

FINANCIAL REPORT

2013 – 2014



THE UNIVERSITY OF ALABAMA





2013-2014 Financial Report

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January 23, 2015

THE UNIVERSITY OF
ALABAMA
FINANCIAL AFFAIRS

The management of The University of Alabama (the "University") is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements. The financial statements, presented on pages 18 through 23, have been prepared in conformity with accounting principles generally accepted in the United States of America and, as such, include amounts based on judgments and estimates by management.

The consolidated financial statements have been audited by our independent auditor PricewaterhouseCoopers, LLP, which was given unconditional access to all financial records and related data, including minutes of all meetings of the Board of Trustees. The University believes that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers' audit opinion is presented on pages 3 and 4.

The University maintains a system of internal controls over financial reporting, which is designed to provide reasonable assurance to the University's management and Board of Trustees regarding the preparation of reliable published financial statements. Such controls are designed to identify internal control weaknesses in order to permit management to take appropriate corrective action on a timely basis. There are, however, inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention of controls.

The Board of Trustees, through its Audit Committee, is responsible for engaging the independent auditors. The Audit Committee provides oversight of the internal and external audit functions of The University of Alabama (System), including the campuses. Both internal auditors and the independent auditors have full and free access to the Audit Committee.

Based on the above, I certify that the information contained in the accompanying financial statements fairly presents, in all material respects, the financial condition, changes in net position and cash flows of The University of Alabama, a campus of the University of Alabama System, which is a component of the State of Alabama, as of and for the years presented in this report.

Sincerely,



Dr. Lynda Gilbert
Vice President for Financial Affairs and Treasurer





Independent Auditor's Report

To the Board of Trustees of The University of Alabama:

We have audited the accompanying financial statements of The University of Alabama (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which consist of the statements of net position and the related statements of revenues, expenses, and changes in net position and cash flows of the University and the statements of net position and of revenues, expenses and changes in net position of the University's discretely presented component units.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 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 the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the 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 our 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, we consider 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, based upon our audits, 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, 2014 and 2013, or at June 30, 2014 and 2013, as applicable, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Emphasis of Matter

As discussed in Note 1, the financial statements of the University are intended to present the financial position, the changes in financial position and, where applicable, the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2014 and 2013, its changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

The accompanying management's discussion and analysis for the years ended September 30, 2014 and 2013, on pages 5 through 17 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The enrollment and statistics information included on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

PricewaterhouseCoopers LLP

January 26, 2015

The University of Alabama

Management's Discussion and Analysis (Unaudited)

The Management's Discussion and Analysis (MD&A) of The University of Alabama's (the "University") annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal years ended September 30, 2014 and 2013. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes and this discussion are the responsibility of management.

History and Mission

The University, the State of Alabama's (the "State") oldest institution of higher education, is the senior comprehensive doctoral-level institution in Alabama and began instructing students in 1831. Established by constitutional provision, with subsequent statutory mandates and authorizations, the University advances the intellectual and social condition of all the people of the State through quality programs of research, instruction and service. The University is a fully accredited institution of higher learning offering a wide variety of undergraduate, graduate and professional programs. The University is located in Tuscaloosa, Alabama.

The University is accredited by and is a member of the Southern Association of Colleges and Schools. All degree programs in professional schools and colleges subject to recognized accrediting agencies are fully accredited by the appropriate national organization. The University is a member of the Association of Public and Land-Grant Universities.

The University is governed by The Board of Trustees of The University of Alabama (the "Board"), a body corporate under Alabama Law. The Board also governs The University of Alabama at Birmingham and The University of Alabama in Huntsville, which along with the University, make up The University of Alabama System (the "System"). The Board determines policy and approves operating budgets, educational programs, facilities and capital financings for each campus, and sets the separate tuition and fee schedules applicable at each campus. Oversight responsibilities of the Alabama Commission on Higher Education ("ACHE") and annual requests for appropriations from the Alabama legis-

lature are coordinated for each campus by the Chancellor of the System with the approval of the Board.

Overview of Financial Statements

The University's financial statements present the financial condition, results of operations and cash flows of the University and its blended component unit, The Crimson Tide Foundation ("CTF"). The financial statements of six affiliated foundations are presented discretely from the University. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements. A summary of new accounting standards and their anticipated effects conclude the footnotes with brief summations of recently issued statements of the Governmental Accounting Standards Board ("GASB").

Statement of Net Position

The statement of net position presents the financial position of the University at the end of the fiscal year. This statement reflects the various assets, deferred outflows, liabilities, and net position of the University as of the fiscal years ended September 30, 2014 and 2013.

From the data presented, readers of the statement of net position have the information to determine the assets available to continue the operations of the University. They may also determine how much the University owes vendors, bondholders, and lending institutions. In addition, the statement of net position outlines the net position (assets and deferred outflows minus liabilities) available to the University.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the University's equity in property, plant and equipment owned by the University. The second category is restricted net position, which is divided into two categories, non-expendable and expendable. The corpus of non-expendable restricted resources, as it pertains to endowments, is only available for investment purposes. Donors have primarily restricted income derived from these investments to fund scholarships and fellowships. Expendable restricted resources are available for expenditure by the University but must be spent for purposes as

determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The last category, unrestricted net position, presents the net position available to the University for any lawful purpose of the University.

At September 30, 2014, the University's assets and deferred outflows of resources exceeded \$3.5 billion, liabilities were \$1.4 billion, leaving a net position of \$2.1 billion, an overall increase in net position of \$153.2 million from 2013.

The University's Assets

The University's cash and cash equivalents include both current and noncurrent balances of \$121.1 million and \$ 5.3 million, respectively, at the end of 2014. Noncurrent cash and cash equivalents are reported in other noncurrent assets in the condensed statements of net position presented below. Noncurrent cash and cash equivalents are comprised of restricted cash balances of endowment funds. The University considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents. Total cash and cash

equivalents decreased slightly by \$3.2 million in 2014 from the prior year. Total cash and cash equivalents increased \$66.3 million in 2013 from the prior year principally due to cash retained for operating needs.

Accounts receivable experienced an increase of approximately \$7.6 million in fiscal year 2014, primarily due to student accounts. The current portion of notes receivable decreased \$1.5 million as the balance of the note receivable due from the 1831 Foundation was paid off in October 2013. Noncurrent notes receivable increased \$37.1 million for Greek housing loans. This follows an increase in noncurrent notes receivable of \$14.6 million in fiscal year 2013 also related to Greek housing loans.

Pledges receivable (both current and noncurrent) increased \$2.7 million in 2014 to \$26.3 million from \$23.6 million in 2013. Of this increase, \$3.5 million was attributable to the University, while CTF pledges receivable declined slightly by \$813,000.

Total combined investments, which includes short-term investments, endowment and life income investments, investments for capital activities, and

Condensed Statements of Net Position

	September 30,		
	2014	2013	2012
Current assets			
Cash and cash equivalents	\$ 121,099,600	\$ 105,627,822	\$ 60,917,369
Short-term investments	214,516,288	224,328,503	273,564,466
Accounts receivable, net	102,155,637	94,558,012	104,714,972
Other current assets	96,976,261	87,807,544	80,786,800
Noncurrent assets			
Endowment, life income and other investments	1,155,133,839	1,027,965,684	1,021,810,297
Capital assets, net	1,655,111,628	1,539,631,730	1,290,466,310
Other noncurrent assets	150,322,941	130,087,220	101,542,973
Total assets	<u>3,495,316,194</u>	<u>3,210,006,515</u>	<u>2,933,803,187</u>
Deferred outflows of resources	<u>15,285,207</u>	<u>13,283,391</u>	<u>2,015,721</u>
Current liabilities	427,367,090	424,242,388	413,375,798
Noncurrent liabilities	<u>951,092,958</u>	<u>820,116,340</u>	<u>676,742,359</u>
Total liabilities	<u>1,378,460,048</u>	<u>1,244,358,728</u>	<u>1,090,118,157</u>
Net position			
Net investment in capital assets	862,965,092	817,415,403	667,869,001
Restricted	713,220,712	682,843,388	646,445,273
Unrestricted	<u>555,955,549</u>	<u>478,672,387</u>	<u>531,386,477</u>
Total net position	<u>\$ 2,132,141,353</u>	<u>\$ 1,978,931,178</u>	<u>\$ 1,845,700,751</u>

other long-term investments, increased \$117.4 million. This increase is a direct result of the 2014A and 2014B bond proceeds, and increased endowment assets.

In 2013, total combined investments decreased \$43.1 million. The primary contributing factor of this decrease was the transfer of the Bryce Property, valued at \$87.6 million, from investments to capital assets. The University purchased the Bryce Property in 2010 as an endowment investment. The long-term use of the property was undetermined, until the campus master plan was finalized. As master planning proceeded in 2011 and 2012, it was determined that the property would be used for operations, pending the vacancy of the property by the State of Alabama Department of Mental Health ("ADMH"). Due to its intended operating use, the value of the property was transferred into capital assets, as it was no longer considered an investment property. The large reduction in endowment investments created by the Bryce Property transfer was offset by higher unrealized gains in 2013 along with the investment of 2012 bond proceeds.

Investments classified as current are available for operating purposes while noncurrent investments relate primarily to endowment and capital purposes. The University's investment portfolio is principally invested in three separate investment pools sponsored by the System. The University's investment approach is intended to maximize current investment returns consistent with annual liquidity needs while protecting principal. The University adopts the broad objective of investing assets to preserve their real value, enhance the purchasing power of income, and keep pace with inflation and evolving University needs. Fiscal year 2014 reflects a \$9.8 million decrease in short-term investments. At the 2013 fiscal year-end, short-term investments had decreased \$49.2 million. These decreases result from withdrawals for upcoming operating needs.

Capital assets include land and land improvements, infrastructure, buildings and improvements, equipment, construction in progress, library materials, collections and intangible assets. In 2014, capital assets increased \$115.5 million primarily because of new building construction. During 2013, capital assets rose \$249.2 million also due largely to the construction of new buildings, and the transfer of the Bryce Property. Capital spending remains a priority to provide the necessary facilities needed to accommodate both present and future enrollment growth. Recent land acquisitions allow for unique

opportunities to expand and further beautify our historic campus. As outlined in the University's Master Plan, the University seeks to "unify the campus as a complete learning environment, interwoven into a gracious and hospitable setting that both nurtures the soul and inspires the mind."

