DG-11330124-078     | 92,572                  |
| Forestry Research  | 10.652                 | 15-DG-11330124-081     | 40,000                  |
| Forestry Research  | 10.652                 | 15-DG-11330124-128     | 802                     |
| <b>Total Forestry Research</b>   |                        |                        | <u><b>181,251</b></u>   |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                                      |                        |                        |                         |
| <b>Direct Programs:</b>  |                        |                        |                         |
| Cochran Fellowship Program-International Training-Foreign Participant      | 10.962                 | CO-CR-16-025           | 46,917                  |
| <b>Total Cochran Fellowship and Research</b>                               |                        |                        | <u><b>46,917</b></u>    |
| <b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>                                |                        |                        | <u><b>8,780,103</b></u> |
| <b>U.S. DEPARTMENT OF DEFENSE OFFICE OF THE SECRETARY OF DEFENSE</b>       |                        |                        |                         |
| <b>Direct Programs:</b>  |                        |                        |                         |
| Basic, Applied, and Advanced Research in Science and Engineering           | 12.630                 | W911NF-13-1-0136       | 12,326                  |
| Basic, Applied, and Advanced Research in Science and Engineering           | 12.630                 | W911NF-15-1-0531       | 119,469                 |
| <b>TOTAL U.S. DEPARTMENT OF DEFENSE OFFICE OF THE SECRETARY OF DEFENSE</b> |                        |                        | <u><b>131,795</b></u>   |
| <b>U.S. DEPARTMENT OF JUSTICE</b>  |                        |                        |                         |
| <b>Pass-Through 4-II</b>   |                        |                        |                         |
| Juvenile Mentoring Program   | 16.726                 | 2014-JU-FX-0025        | 52,081                  |
| Juvenile Mentoring Program   | 16.726                 | 2015-JU-FX-0015        | 94,989                  |
| <b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>                                    |                        |                        | <u><b>147,070</b></u>   |
| <b>NATIONAL AERONAUTICS AND ADMINISTRATION</b>                             |                        |                        |                         |
| <b>Pass-Through UAH</b>  |                        |                        |                         |
| Science  | 43.001                 | NNX10AJ80H             | 500,272                 |
| <b>Total Science</b>   |                        |                        | <u><b>500,272</b></u>   |
| <b>NATIONAL AERONAUTICS AND ADMINISTRATION</b>                             |                        |                        |                         |
| <b>Pass-Through UAH</b>  |                        |                        |                         |
| Education  | 43.008                 | 2015-050               | 21,777                  |
| Education  | 43.008                 | NNX15AJ18H             | 7,093                   |
| <b>Total Education</b>   |                        |                        | <u><b>28,870</b></u>    |
| <b>TOTAL NATIONAL AERONAUTICS AND ADMINISTRATION</b>                       |                        |                        | <u><b>529,142</b></u>   |
| <b>NATIONAL SCIENCE FOUNDATION</b>   |                        |                        |                         |
| <b>Direct Programs:</b>  |                        |                        |                         |
| Mathematical and Physical Sciences   | 47.049                 | CHE-1550790            | 69,500                  |
| Mathematical and Physical Sciences   | 47.049                 | PIIV-1559870           | 18,118                  |
| <b>Total Mathematical and Physical Sciences</b>                            |                        |                        | <u><b>87,618</b></u>    |
| <b>NATIONAL SCIENCE FOUNDATION</b>   |                        |                        |                         |
| <b>Pass-Through University of South Florida</b>                            |                        |                        |                         |
| Social, Behavioral, and Economic Sciences                                  | 47.075                 | DUE-1322586            | 25,655                  |
| <b>Total Social, Behavioral, and Economic Sciences</b>                     |                        |                        | <u><b>25,655</b></u>    |
| <b>NATIONAL SCIENCE FOUNDATION</b>   |                        |                        |                         |
| <b>Direct Programs:</b>  |                        |                        |                         |
| Education and Human Resources  | 47.076                 | DBI-1040963            | 240,627                 |
| Education and Human Resources  | 47.076                 | DGE-1419295            | 21,521                  |
| Education and Human Resources  | 47.076                 | DUE-11544              | 128,324                 |
| Education and Human Resources  | 47.076                 | DUE-1225654            | 11,830                  |
| Education and Human Resources  | 47.076                 | DUE-1238192            | 1,835,125               |
| Education and Human Resources  | 47.076                 | DUE-1347749            | 29,100                  |
| Education and Human Resources  | 47.076                 | DUE-1525120            | 12,835                  |
| Education and Human Resources  | 47.076                 | HRD-0928904            | 9,058                   |
| Education and Human Resources  | 47.076                 | HRD-103660             | 619,438                 |
| Education and Human Resources  | 47.076                 | HRD-1332544            | 69,755                  |
| Education and Human Resources  | 47.076                 | HRD-1436572            | 212,894                 |