Major capital expenditures in 2014 include Student Organizations (refer to Note 5) (\$33.2 million), Ferguson Center renovation and addition (\$30.3 million), Presidential Village Phase II (\$29.2 million), North Campus Student Center (\$18.6 million), Fresh Food Company (\$12.6 million), Rowing Facility (\$3.9 million), Sewell Thomas Baseball Stadium renovation (\$3.0 million), Russell Hall renovation and addition (\$2.6 million), and the South Campus Parking Deck (\$2.6 million).

Major capital expenditures in 2013 included Presidential Village Phase II (\$30.9 million), North Engineering Research Complex (\$24.6 million), Student Organizations (refer to Note 5) (\$19.3 million), Digital Media Center (\$15.0 million), Riverside Parking Deck (\$12.9 million), Ferguson Center renovation and addition (\$11.2 million), North Campus Student Center (\$10.2 million), the Mal Moore Athletic Facility First Floor deferred maintenance (\$7.6 million), Strength and Conditioning facility (\$7.2 million), ten Hoor Hall renovation (\$5.1 million), Sarah Patterson Champions Plaza (\$3.0 million), Searcy Building deferred maintenance (\$2.8 million), Fresh Food Company (\$2.3 million), Presidential Village Phase I (\$2.2 million), Sam Bailey Track Stadium renovation (\$2.1 million), and the Burke Dining Hall renovation (\$2.1 million).

Contributing to the make-up of other noncurrent assets not discussed above, the Eminent Scholars Program, established by the State of Alabama Act No. 85-759 and administered by the ACHE, provides that donor gifts of \$600,000 held in a foundation affiliated with the University are eligible for \$400,000 in State matching funds. In prior years, the University received funds from donors intended to be matched in accordance with this program and transferred the corpus of these funds to The Capstone Foundation to be invested by The Capstone Foundation as agent for the University. In fiscal year 2014, the University's receivable from The Capstone Foundation investment for the Eminent Scholars Program increased slightly from \$8.7 million in 2013 to \$8.9 million in 2014, the result of unrealized gains.

The University's Liabilities

Current liabilities consist primarily of accounts payable, accrued liabilities, and unearned revenue related to operations. The majority of accounts payable and accrued liabilities represent amounts owed for salaries, wages and benefits, and supplies and services. Unearned revenue consists primarily of tuition and housing revenues for the fall semester that occurs after September 30 and football ticket revenue for the portion of the season which occurs after September 30. Current liabilities totaled \$427.4 million in 2014 compared to \$424.2 million in 2013, an increase of \$3.2 million. Accounts payable and accrued liabilities decreased \$1.4 million in 2014 from the prior year. The \$13.2 million decrease in deposits stems from the disbursement of restricted cash from ADMH, for which the University acts as agent for the construction of a new adult psychiatric facility. The balance is approximately \$7.5 million less in 2014 as facility construction was completed. Additionally, the University also acts as agent to the UA System Office for the construction of Sid McDonald Hall, which houses the new UA System Office. This project was also completed in 2014 and funds on deposit which related to this project decreased \$3.8 million. Long-term debt increased \$129.7 million in 2014 due to the new 2014A and 2014B bond issuances offset by payments and defeasances.

This follows an increase of \$17.4 million in 2013, primarily due to investment gains. This net position category includes restricted gifts, institutional loan funds, and sponsored programs. Restricted expendable net position is restricted by externally-imposed constraints.

Unrestricted net position rose \$77.3 million during fiscal year 2014. CTF unrestricted net position comprises \$17.9 million of this increase. The remaining increase results from activity in Auxiliary units, quasi unrestricted endowments, unrestricted plant funds and unrestricted gift funds. Unrestricted net position decreased \$52.7 million in 2013 partially as a result of the aforementioned transfer of the Bryce Property from an endowment investment to operations. The Bryce property was originally recorded as an endowment investment to be funded from endowment coal royalties. When the property moved from endowment investments to capital assets, unrestricted net position decreased \$87.6 million, for the value of the property that is now funded from unrestricted. The resulting decrease was offset by increases in residence halls and quasi unrestricted endowments, primarily.

The University's Net Position

Net position represents the residual interest in the University's assets and deferred outflows of resources after all liabilities are deducted. The University's net position increased \$153.2 million, or 7.7%, during fiscal 2014, totaling \$2.1 billion. This increase follows a 7.2% increase of \$133.2 million in 2013.

Net investment in capital assets increased \$45.5 million from \$817.4 million in 2013. The previous year increase of \$149.5 million rose from \$667.9 million reported in 2012.

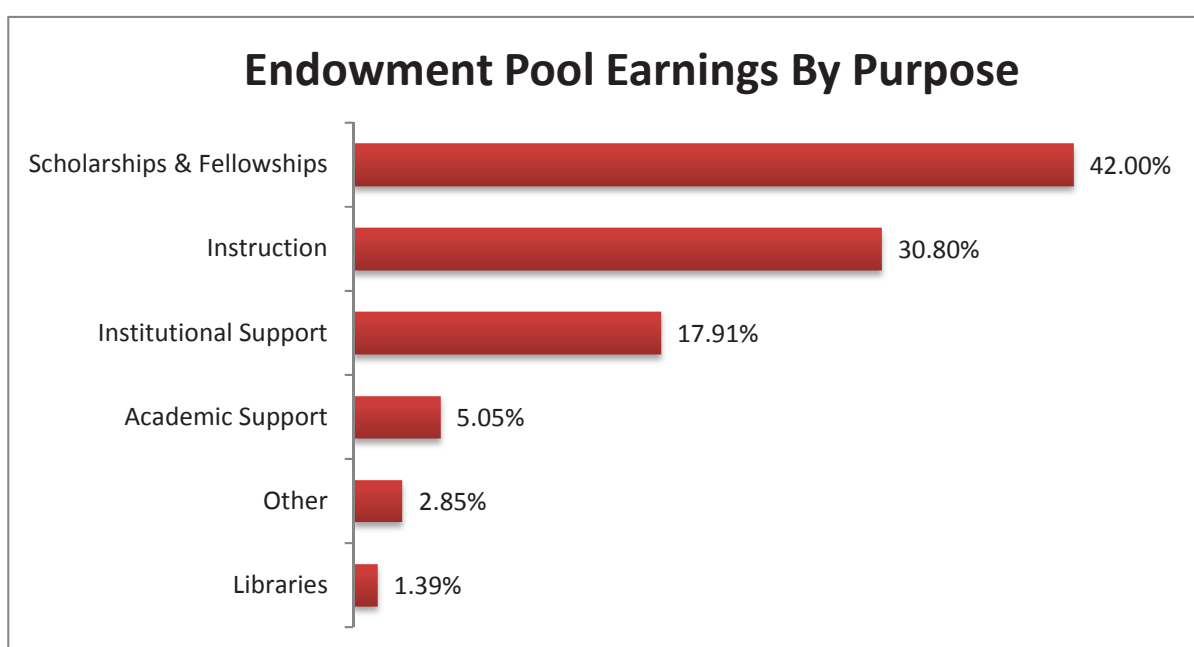
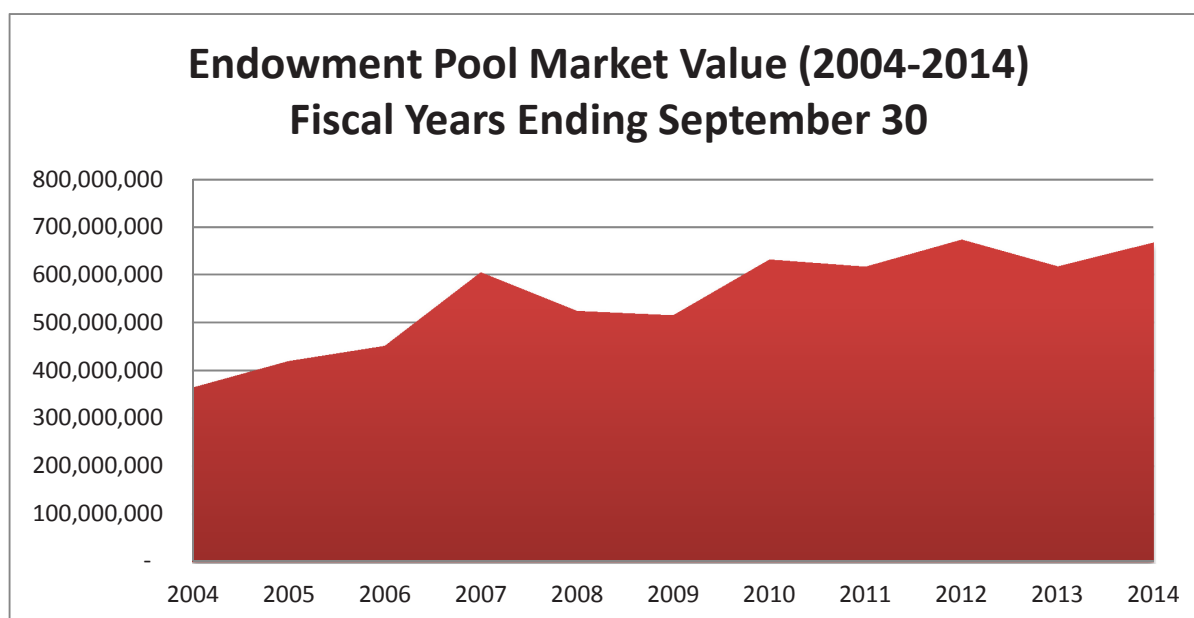
Restricted nonexpendable net position increased approximately \$16.1 million primarily because of additions to true endowments. This net position type encompasses true endowments and life income/annuities. In the prior year, restricted nonexpendable net position experienced growth of \$19.0 million.

Restricted expendable net position increased \$14.3 million, or 4.3%, primarily due to gift revenue.

University Endowments

The University's endowments experienced an increase of \$50.4 million in fiscal 2014 with a September 30 value of \$668.0 million. The Bryce Property, which the University added to its endowment in 2010, was moved fully into operations during 2013, thus reclassifying its total fair market value of \$87.6 million from endowment assets to capital assets. Initially, the University's intended development of the property was undecided. As the University's campus master plan proceeded, the property was deemed for operating use, pending its vacancy by the ADMH.

While strong investment returns have allowed endowments to grow significantly over the past decade and increases in spending have had a significant impact on the unique student experience that is The University of Alabama, prudent management and investing strategies remain of utmost importance. With a continual commitment to excellence, we expect funding given by the University's generous donors will continue to grow, leveraging those gifts for the benefit of our students for many years to come.



Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position (SRECNP) presents the revenues received by the University, both operating and non-operating, and the expenses paid by the University, both operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the University. Primary components of the University's operating revenue stream are tuition and fees; and auxiliary sales and services, which are generated from self-supporting departments, including Intercollegiate Athletics, residence halls, food service operations, and the University Supply Store. Additionally, the University seeks funding from the federal and state governments and sponsored programs in support of its mission of teaching, research, and service. Other significant revenue sources, which are considered nonoperating as defined by the

GASB, include State educational appropriations, private gifts, investment income, and federal Pell grants.

Operating expenses are those incurred in conjunction with the fulfillment of the University's mission and include salaries, wages and benefits; scholarships and fellowships; supplies and services; and depreciation. The SRECNP also includes other changes affecting its net position including capital appropriations, capital gifts and grants, additions to permanent endowments, and intragovernmental transfers between the University and CTF, its blended component unit.

Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. A summary of the University's revenues, expenses and changes in net position follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Years ended September 30,		
	2014	2013	2012
Operating revenues			
Tuition and fees	\$ 572,020,518	\$ 514,370,549	\$ 454,187,595
Less: scholarship allowances	(152,538,453)	(127,427,695)	(105,643,511)
Tuition and fees, net	419,482,065	386,942,854	348,544,084
Sponsored programs	72,949,971	72,690,633	74,617,162
Sales and services of educational activities	11,299,340	12,986,742	11,643,489
Auxiliary sales and services, net	148,640,394	144,765,209	140,948,823
Other operating revenues	61,166,131	42,516,071	44,505,964
Total operating revenues	713,537,901	659,901,509	620,259,522
Operating expenses	834,795,390	800,668,320	755,944,606
Operating loss	(121,257,489)	(140,766,811)	(135,685,084)
Nonoperating revenues (expenses)			
State educational appropriations	144,234,844	140,699,910	145,951,239
Gifts	56,587,991	45,366,130	50,354,337
Grants	31,769,026	30,805,700	31,128,382
Investment income, net	57,911,278	64,135,946	94,052,944
Interest expense	(35,996,803)	(34,936,244)	(34,153,468)
Other nonoperating (expenses) revenues, net	(837,766)	(2,079,700)	2,370,558
Net nonoperating revenues	253,668,570	243,991,742	289,703,992
Income before other changes in net position	132,411,081	103,224,931	154,018,908
Other changes in net position			
Capital appropriations	203,976	769,264	1,040,837
Capital gifts and grants	5,305,187	15,911,727	52,078,458
Additions to permanent endowments	14,385,976	16,999,033	18,209,743
Intragovernmental transfers	903,955	(3,674,528)	7,414,988
Increase in net position	153,210,175	133,230,427	232,762,934
Net position, beginning of year	1,978,931,178	1,845,700,751	1,612,937,817
Net position, end of year	\$ 2,132,141,353	\$ 1,978,931,178	\$ 1,845,700,751

The University's net position increased \$153.2 million, \$133.2 million, and \$232.8 million, for the fiscal years ended September 30, 2014, 2013, and 2012, respectively. As noted in the SRECNP, the University experienced operating losses in all fiscal years presented of \$121.3 million, \$140.8 million, and \$135.7 million, respectively. These operating losses highlight the University's dependency on nonoperating revenues, such as State appropriations and private gifts, to meet its cost of operations. Increases in tuition rates have reduced operating losses as State appropriations have decreased over recent years.

Operating Revenues

Net tuition and fees reflect the steady increases in tuition related to continued enrollment growth coupled with tuition rate increases. Net tuition and fees in 2014 were \$419.5 million, a \$32.6 million increase over 2013's \$386.9 million, which increased \$38.4 million over \$348.5 million in 2012. Tuition rates are reviewed annually by the University and presented to the Board for approval.

The University receives grant and contract revenue from federal, state, and local governments and private agencies. Federal grants and contracts experienced a decrease of \$3.1 million in 2014, following decreases of \$5.8 million in 2013 and \$0.8 million in 2012. These decreases reflect the declining federal research and development budget during those years, including the expiration of the American Recovery and Reinvestment Act (ARRA). ARRA expenditures totaled approximately \$619,000 and \$1.9 million in the 2014 and 2013 fiscal years, respectively. State and local grants and contracts increased approximately \$440,000 in 2014 following a \$2.5 million increase in 2013, collectively, while private grants and contracts increased \$2.9 million.

The University's auxiliary activities are comprised of Intercollegiate Athletics, food service, housing, supply store, telecommunications, and other miscellaneous auxiliary enterprises. Auxiliary income increased \$3.9 million, primarily from licensing income, food service income, and housing. The 2014 increase follows a \$3.8 million increase in the prior year, due primarily to athletic income, housing income, and supply store sales. Residence halls, the UA Supply Store, and various other auxiliary units experienced expected increases in revenue due to growth in the student population in all three years presented in the condensed statements.

Other operating revenue saw an increase of \$18.7 million, \$9.9 million of which stems from contractual income of CTF. Fiscal year 2013 other operating revenue decreased \$2.0 million as the implementation of new accounting standards resulted in an entry to reverse the previously recorded amortization of Capstone Village entrance fees.

Non-Operating Revenues and Expenses

The University's non-operating revenues assist in offsetting the University's operating loss of \$121.3 million for 2014. In fiscal year 2014, the University received \$144.2 million in State educational appropriations for operating purposes, \$56.6 million in private gifts, and \$57.9 million in net investment income. In fiscal year 2013, the University received \$140.7 million in State educational appropriations for operating purposes, \$45.4 million in private gifts, and \$64.1 million in net investment income. In fiscal year 2012, the University received \$146.0 million in State educational appropriations to be used for operating purposes, \$50.4 million in private gifts, and \$94.0 million in net investment income.

Gift revenues increased \$11.2 million in 2014 due primarily to pledges. Gift revenues decreased \$5.0 million in 2013 due to a large quasi-endowment gift from a donor advised fund distribution in the prior year.

Nonoperating grants consist primarily of Federal Pell grant awards. This program provides financial assistance grants to qualifying undergraduate students to promote access to postsecondary education. Also, included in nonoperating grants are Build America Bonds interest reimbursements. In 2014, nonoperating grant revenue increased slightly to \$31.8 million, from \$30.8 million in 2013.

Both investment and endowment income are combined as investment income on the SRECNP. Investment income decreased \$6.2 million as the University posted unrealized losses in fiscal year 2014, opposite unrealized gains it recorded in the prior year. Fiscal year 2013 ended with a decrease in net earnings as the University had less unrealized gains than in fiscal year 2012.

Operating Expenses

The University reports natural classifications of expenditures in the SRECNP. Salaries, wages and benefits increased \$33.1 million to \$543.3 million in 2014 from \$510.2 million in 2013, which was a \$24.6 million increase over \$485.6 million in 2012. The University maintains a competitive salary base to attract and retain talented faculty, staff, and graduate students and has strategically added new positions to accommodate growth in student enrollment.

Supplies and other services experienced a decrease of \$4.7 million from 2013. This decrease stems from the 2013 adoption of new accounting standards mentioned earlier in the management discussion and

analysis, which required an \$8.9 million adjustment be recorded to reflect the future services obligation for Capstone Village.

Scholarships and fellowships expense is reported net of scholarship allowances. The net expenses of \$21.2 million and \$20.6 million for fiscal years 2014 and 2013, respectively, represent payments made directly to students after awards have been applied against tuition and fees charged to student accounts. Gross scholarship expenses totaled \$184.5 million and \$158.8 million, for the years ended September 30, 2014 and 2013, respectively.

Operating Expenses (by natural classification)

Years ended September 30,

	2014	2013	2012
Salaries, wages and benefits	\$ 543,326,645	\$ 510,176,635	\$ 485,618,389
Scholarships and fellowships	21,221,373	20,647,980	19,454,077
Supplies and other services	215,442,218	220,120,548	202,361,216
Depreciation	54,805,154	49,723,157	48,510,924
Total operating expenses	\$ 834,795,390	\$ 800,668,320	\$ 755,944,606



In addition to natural classifications, operating expenses are reported by functional classifications as defined by the National Association of College and University Business Officers ("NACUBO"). 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 Operations and Maintenance and is used most commonly for comparative reporting purposes among colleges and universities.

2014 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 232,848,427	\$ -	\$ 36,073,134	\$ 14,405,468	\$ 283,327,029
Research	24,638,354	-	17,823,217	4,572,598	47,034,169
Public Service	31,845,663	-	11,418,540	1,412,621	44,676,824
Academic Support	52,534,394	-	6,478,379	11,823,708	70,836,481
Student Services	30,456,826	-	15,503,716	3,239,736	49,200,278
Institutional Support	59,731,442	-	14,985,592	3,749,210	78,466,244
Operations and Maintenance	49,956,003	-	38,453,098	-	88,409,101
Scholarships and Fellowships	-	18,505,726	-	-	18,505,726
Auxiliary Enterprises	61,315,536	2,715,647	74,706,542	15,601,813	154,339,538
	<u>\$ 543,326,645</u>	<u>\$ 21,221,373</u>	<u>\$ 215,442,218</u>	<u>\$ 54,805,154</u>	<u>\$ 834,795,390</u>

2013 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 219,268,643	\$ -	\$ 32,832,994	\$ 12,997,181	\$ 265,098,818
Research	24,834,385	-	19,367,154	4,183,664	48,385,203
Public Service	31,314,398	-	11,118,178	1,306,402	43,738,978
Academic Support	50,906,650	-	20,943,364	10,095,466	81,945,480
Student Services	28,997,209	-	14,510,288	2,937,498	46,444,995
Institutional Support	52,836,078	-	12,344,417	3,406,070	68,586,565
Operations and Maintenance	45,068,856	-	34,407,639	-	79,476,495
Scholarships and Fellowships	-	18,416,038	-	-	18,416,038
Auxiliary Enterprises	56,950,416	2,231,942	74,596,514	14,796,876	148,575,748
	<u>\$ 510,176,635</u>	<u>\$ 20,647,980</u>	<u>\$ 220,120,548</u>	<u>\$ 49,723,157</u>	<u>\$ 800,668,320</u>

Other Changes in Net Position

Capital gifts and grants have fluctuated somewhat over the three years presented in the condensed SRECNP. Fiscal year 2014 experienced a decline of \$10.6 million, due to project close out of both the North and South Engineering Research Complex. During 2013, the decrease of \$36.2 million resulted from a large conservation easement gifted to the University during the prior year, valued at \$25.0 million.