**ALABAMA A&M UNIVERSITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended September 30, 2016

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|---|------------------------|------------------------|---------------------|
| Education and Human Resources   | 47.076                 | HRD-1437001            | 136,707             |
| Education and Human Resources   | 47.076                 | HRD-1546965            | 130,861             |
| Education and Human Resources   | 47.076                 | HU001-3000038745       | 24,544              |
| Education and Human Resources   | 47.076                 | PHY-1263253            | 62,768              |
| <b>Pass-Through UAB</b>   |                        |                        |                     |
| Education and Human Resources   | 47.076                 | HRD-1067888            | 82,087              |
| <b>Total Education and Human Resources</b>  |                        |                        | <u>3,627,474</u>    |
| <b>NATIONAL SCIENCE FOUNDATION</b>  |                        |                        |                     |
| <b>Pass-Through Tuskegee</b>  |                        |                        |                     |
| Office of Experimental Program to Stimulate Competitive Research                                  | 47.081                 | EPS-1158862            | 123,938             |
| <b>Total Office of Experimental Program to Stimulate Competitive Research</b>                     |                        |                        | <u>123,938</u>      |
| <b>TOTAL NATIONAL SCIENCE FOUNDATION</b>  |                        |                        |                     |
|   |                        |                        | <u>3,864,685</u>    |
| <b>U.S. DEPARTMENT OF ENERGY</b>  |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| National Nuclear Security Administration (NNSA)Minority Serving Institutions Program              | 81.123                 | DE-ED0000382           | 73,361              |
| National Nuclear Security Administration (NNSA)Minority Serving Institutions Program              | 81.123                 | DE-NA-0001890          | 3,932               |
| National Nuclear Security Administration (NNSA)Minority Serving Institutions Program              | 81.123                 | DE-NA0002687           | 88,320              |
| <b>Pass through Florida A&amp;M University</b>  |                        |                        |                     |
| National Nuclear Security Administration (NNSA)Minority Serving Institutions Program              | 81.123                 | DE-NA0002683           | 146,226             |
| <b>Total National Nuclear Security Administration (NNSA)Minority Serving Institutions Program</b> |                        |                        | <u>311,839</u>      |
| <b>TOTAL U.S. DEPARTMENT OF ENERGY</b>  |                        |                        |                     |
|   |                        |                        | <u>311,839</u>      |
| <b>U.S. DEPARTMENT OF EDUCATION</b>   |                        |                        |                     |
| <b>Student Financial Aid Cluster</b>  |                        |                        |                     |
| Federal Supplemental Educational Opportunity Program  | 84.007                 | OE-P007A09001          | 260,949             |
| College Work Study Program  | 84.033                 | OE-P033A070001         | 288,870             |
| Federal Pell Grant Program  | 84.063                 | OE-P063111097          | 15,805,904          |
| TEACH Grants  | 84.379                 | P379T141027            | 54,916              |
| <b>Total Student Financial Aid Cluster</b>  |                        |                        | <u>16,410,639</u>   |
| <b>U.S. DEPARTMENT OF EDUCATION</b>   |                        |                        |                     |
| <b>Trio Cluster:</b>  |                        |                        |                     |
| TRIO-Student Support Services   | 84.042                 | OE-P042A101164         | 11,407              |
| TRIO-Upward Bound   | 84.047                 | OE-P047A070505         | 463,321             |
| <b>Total Trio Cluster</b>   |                        |                        | <u>474,728</u>      |
| <b>U.S. DEPARTMENT OF EDUCATION</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Higher Education Institutional Aid  | 84.031B                | OE-P031B070057         | 2,623               |
| Higher Education Institutional Aid  | 84.031B                | OE-P031B10008          | 1,095,559           |
| Higher Education Institutional Aid  | 84.031B                | OE-P031B12500          | 3,232,789           |
| Higher Education Institutional Aid  | 84.031B                | OE-P031B141001         | 2,265,277           |
| <b>Total Higher Education Institutional Aid</b>   |                        |                        | <u>6,596,248</u>    |
| <b>U.S. DEPARTMENT OF EDUCATION</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Federal Direct Loan Program   | 84.032                 | P268K141027            | 55,260,619          |
| <b>Total Federal Direct Loan Program</b>  |                        |                        | <u>55,260,619</u>   |
| <b>U.S. DEPARTMENT OF EDUCATION</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Minority Science and Engineering Improvement  | 84.120                 | P120A150053            | 65,719              |
| <b>Total Minority Science and Engineering Improvement</b>   |                        |                        | <u>65,719</u>       |
| <b>U.S. DEPARTMENT OF EDUCATION</b>   |                        |                        |                     |
| <b>Direct Programs:</b>   |                        |                        |                     |
| Rehabilitation Long Term Training   | 84.129B                | H129B100005            | 33,124              |
| <b>Total Rehabilitation Long Term Training</b>  |                        |                        | <u>33,124</u>       |
| <b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>   |                        |                        |                     |
|   |                        |                        | <u>78,841,077</u>   |
| <b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>   |                        |                        |                     |
| <b>Pass through University of Minnesota</b>   |                        |                        |                     |