Additions to permanent endowments remained fairly constant over the past three years, as well as intragovernmental transfers. Intragovernmental transfers are typically limited to transactions with the Crimson Tide Foundation, a blended component unit of the University.

Capital Assets and Debt Administration

At September 30, 2014, the University had \$2.3 billion invested in gross capital assets and accumulated depreciation of \$633.8 million, a net of \$1.7 billion as reflected in the schedule below summarizing the University's assets, net of accumulated depreciation.

Depreciation expense totaled \$54.8 million for the current fiscal year. Buildings and fixed equipment are responsible for the largest increase. The following schedule summarizes the University's capital assets, net of accumulated depreciation.

Capital Assets, Net of Accumulated Depreciation

	2014	2013	2012
Land	\$ 75,292,818	\$ 74,159,318	\$ 18,508,472
Land Improvements	37,903,035	39,332,357	34,066,091
Infrastructure	32,311,381	32,636,908	25,977,797
Buildings and Fixed Equipment	1,327,345,111	1,145,732,252	1,005,847,577
Construction in Progress	53,264,646	134,921,338	97,613,604
Equipment	52,581,588	46,203,430	39,450,466
Library Materials & Collections	37,278,594	27,716,809	28,126,882
Intangible Assets	39,134,455	38,929,318	40,875,421
	<u>\$ 1,655,111,628</u>	<u>\$ 1,539,631,730</u>	<u>\$ 1,290,466,310</u>

Capital asset expenditures for fiscal 2014 (in millions):

• Student Organizations (refer to Note 5)	\$33.2
• Ferguson Center Renovation & Addition	\$30.3
• Presidential Village Phase II	\$29.2
• North Campus Student Center	\$18.6
• Fresh Food Company	\$12.6
• Rowing Facility	\$ 3.9
• Sewell Thomas Renovation & Addition	\$ 3.0
• Russell Hall Renovation & Addition	\$ 2.6
• South Campus Parking Deck	\$ 2.6

• Sarah Patterson Champions Plaza	\$3.0
• Searcy Building Deferred Maintenance	\$2.8
• Fresh Food Company	\$2.3
• Presidential Village Phase I	\$2.2
• Sam Bailey Track Stadium Renovation	\$2.1
• Burke Dining Hall Renovation	\$2.1

The University plans to fund ongoing construction projects with reserves, debt proceeds, private gifts, and various federal and state grants.

Capital asset expenditures for fiscal 2013 (in millions):

• Presidential Village Phase II	\$30.9
• North Engineering Research Complex	\$24.6
• Student Organizations (refer to Note 5)	\$19.3
• Digital Media Center	\$15.0
• Riverside Parking Deck	\$12.9
• Ferguson Center Renovation & Addition	\$11.2
• North Campus Student Center	\$10.2
• Mal Moore Athletic Facility	\$7.6
• Strength & Conditioning Facility	\$7.2
• ten Hoor Hall Renovation	\$5.1

At September 30, 2014, the University had \$950.1 million of debt outstanding, of which \$22.0 million was classified as current. The large majority of debt obligations bear interest at fixed rates ranging from 0.0% to 6.3% and mature at various dates through fiscal year 2044. The University defeased certain indebtedness during fiscal years 2013 and 2014 to secure more favorable rates. This is discussed further in Note 9.

The University's outstanding debt obligations, exclusive of debt discounts and premiums of \$38.4 million, \$20.4 million, and \$1.5 million, respectively,

are summarized below. Further information may also be found in Note 9.

Schedules of Long Term Debt

	2014	2013	2012
Bonds Payable	\$ 903,490,000	\$ 791,995,000	\$ 660,880,000
Notes Payable	8,199,113	8,050,860	8,937,510
	<u>\$ 911,689,113</u>	<u>\$ 800,045,860</u>	<u>\$ 669,817,510</u>

Statement of Cash Flows

The statement of cash flows presents the significant sources and uses of cash from operations, noncapital financing activities, capital and related financing

activities, and investing activities. The University's operating liquidity is analyzed on a daily basis to ensure operating needs will be met.

Condensed Statements of Cash Flows

	2014	2013	2012
Cash received from operations	\$ 723,291,645	\$ 667,566,152	\$ 643,431,697
Cash payments from operations	(783,057,431)	(743,106,085)	(716,371,350)
Net cash used in operating activities	(59,765,786)	(75,539,933)	(72,939,653)
Net cash provided by noncapital financing activities	230,056,150	221,004,788	279,717,287
Net cash used in capital and related financing activities	(76,046,699)	(83,922,072)	(248,181,281)
Net cash (used in) provided by investing activities	(97,415,184)	4,800,675	27,976,528
Net (decrease) increase in cash and cash equivalents	(3,171,519)	66,343,458	(13,427,119)
Cash and cash equivalents, beginning of year	129,548,889	63,205,431	76,632,550
Cash and cash equivalents, end of year	<u>\$ 126,377,370</u>	<u>\$ 129,548,889</u>	<u>\$ 63,205,431</u>

Net cash used in operating activities is covered by cash flows from non-capital financing activities. Noncapital financing activities, as defined by the GASB, include State educational appropriations and gifts received for other than capital purposes that are used to support operating expenses. During 2014, the University used \$59.8 million for operating activities, while \$230.1 million was received from noncapital financing activities. In 2013, the University used \$75.5 million of cash for operating activities, while \$221.0 million was received from noncapital financing activities.

Capital and related financing activities include proceeds from bond issuances, purchases of capital assets, and capital gifts, grants, and contracts. Cash of \$76.0 million and \$83.9 million were used in capital and related financing activities during 2014 and 2013, respectively. Cash used in investing activities was \$97.4 million in 2014, while cash provided by investing activities in 2013 totaled \$4.8 million.

Future Economic Outlook

The University has positioned itself to weather the uncertain times our economy is experiencing. Prudent management, cost containment, and sensible investment strategies help ensure the University can remain dedicated to its mission of teaching, research, and service.

A crucial element to the University's future will continue to be our relationship with the State of Alabama as we work to maintain competitive tuition while providing an outstanding college education for our students. We continuously strive to attract the best students, while increasing the intrinsic and marketable value of education offered at The University of Alabama.

There exists a direct relationship between the growth of state support and the University's ability to control tuition growth as declines in state appropriations adversely affect tuition levels. There can be no assurance of future State appropriations. The University expects to be able to absorb this loss of state funds, without a material reduction of its budget, through a combination of increased tuition, increased enrollment and internal reserves. State appropriations are not, and cannot lawfully be, pledged under debt indentures. Major financial strengths of the University include a diverse source of revenues, including state appropriations, tuition and fees (net of scholarship allowances), auxiliary units' revenue, private support, and federally sponsored grants and contracts.

The University must have campus facilities that are competitive to meet student enrollment goals. The University continues to execute its long-term plan to modernize and expand its teaching, research, and student facilities with a balance of new construction and technology. The continuous improvement of the University's aesthetic appeal offers visitors, current and prospective students, employees and the surrounding communities an attractive and appealing atmosphere in which to live and work.

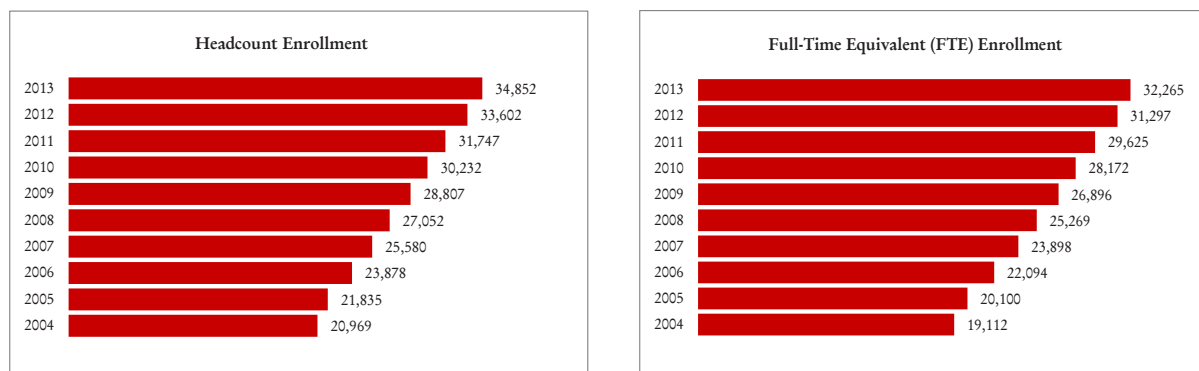
The University's private support is fundamental in meeting budgetary needs. Gifts received are testaments to the high regard in which alumni, corporations, foundations, and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University's programs

and the importance of its mission. At the same time, economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving. Our component units have also continued their level of support in the face of the current economic environment.



Enrollment and Statistics*

Headcount enrollment at the University reached 34,852 in Fall 2013, a significant increase of 1,250, while Full-time equivalent ("FTE") enrollment totaled 32,265, an increase of 968. The chart below displays counts taken for each fall semester; the last of which (2013), demonstrates enrollment figures occurring for the fall semester of the 2014 fiscal year.



The University of Alabama Statistical Highlights Fall Semester

Fall Headcount Enrollment	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Undergraduate	29,443	28,026	26,234	24,884	23,702	22,343	21,082	19,474	17,553	16,571
Graduate	4,851	4,994	4,913	4,726	4,473	3,978	3,851	3,781	3,687	3,756
Professional	558	582	600	622	632	731	647	623	595	642
Total Fall Enrollment	34,852	33,602	31,747	30,232	28,807	27,052	25,580	23,878	21,835	20,969

Fall First-Time Freshman Admissions	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Applications	30,975	26,409	22,136	20,112	19,518	18,500	14,313	12,513	10,707	9,106
Admits	17,515	14,019	9,636	10,790	11,194	11,172	9,140	8,766	7,755	7,021
Enrolled	6,478	6,397	5,772	5,519	5,116	5,116	4,538	4,378	3,735	3,368
Percent Admitted	56.5%	53.1%	43.5%	53.7%	57.4%	60.4%	63.9%	70.1%	72.4%	77.1%
Percent Enrolled	37.0%	45.6%	59.9%	51.2%	45.7%	45.8%	49.6%	49.9%	48.2%	48.0%

Degrees Conferred Academic Years Ending May	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Baccalaureate	5,408	5,000	4,482	4,463	4,284	3,713	3,398	3,131	2,815	2,931
Master's	1,645	1,659	1,571	1,513	1,287	1,265	1,237	1,183	1,151	1,283
Juris Doctor	172	168	175	159	171	172	154	152	172	183
Educational Specialist	28	38	53	44	52	51	83	62	50	107
Doctoral	329	325	252	242	209	192	191	160	181	154
Total Degrees Conferred	7,582	7,190	6,533	6,421	6,003	5,393	5,063	4,688	4,369	4,658

Academic Years Ending May	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05
Undergraduate and Graduate Tuition										
Tuition Per Full-Time In-State Student	\$9,450	\$9,200	\$8,600	\$7,900	\$7,000	\$6,400	\$5,700	\$5,278	\$4,864	\$4,630
Percent Increase Over Prior Year	2.7%	7.0%	8.9%	12.9%	9.4%	12.3%	8.0%	8.5%	5.1%	12.0%
Tuition Per Full-Time Out-of-State Student	\$23,950	\$22,950	\$21,900	\$20,500	\$19,200	\$18,000	\$16,518	\$15,294	\$13,516	\$12,664
Percent Increase Over Prior Year	4.4%	4.8%	6.8%	6.8%	6.7%	9.0%	8.0%	13.1%	6.7%	12.1%
Law School Tuition										
Tuition Per Full-Time In-State Student	\$20,770	\$19,660	\$18,030	\$15,760	\$14,450	\$12,564	\$11,190	\$9,736	\$8,660	\$8,130
Percent Increase Over Prior Year	5.6%	9.0%	14.4%	9.1%	15.0%	12.3%	14.9%	12.4%	6.5%	12.1%
Tuition Per Full-Time Out-of-State Student	\$34,840	\$32,920	\$30,950	\$28,070	\$26,560	\$24,158	\$22,170	\$19,902	\$18,028	\$16,802
Percent Increase Over Prior Year	5.8%	6.4%	10.3%	5.7%	9.9%	9.0%	11.4%	10.4%	7.3%	12.1%

*Data provided by the Office of Institutional Research and Assessment

The University of Alabama
Statements of Net Position
September 30, 2014 and 2013

	2014	2013
Current assets		
Unrestricted cash and cash equivalents	\$ 118,389,672	\$ 95,442,097
Restricted cash and cash equivalents	2,709,928	10,185,725
Short-term investments	214,516,288	224,328,503
Accounts receivable, net	102,155,637	94,558,012
Current portion of notes receivable, net	2,752,636	4,277,022
Current portion of student loans receivable	1,956,516	1,899,015
Current portion of pledges receivable	10,535,857	9,798,492
Inventories	7,623,215	6,318,476
Prepaid expenses and unearned scholarships	72,749,393	64,139,151
Other current assets	1,358,644	1,375,388
Total current assets	<u>534,747,786</u>	<u>512,321,881</u>
Noncurrent assets		
Restricted cash and cash equivalents	5,277,770	23,921,067
Endowment and life income investments	667,980,131	617,611,309
Investments for capital activities	320,393,929	240,718,002
Other long-term investments	166,759,779	169,636,373
Notes receivable, net	111,282,107	74,198,637
Student loans receivable, net	9,053,703	8,983,590
Pledges receivable, net	15,773,444	13,851,323
Capital assets, net	1,655,111,628	1,539,631,730
Other noncurrent assets	8,935,917	9,132,603
Total noncurrent assets	<u>2,960,568,408</u>	<u>2,697,684,634</u>
Total assets	<u>3,495,316,194</u>	<u>3,210,006,515</u>
 Deferred outflows of resources	 <u>15,285,207</u>	 <u>13,283,391</u>
Total assets and deferred outflows of resources	<u>\$ 3,510,601,401</u>	<u>\$ 3,223,289,906</u>
 Liabilities and net position		
Current liabilities		
Accounts payable and accrued liabilities	\$ 134,590,998	\$ 135,967,883
Current portion of unearned revenue	240,432,573	222,758,317
Deposits	30,295,768	43,473,241
Current portion of long-term debt	22,047,751	22,042,947
Total current liabilities	<u>427,367,090</u>	<u>424,242,388</u>
Noncurrent liabilities		
Federal refundable loans	8,019,604	8,036,873
Other liabilities	5,604,264	5,270,702
Unearned revenue	9,384,375	8,382,716
Long-term debt, net	928,084,715	798,426,049
Total noncurrent liabilities	<u>951,092,958</u>	<u>820,116,340</u>
Total liabilities	<u>1,378,460,048</u>	<u>1,244,358,728</u>
Net position		
Net investment in capital assets	862,965,092	817,415,403
Restricted		
Nonexpendable	368,301,686	352,224,161
Expendable	344,919,026	330,619,227
Unrestricted	555,955,549	478,672,387
Total net position	<u>2,132,141,353</u>	<u>1,978,931,178</u>
Total liabilities and net position	<u>\$ 3,510,601,401</u>	<u>\$ 3,223,289,906</u>

See accompanying notes to financial statements.

The University of Alabama
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended September 30, 2014 and 2013

	2014	2013
Operating revenues		
Tuition and fees	\$ 572,020,518	\$ 514,370,549
Less: scholarship allowances	(152,538,453)	(127,427,695)
Tuition and fees, net	419,482,065	386,942,854
Federal grants and contracts	39,215,448	42,272,418
State grants and contracts	26,112,621	26,094,705
Local grants and contracts	957,654	536,475
Private grants and contracts	6,664,248	3,787,035
Sales and services of educational activities	11,299,340	12,986,742
Auxiliary sales & services, net of \$10,692,070 in 2014 and \$10,682,902 in 2013 of scholarship allowances	148,640,394	144,765,209
Other operating revenues	61,166,131	42,516,071
Total operating revenues	<u>713,537,901</u>	<u>659,901,509</u>
Operating expenses		
Salaries, wages and benefits	543,326,645	510,176,635
Scholarships and fellowships	21,221,373	20,647,980
Supplies and other services	215,442,218	220,120,548
Depreciation	54,805,154	49,723,157
Total operating expenses	<u>834,795,390</u>	<u>800,668,320</u>
Operating loss	<u>(121,257,489)</u>	<u>(140,766,811)</u>
Nonoperating revenues (expenses)		
State educational appropriations	144,234,844	140,699,910
Gifts	56,587,991	45,366,130
Grants	31,769,026	30,805,700
Investment income, net	57,911,278	64,135,946
Interest expense	(35,996,803)	(34,936,244)
Other nonoperating expenses, net	(837,766)	(2,079,700)
Net nonoperating revenues	<u>253,668,570</u>	<u>243,991,742</u>
Income before other changes in net position	<u>132,411,081</u>	<u>103,224,931</u>
Other changes in net position		
State capital appropriations	203,976	769,264
Capital gifts and grants	5,305,187	15,911,727
Additions to permanent endowments	14,385,976	16,999,033
Intragovernmental transfers	903,955	(3,674,528)
Increase in net position	<u>153,210,175</u>	<u>133,230,427</u>
Net position, beginning of year	<u>1,978,931,178</u>	<u>1,845,700,751</u>
Net position, end of year	<u><u>\$ 2,132,141,353</u></u>	<u><u>\$ 1,978,931,178</u></u>

See accompanying notes to financial statements.

The University of Alabama
Statements of Cash Flows
For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Student tuition and fees, net	\$ 428,481,571	\$ 401,399,601
Grants and contracts	75,115,347	70,549,185
Sales and services of educational activities	11,050,534	3,004,313
Other receipts	56,658,798	43,404,282
Auxiliary enterprises	151,985,395	149,125,306
Payments to suppliers	(216,196,026)	(207,871,613)
Payments to employees	(539,102,793)	(506,801,984)
Payments for scholarships and fellowships	(27,630,998)	(28,432,488)
Student loan (disbursements) receipts	(127,614)	83,465
Net cash used in operating activities	<u>(59,765,786)</u>	<u>(75,539,933)</u>
Cash flows from noncapital financing activities		
State educational appropriations	144,234,844	140,699,910
Private gifts	68,314,481	70,617,173
Grants	31,769,026	30,805,700
Student direct lending receipts	175,114,308	171,040,230
Student direct lending disbursements	(176,459,521)	(171,033,955)
Deposits from (to) affiliates	1,345,213	(6,275)
Other disbursements	(13,113,107)	(22,069,310)
Intragovernmental transfers	(1,149,094)	951,315
Net cash provided by noncapital financing activities	<u>230,056,150</u>	<u>221,004,788</u>
Cash flows from capital and related financing activities		
Proceeds from issuance of notes and bonds payable	258,496,253	302,688,585
Capital gifts, grants and contracts	2,124,511	15,194,195
Purchases of capital assets	(171,557,155)	(194,492,301)
Principal payments on capital debt	(19,314,497)	(18,051,650)
Defeasance of debt	(111,635,416)	(149,612,576)
Interest payments on capital debt	(36,213,445)	(35,022,482)
Intragovernmental transfers	2,053,050	(4,625,843)
Net cash used in capital and related financing activities	<u>(76,046,699)</u>	<u>(83,922,072)</u>
Cash flows from investing activities		
Interest and dividends on investments	40,859,528	41,760,631
Purchases of investments	(236,428,925)	(346,972,303)
Proceeds from sales and maturities of investments	132,669,026	322,383,534
Payments received on notes receivable	6,797,201	7,831,855
Disbursements from issuance of notes receivable	(41,312,014)	(20,203,042)
Net cash (used in) provided by investing activities	<u>(97,415,184)</u>	<u>4,800,675</u>
Net (decrease) increase in cash and cash equivalents	<u>(3,171,519)</u>	<u>66,343,458</u>
Cash and cash equivalents, beginning of year	129,548,889	63,205,431
Cash and cash equivalents, end of year	<u>\$ 126,377,370</u>	<u>\$ 129,548,889</u>

See accompanying notes to financial statements.