ALABAMA A&M UNIVERSITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended September 30, 2016

| <u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>  | <u>CFDA<br/>NUMBER</u> | <u>CONTRACT NUMBER</u>    | <u>EXPENDITURES</u>  |
|--|------------------------|---------------------------|----------------------|
| Centers for Homeland Security  | 97.061                 | 2010-ST-061-FDX001        | 118,482              |
| <b>Total Centers for Homeland Security</b>   |                        |                           | <u>118,482</u>       |
| <b>U.S.DEPARTMENT OF HOMELAND SECURITY</b>   |                        |                           |                      |
| <b>Direct Programs:</b>  |                        |                           |                      |
| Scholars and Fellows and Educational Programs  | 97.062                 | 2010-ST-062-000034        | (17,332)             |
| Scholars and Fellows and Educational Programs  | 97.062                 | 2014-ST-062-000060        | 143,263              |
| <b>Total Scholars and Fellows and Educational Programs</b>   |                        |                           | <u>125,931</u>       |
| <b>U.S.DEPARTMENT OF HOMELAND SECURITY</b>   |                        |                           |                      |
| <b>Direct Programs:</b>  |                        |                           |                      |
| Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection              | 97.077                 | 2012-DN-077-ART065-03/4/5 | 191,626              |
| <b>Total Homeland Security Research, Development, Testing, Evaluation, and Demonstration of Technologies Related to Nuclear Threat Detection</b> |                        |                           | <u>191,626</u>       |
| <b>TOTAL U.S.DEPARTMENT OF HOMELAND SECURITY</b>   |                        |                           | <u>436,039</u>       |
| <b>U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT</b>   |                        |                           |                      |
| <b>Direct Programs:</b>  |                        |                           |                      |
| USAID Foreign Assistance for Programs Overseas   | 98.001                 | OSU-RD-011-G-G            | 31,182               |
| <b>TOTAL U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT</b>   |                        |                           | <u>31,182</u>        |
| <b>TOTAL FEDERAL AWARD EXPENDITURES</b>  |                        |                           | <u>\$ 93,072,932</u> |

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

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**BASIS OF PRESENTATION**

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

**ALABAMA A&M UNIVERSITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For the year ended September 30, 2016**

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

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? \_\_\_ Yes     X  No

**Federal Awards**

Internal control over major programs:

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

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

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

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program</u>  |
|---------------------|---|
| 10.561              | State Administrative Matching Grant for the Supplemental Nutrition Assistance Program |
| 47.076              | Education and Human Resources Grants  |
| 84.032              | Federal Direct Loan Program   |

Dollar threshold used to distinguish between Type A and type B programs: \$2,792,188

Auditee qualified as low-risk auditee?  X  Yes    \_\_\_ No