	2014	2013
Reconciliation of cash and cash equivalents to the statement of net position		
Unrestricted cash and cash equivalents-current	\$ 118,389,672	\$ 95,442,097
Restricted cash and cash equivalents-current and noncurrent	7,987,698	34,106,792
Total cash and cash equivalents	<u>\$ 126,377,370</u>	<u>\$ 129,548,889</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (121,257,489)	\$ (140,766,811)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	54,805,154	49,723,157
Bad debt expense	1,314,252	1,600,870
Changes in assets and liabilities		
Accounts and other receivables	(9,075,748)	(6,227,769)
Inventories and other assets	(8,819,778)	(7,148,219)
Accounts payable and accrued liabilities	4,591,908	14,584,443
Unearned revenue	18,675,915	12,694,396
Net cash used in operating activities	<u>\$ (59,765,786)</u>	<u>\$ (75,539,933)</u>
Supplemental noncash activities information		
Gift of capital assets	\$ 3,180,676	\$ 717,533
Assets acquired with a liability	\$ 23,470,696	\$ 28,210,682
Loss on the disposal of capital assets	\$ (933,836)	\$ (291,945)
Capital appropriations	\$ 203,976	\$ 769,264

See accompanying notes to financial statements.



The University of Alabama
Discretely Presented Component Units
Statements of Net Position
2014 and 2013

	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 2,775,270	\$ 2,241,811
Restricted cash and cash equivalents	10,659,350	9,710,324
Short-term investments	30,196,282	27,848,047
Accounts receivable, net	1,864,781	1,657,755
Current portion of notes receivable, net	967,054	923,012
Current portion of pledges receivable, net	226,224	265,990
Inventories	526,001	484,971
Prepaid expenses and unearned scholarships	140,403	93,700
Other current assets	829,725	827,908
Due from The University of Alabama	323,093	207,802
Total current assets	<u>48,508,183</u>	<u>44,261,320</u>
Noncurrent assets		
Restricted cash and cash equivalents	8,057,200	8,057,200
Endowment investments	81,390,239	72,661,844
Other long-term investments	15,886,844	15,359,632
Pledges receivable, net	179,446	323,621
Capital assets, net	80,170,229	82,493,279
Other noncurrent assets	65,297	65,297
Total noncurrent assets	<u>185,749,255</u>	<u>178,960,873</u>
Total assets	<u>\$ 234,257,438</u>	<u>\$ 223,222,193</u>
Liabilities and net position		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,054,996	\$ 3,570,544
Unearned revenue	4,226,857	4,475,263
Current portion of long-term debt	1,720,000	3,994,897
Due to The University of Alabama	856,831	1,100,233
Total current liabilities	<u>10,858,684</u>	<u>13,140,937</u>
Noncurrent liabilities		
Other liabilities	4,839,689	4,811,316
Long-term debt, net	90,310,022	91,866,865
Due to The University of Alabama	8,934,839	8,729,217
Total noncurrent liabilities	<u>104,084,550</u>	<u>105,407,398</u>
Total liabilities	<u>114,943,234</u>	<u>118,548,335</u>
Net position		
Net investment in capital assets	(54,679)	(1,400,446)
Restricted		
Nonexpendable	47,199,014	45,114,942
Expendable	30,751,591	26,400,080
Unrestricted	41,418,278	34,559,282
Total net position	<u>119,314,204</u>	<u>104,673,858</u>
Total liabilities and net position	<u>\$ 234,257,438</u>	<u>\$ 223,222,193</u>

See accompanying notes to financial statements.

The University of Alabama
Discretely Presented Component Units
Statements of Revenues, Expenses and Changes in Net Position
2014 and 2013

	2014	2013
Operating revenues		
Gifts	\$ 9,070,018	\$ 9,834,744
Other operating revenues	34,008,778	31,726,597
Total operating revenues	<u>43,078,796</u>	<u>41,561,341</u>
Operating expenses		
Salaries, wages and benefits	9,817,382	8,009,465
Scholarships and fellowships	3,494,312	3,186,438
Supplies and services	8,399,273	9,070,728
Depreciation	2,349,455	2,351,688
Total operating expenses	<u>24,060,422</u>	<u>22,618,319</u>
Operating income	<u>19,018,374</u>	<u>18,943,022</u>
Nonoperating revenues (expenses)		
Investment income	10,763,999	6,740,901
Interest expense	(6,330,089)	(6,528,774)
Contributions to The University of Alabama	(8,130,439)	(6,815,819)
Change in value of split-interest agreements	(681,499)	(626,079)
Net nonoperating expenses	<u>(4,378,028)</u>	<u>(7,229,771)</u>
Income before other changes in net position	14,640,346	11,713,251
Other changes in net position		
Intragovernmental transfers	-	-
Increase in net position	<u>14,640,346</u>	<u>11,713,251</u>
Net position, beginning of year	104,673,858	92,960,607
Net position, end of year	<u>\$ 119,314,204</u>	<u>\$ 104,673,858</u>

See accompanying notes to financial statements.

The University of Alabama
Notes to Financial Statements
Years Ended September 30, 2014 and 2013

Note 1 – Summary of Significant Accounting Policies

The University of Alabama (the “University”), in Tuscaloosa, Alabama is one of three campuses of The University of Alabama System (the “System”) which is a component unit of the State of Alabama. These financial statements include individual schools, colleges and departments, and certain affiliated operations determined to be a part of the University’s financial reporting entity. The financial statements of the University are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business-type activities that are attributable to the transactions of the University. The System is recognized as an organization exempt from Federal Income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code.

The University, as a public institution, prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (“GASB”).

GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* establish standards for external financial reporting for public colleges and universities and require that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net Investment in Capital Assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:

Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the corpus of the University’s permanent endowment funds.

Expendable – Net position, which when used by the University, is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire with the passage of time.

- Unrestricted: Net position which is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management. Substantially all unrestricted net position is internally designated for academic, research, public service and capital programs.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University’s policy for defining operating activities as reported on the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. As discussed further below, certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including State educational appropriations, private gifts, certain grants, and investment income.

Auxiliary enterprise revenues primarily represent revenues generated by university housing, Intercollegiate Athletics, and the University Supply Store. Revenues received for capital activities are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying statements of revenues, expenses, and changes in net position.

All internal sales between University departments from sales and service units (fleet services, postal services, telecommunications, etc.) have been eliminated in the accompanying financial statements.

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 dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The estimates susceptible to changes include those used in determining the allowance for uncollectible accounts, useful lives of capital assets, the valuation of investments (including endowed real estate), reserves for self insurance, and reserves for general and professional liability claims. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate.

Other significant accounting policies of the University are as follows:

Cash and Cash Equivalents: For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, including restricted cash and cash equivalents. Cash equivalents representing assets of the University's endowment, life income, investments for capital activities (including unspent bond proceeds) and other long-term investments are included in the noncurrent investments category.

Investments: The University's investments are primarily reported at fair value. The majority of the University's investment portfolio is invested in separate investment pools sponsored by the System. Fair value for the investment pools is provided by the System, based on the fair value of the underlying investment securities held by each investment pool. Fair value of the underlying securities held in each investment pool is based on quoted market prices or dealer quotes, where available, or determined using net asset values provided by underlying investment partnerships or companies, which primarily invest in readily marketable securities. Certain real estate and non-readily marketable securities held in the System-sponsored Endowment Fund and Prime Fund are carried at cost, unless impaired. Fair value for equity securities, debt securities, mutual funds and U.S. government and agency obligations held by the University is determined from quoted market prices or market prices of similar instruments. Real estate held as endowment investments is reported at fair value. Investments received by gift are reported at

fair value at date of receipt. Net investment income, including realized and unrealized gains and losses, is reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net position.

Investments are reported in four categories in the statement of net position. Investments recorded as endowment and life income are those invested funds that cannot be used to fund current operations and thus are included in noncurrent assets. Investments held for future capital projects are included in noncurrent assets, except for amounts included in current assets to offset current construction-related payables. Other long-term investments are those invested funds with maturities greater than one year or are considered by management to be of a long duration that are not an investment of the endowment and life income fund or the plant fund. All other investments are included as short-term investments.

Loans Receivable: Loans receivable represent all amounts owed on promissory notes from debtors including campus-based and federal student loans.

Inventories: Inventories are carried at the lower of cost or market and consist primarily of the University Supply Store inventory.

Accounts and Notes Receivable: Accounts receivable consist primarily of tuition charged to students and amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's contracts and grants. Accounts receivable are recorded net of estimated uncollectible amounts. The University has certain notes receivable, principally from campus Greek organizations, for construction.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at date of donation in the case of gifts, less accumulated depreciation. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Training

costs and data conversion costs are expensed as incurred.

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are capitalized and depreciated. Interest costs for certain qualifying assets acquired with the proceeds of tax-exempt borrowings are capitalized as an asset and amortized over 30 years.

Depreciation of buildings and building improvements and infrastructure (20-50 years), land improvements (5-20 years), library collection (10 years), and inventoried equipment (5-15 years) is computed on a straight-line basis.

Pledges: The University receives pledges and bequests of financial support. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Pledges are recorded at their gross, undiscounted amount, net of a reasonable provision for doubtful accounts. Endowment pledges do not meet eligibility requirements and are not recorded as assets until the related gift is received. Due to uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. The University's trust policies do not differ in nature from endowment policies.

Charitable Remainder Trusts: The University is the beneficiary of various charitable remainder trust funds administered by unaffiliated organizations. Under the terms of the agreements, the University has the irrevocable right to receive the remaining assets of the trusts upon the death of a specified beneficiary or beneficiaries in exchange for a stipulated amount to be paid periodically to the donor or their designee until the death of the beneficiary. Following the death of the beneficiary, the remainder is transferred to the University as either unrestricted or restricted funds depending on donor-imposed purpose restrictions. The assets received at the inception of a charitable remainder trust agreement are recorded at fair value at the date of gift. The fair value of charitable remainder trust assets is approximately \$6.8 million and \$6.7 million at September 30, 2014 and 2013, respectively. Any change in value related to these trusts is recorded as investment income in the statements of revenues, expenses and changes in net position.

The liability associated with these agreements is recorded at the present value based on IRS mortality tables and prevailing interest rates. The liability is reduced for distributions made to the beneficiaries and is adjusted annually for revaluations of expected future payments to the beneficiaries based on changes in life expectancy. The present value of the liability associated with these agreements is approximately \$4.5 million and \$4.3 million at September 30, 2014 and 2013, respectively.

Beneficial Interest in Perpetual Trusts: Perpetual trusts are trusts under which the University will receive income distributions in perpetuity, but will never receive the corpus of the trust assets (principal). Income received from perpetual trusts is recognized as unrestricted or restricted expendable investment income depending on donor restrictions.

Endowment Spending: The State Legislature adopted the Alabama Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), effective January 1, 2009, which permits The Board of Trustees of the University of Alabama (the "Board") to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. UPMIFA also prescribes the guidelines for the expenditure of donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. UPMIFA focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA includes a robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The University's policy is to retain the endowment realized and unrealized appreciation with the endowment after the spending rate distributions in a manner consistent with the standards of prudence prescribed by UPMIFA. The Board approved a spending rate for the fiscal years ending September 30, 2014 and 2013 of 5.0%, which is based on a moving three-year average of the market (unit) value.

Prepaid Expenses and Unearned Scholarships: Prepaid expenses are composed predominantly of financial obligations for food services and prepaid postage. Unearned scholarship expense results from the Fall academic term spanning across the fiscal year-end. The University prorates scholarship expense to recognize only the amounts incurred in each fiscal year.

Unearned Revenues: Unearned revenues consist primarily of tuition, which is subject also to a prorated adjustment so noted in the aforementioned paragraph. Intercollegiate Athletics ticket revenue related to future fiscal years is also a component of unearned revenue.

Federal Refundable Loans: Certain loans to students are administered by the University with funding primarily supported by the federal government. The University's statement of net position includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions and related activity owed upon termination of the program.

Compensated Absences: The University accrues liabilities for employees' annual and sick leave balances. The accrual rates are formulated calculations based on length of service, job classification, and hours worked. Adjustments to the accrual are recorded annually.

Deferred Outflows of Resources: Deferred outflows of resources consist of bond deferred refunding amounts.

Scholarship Allowances and Student Aid: Student tuition and fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarships and fellowships expense.

Grant and Contract Revenue: The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue associated with sponsored programs in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on the terms of the individual grant or contract. Pell grants are recorded as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position.

Nonoperating Revenues (Expenses): Nonoperating revenues and expenses include State educational appropriations, private gifts for other than capital purposes, federal Pell grants, investment income, net of unrealized appreciation or depreciation in the fair value of investments and interest expense.

Note 2 – Component Units

Scope of Statements – GASB Statement No. 14, *The Financial Reporting Entity*, as amended, requires governmental entities to include in their financial statements as a component unit, organizations that are legally separate entities for which the governmental entity, as a primary organization, is financially accountable.

The Crimson Tide Foundation ("CTF"), chartered on October 1, 2004 with a fiscal year end of June 30, is presented as a blended component unit within the University's financial statements. CTF is a nonprofit corporation organized exclusively to promote and encourage a continuing interest in and loyalty to the Intercollegiate Athletics program at the University; to promote, encourage and support the construction, improvement and renovation of athletic facilities; to encourage alumni and friends of the University to generously support the University and its Athletics Department by gifts, devises and bequests; to support, promote and encourage the education of University students; and to conduct any and all appropriate activities, in accordance with National Collegiate Athletic Association and Southeastern Conference policies on institutional control, in order to accomplish the above objectives and purposes.

CTF is included in the University's financial statements as a blended component unit because the Foundation operates as an extension of the Intercollegiate Athletic Department and it almost exclusively benefits the University. Gift revenue, which is presented as operating revenue for CTF on its statement of revenue, expenses, and changes in net position, is presented as nonoperating revenues when blended with the University's statements. CTF financial information for the years ended June 30, 2014 and 2013 is included in the University's financial statements and presented as follows:

The Crimson Tide Foundation
Statements of Net Position
June 30, 2014 and 2013

Assets	2014	2013
Current assets		
Cash and cash equivalents	\$ 147,949	\$ 18,400
Short-term investments	57,971,350	45,856,222
Pledges receivable, net	4,958,672	5,453,474
Other receivables	6,017,517	4,291,253
Total current assets	<u>69,095,488</u>	<u>55,619,349</u>
Noncurrent assets		
Restricted cash and cash equivalents	89,273	279,095
Endowment investments	18,693,950	13,465,613
Pledges receivable, net	8,590,866	8,908,957
Other long-term investments	54,208,219	48,859,798
Capital assets, net	4,975,345	5,314,066
Total noncurrent assets	<u>86,557,653</u>	<u>76,827,529</u>
Total assets	<u>\$ 155,653,141</u>	<u>\$ 132,446,878</u>
Liabilities and net position		
Current liabilities		
Accounts payable	\$ 179,097	\$ 811,447
Unearned revenue	8,541,895	8,453,219
Note payable, current portion	598,670	615,237
Other current liabilities	2,378,679	1,395,537
Total current liabilities	<u>11,698,341</u>	<u>11,275,440</u>
Noncurrent liabilities		
Note payable, long-term portion	-	598,670
Total noncurrent liabilities	<u>-</u>	<u>598,670</u>
Total liabilities	<u>11,698,341</u>	<u>11,874,110</u>
Net position		
Net investment in capital assets	4,376,675	4,100,159
Restricted		
Nonexpendable	16,742,253	12,765,936
Expendable	18,076,338	16,801,774
Unrestricted	104,759,534	86,904,899
Total net position	<u>143,954,800</u>	<u>120,572,768</u>
Total liabilities and net position	<u>\$ 155,653,141</u>	<u>\$ 132,446,878</u>

The Crimson Tide Foundation
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended June 30, 2014 and 2013

	2014	2013
Operating revenues		
Private gifts	\$ 30,153,188	\$ 28,675,809
Other operating revenues	32,474,064	22,540,138
Total operating revenues	<u>62,627,252</u>	<u>51,215,947</u>
Operating expenses		
Gifts to other foundations	75,000	-
Benefits	635,103	710,134
Scholarships	769,742	350,626
Professional fees	635,249	761,738
Travel	891,290	1,334,653
Supplies	400,460	328,754
Conference and entertainment	969,872	883,364
Communication and information	166,783	94,733
Rentals	533,416	359,269
Repairs and maintenance	519,032	597,416
Depreciation	338,721	251,407
Other	182,442	412,125
Total operating expenses	<u>6,117,110</u>	<u>6,084,219</u>
Operating income	<u>56,510,142</u>	<u>45,131,728</u>
Nonoperating revenues (expenses)		
Investment income, net	9,865,754	5,123,508
Interest expense	(58,444)	(95,625)
Net nonoperating revenues	<u>9,807,310</u>	<u>5,027,883</u>
Income before other changes in net position	<u>66,317,452</u>	<u>50,159,611</u>
Other changes in net position		
Additions to permanent endowments	2,967,805	3,543,250
Intergovernmental transfers	(45,903,225)	(46,178,048)
Increase in net position	<u>23,382,032</u>	<u>7,524,813</u>
Net position, beginning of period	<u>120,572,768</u>	<u>113,047,955</u>
Net position, end of period	<u><u>\$ 143,954,800</u></u>	<u><u>\$ 120,572,768</u></u>

GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, *Determining Whether Certain Organizations are Component Units - an Amendment of GASB Statement No. 14* and No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and 34*, requires governmental entities to include in their financial statements as a component unit, organizations that are legally separate entities for which the governmental entity, as a primary organization, is financially accountable. The primary objective of these Statements is to determine whether all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. The Statements as amended provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government.

The University reports six discretely presented foundations, which have been organized exclusively for charitable, scientific and educational purposes for the benefit of certain constituents of the University. The six foundations are: The National Alumni Association of The University of Alabama, The Capstone Foundation, The 1831 Foundation, The University of Alabama Law School Foundation, The Capstone Health Services Foundation, and The Donor Advised Fund (the "Foundations"). Because of the financial benefit relationship that exists between the University and the Foundations, the Foundations are considered component units of the University and are discretely presented in the accompanying financial statements in accordance with GASB Statement No. 39. Management deems discrete presentation appropriate for the Foundations because their governing bodies are not substantially the same as the University, and the Foundations exist to benefit constituents broader than the University itself.

The Foundations are not-for-profit organizations. The National Alumni Association, The University of Alabama Law School Foundation and The Capstone Foundation report financial results under principles prescribed by the FASB. The remaining foundations mentioned in the paragraph above report financial results under principles prescribed under the GASB, similar to those as described for the University. As such, certain revenue recognition criteria and presentation features are different from

GASB revenue recognition criteria and presentation features. Certain modifications have been made to the presentation of the FASB-reporting Foundations' financial statements in the University's financial reporting entity to conform with the University's financial statement presentation. The following are certain financial statement principles and policies followed by the FASB-reporting discretely presented component units:

Basis of Accounting - FASB-Reporting Discretely Presented Component Units – The financial statements of the Foundations have been prepared on the accrual basis.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the FASB-reporting Foundations and changes therein are classified and reported as follows in their separately issued financial statements:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include unrestricted gifts and earnings on these unrestricted gifts.

Temporarily Restricted – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Foundations or the passage of time. Items that affect this net asset category include restricted gifts and earnings on endowment funds expendable for purposes stipulated by the donor. These amounts are reclassified to unrestricted net assets when such purpose or time restrictions are met.

Permanently Restricted – Net assets subject to donor-imposed restrictions to be maintained permanently by the Foundations. Items that affect this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and only the income be made available for expenditure.

Unrealized and realized gains and losses and dividends and interest from investing in income-producing assets may be included in any of these net asset classifications depending on donor restrictions or the absence thereof.

Investments - Discretely Presented Component Units - The FASB-reporting Foundations' investments in debt securities, equity securities and mutual funds with readily determinable market values are reported at their fair market values based on published market prices. Investments without readily determinable market values are reported at cost, unless impaired. These Foundations invest certain amounts in System-sponsored investment pools, the Endowment Fund and Intermediate Fund (Note 4). The value of the Foundations' beneficial interests in the pools is determined by the System and based on the Foundations' proportionate shares of the net asset value of the pools. The pools invest in various investment securities, including both marketable and non-readily marketable securities.

Investments received by gift are stated at fair value at date of receipt. Changes in market values are reported as unrealized gains or losses on the statement of activities and changes in net assets. All interest income and realized and unrealized gains and losses are reported in the statement of revenues, expenses and changes in net position.

Endowments - Discretely Presented Component Units - As discussed in Note 1, the Alabama Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was enacted by the Alabama State Legislature and signed into law effective January 1, 2009. Endowment earnings and distributions are appropriated for expenditure by the governing Boards of Directors of the Foundations in a manner consistent with the standard of prudence prescribed by UPMIFA. In order to conform to the standards for prudent fiduciary management of investments, each Foundation's Board of Directors has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets.

Contributions Receivable - Discretely Presented Component Units - Contributions received, including unconditional promises to give, are recognized as revenues at their fair values in the period received. For financial reporting purposes, the FASB-reporting Foundations distinguish between contributions of unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Contributions for which donors have imposed restrictions which limit the use of the donated assets are reported as restricted support if the restrictions are not met in the

same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions when the purpose or time restrictions are met. Contributions of assets that donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted assets. Contributions for which donors have not stipulated restrictions are reported as unrestricted support.

Unconditional promises to give with payments due in future periods are reported as restricted support. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation, the Foundations report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

The University of Alabama
Discretely Presented Component Units
Statements of Net Position
2014

	National Alumni Association June 30, 2014	Law School Foundation June 30, 2014	Donor Advised Fund June 30, 2014
ASSETS			
Current assets			
Cash and cash equivalents	\$ 282,766	\$ 226,970	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	5,384,447	958,632	935,388
Accounts receivable, net	-	-	-
Current portion of notes receivable, net	-	2,000	-
Current portion of pledges receivable	-	170,626	-
Inventories	134,486	-	-
Prepaid expenses and unearned scholarships	-	-	-
Other current assets	449,155	268,719	4,948
Due from The University of Alabama	47,205	42,549	-
Total current assets	<u>6,298,059</u>	<u>1,669,496</u>	<u>940,336</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	-	-
Endowment investments	39,587,187	30,615,167	-
Other long-term investments	3,602,737	73,750	2,582,664
Pledges receivable, net	-	91,157	-
Capital assets, net	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	<u>43,189,924</u>	<u>30,780,074</u>	<u>2,582,664</u>
Total assets	<u>\$ 49,487,983</u>	<u>\$ 32,449,570</u>	<u>\$ 3,523,000</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued liabilities	\$ 127,227	\$ 876	\$ -
Unearned revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	-	-	-
Total current liabilities	<u>127,227</u>	<u>876</u>	<u>-</u>
Noncurrent liabilities			
Other liabilities	-	-	-
Long-term debt, net	-	-	-
Due to The University of Alabama	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>127,227</u>	<u>876</u>	<u>-</u>
Net Position			
Net investment in capital assets	-	-	-
Restricted			
Nonexpendable	24,246,761	22,934,252	-
Expendable	7,432,524	7,140,066	3,475,421
Unrestricted	17,681,471	2,374,376	47,579
Total net position	<u>49,360,756</u>	<u>32,448,694</u>	<u>3,523,000</u>
Total liabilities and net position	<u>\$ 49,487,983</u>	<u>\$ 32,449,570</u>	<u>\$ 3,523,000</u>

The University of Alabama
Discretely Presented Component Units
Statements of Net Position, Continued
2014

	Capstone Foundation Sept. 30, 2014	1831 Foundation Sept. 30, 2014	Capstone Health Services Foundation Sept. 30, 2014
ASSETS			
Current assets			
Cash and cash equivalents	\$ 23,654	\$ 763,813	\$ 1,478,067
Restricted cash and cash equivalents	-	10,659,350	-
Short-term investments	4,155,776	5,073,394	13,688,645
Accounts receivable, net	123,659	-	1,741,122
Current portion of notes receivable, net	-	-	965,054
Current portion of pledges receivable	55,598	-	-
Inventories	72,115	-	319,400
Prepaid expenses and unearned scholarships	140,403	-	-
Other current assets	96,400	10,503	-
Due from The University of Alabama	-	-	233,339
Total current assets	<u>4,667,605</u>	<u>16,507,060</u>	<u>18,425,627</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	8,057,200	-
Endowment investments	11,187,885	-	-
Other long-term investments	8,401,493	1,226,200	-
Pledges receivable, net	88,289	-	-
Capital assets, net	138,711	79,999,655	31,863
Other noncurrent assets	-	-	65,297
Total noncurrent assets	<u>19,816,378</u>	<u>89,283,055</u>	<u>97,160</u>
Total assets	<u>\$ 24,483,983</u>	<u>\$ 105,790,115</u>	<u>\$ 18,522,787</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued liabilities	\$ 85,146	\$ 1,554,579	\$ 2,287,168
Unearned revenue	-	4,226,857	-
Current portion of long-term debt	-	1,720,000	-
Due to The University of Alabama	294,042	562,789	-
Total current liabilities	<u>379,188</u>	<u>8,064,225</u>	<u>2,287,168</u>
Noncurrent liabilities			
Other liabilities	4,839,689	-	-
Long-term debt, net	-	90,310,022	-
Due to The University of Alabama	8,934,839	-	-
Total noncurrent liabilities	<u>13,774,528</u>	<u>90,310,022</u>	<u>-</u>
Total liabilities	<u>14,153,716</u>	<u>98,374,247</u>	<u>2,287,168</u>
Net Position			
Net investment in capital assets	-	(86,542)	31,863
Restricted			
Nonexpendable	18,001	-	-
Expendable	9,462,680	3,240,900	-
Unrestricted	849,586	4,261,510	16,203,756
Total net position	<u>10,330,267</u>	<u>7,415,868</u>	<u>16,235,619</u>
Total liabilities and net position	<u>\$ 24,483,983</u>	<u>\$ 105,790,115</u>	<u>\$ 18,522,787</u>

The University of Alabama
Discretely Presented Component Units
Statements of Net Position
2013

	National Alumni Association June 30, 2013	Law School Foundation June 30, 2013	Donor Advised Fund June 30, 2013
ASSETS			
Current assets			
Cash and cash equivalents	\$ 104,064	\$ 227,508	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	5,149,198	1,762,785	952,605
Accounts receivable, net	-	-	-
Current portion of notes receivable, net	-	-	-
Current portion of pledges receivable	-	214,520	-
Inventories	128,533	-	-
Prepaid expenses and unearned scholarships	-	-	-
Other current assets	440,306	279,304	6,132
Due from The University of Alabama	-	-	-
Total current assets	<u>5,822,101</u>	<u>2,484,117</u>	<u>958,737</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	-	-
Endowment investments	34,966,808	26,764,625	-
Other long-term investments	3,043,399	111,249	2,713,734
Pledges receivable, net	-	218,969	-
Capital assets, net	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	<u>38,010,207</u>	<u>27,094,843</u>	<u>2,713,734</u>
Total assets	<u>\$ 43,832,308</u>	<u>\$ 29,578,960</u>	<u>\$ 3,672,471</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued liabilities	\$ 87,146	\$ 55,577	\$ -
Unearned revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	113,706	523,502	-
Total current liabilities	<u>200,852</u>	<u>579,079</u>	<u>-</u>
Noncurrent liabilities			
Other liabilities	-	-	-
Long-term debt, net	-	-	-
Due to The University of Alabama	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>200,852</u>	<u>579,079</u>	<u>-</u>
Net Position			
Net investment in capital assets	-	-	-
Restricted			
Nonexpendable	23,548,426	21,548,545	-
Expendable	5,243,827	5,264,625	3,627,635
Unrestricted	14,839,203	2,186,711	44,836
Total net position	<u>43,631,456</u>	<u>28,999,881</u>	<u>3,672,471</u>
Total liabilities and net position	<u>\$ 43,832,308</u>	<u>\$ 29,578,960</u>	<u>\$ 3,672,471</u>

The University of Alabama
Discretely Presented Component Units
Statements of Net Position, Continued

	2013		
	Capstone Foundation Sept. 30, 2013	1831 Foundation Sept. 30, 2013	Capstone Health Services Foundation Sept. 30, 2013
ASSETS			
Current assets			
Cash and cash equivalents	\$ 152,900	\$ 813,264	\$ 944,075
Restricted cash and cash equivalents	-	9,710,324	-
Short-term investments	4,033,181	4,355,340	11,594,938
Accounts receivable, net	118,666	-	1,539,089
Current portion of notes receivable, net	-	-	923,012
Current portion of pledges receivable	51,470	-	-
Inventories	72,313	-	284,125
Prepaid expenses and unearned scholarships	93,700	-	-
Other current assets	96,400	5,766	-
Due from The University of Alabama	-	-	207,802
Total current assets	<u>4,618,630</u>	<u>14,884,694</u>	<u>15,493,041</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	8,057,200	-
Endowment investments	10,930,411	-	-
Other long-term investments	8,313,050	1,178,200	-
Pledges receivable, net	104,652	-	-
Capital assets, net	142,311	82,339,533	11,435
Other noncurrent assets	-	-	65,297
Total noncurrent assets	<u>19,490,424</u>	<u>91,574,933</u>	<u>76,732</u>
Total assets	<u>\$ 24,109,054</u>	<u>\$ 106,459,627</u>	<u>\$ 15,569,773</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued liabilities	\$ 300,601	\$ 1,717,907	\$ 1,409,313
Unearned revenue	-	4,475,263	-
Current portion of long-term debt	-	3,994,897	-
Due to The University of Alabama	57,277	405,748	-
Total current liabilities	<u>357,878</u>	<u>10,593,815</u>	<u>1,409,313</u>
Noncurrent liabilities			
Other liabilities	4,811,316	-	-
Long-term debt, net	-	91,866,865	-
Due to The University of Alabama	8,729,217	-	-
Total noncurrent liabilities	<u>13,540,533</u>	<u>91,866,865</u>	<u>-</u>
Total liabilities	<u>13,898,411</u>	<u>102,460,680</u>	<u>1,409,313</u>
Net Position			
Net investment in capital assets	-	(1,411,881)	11,435
Restricted			
Nonexpendable	17,971	-	-
Expendable	9,362,300	2,901,693	-
Unrestricted	830,372	2,509,135	14,149,025
Total net position	<u>10,210,643</u>	<u>3,998,947</u>	<u>14,160,460</u>
Total liabilities and net position	<u>\$ 24,109,054</u>	<u>\$ 106,459,627</u>	<u>\$ 15,569,773</u>

The University of Alabama
Discretely Presented Component Units
Statements of Revenues, Expenses and Changes in Net Position
Years Ended 2014

	National Alumni Association June 30, 2014	Law School Foundation June 30, 2014	Donor Advised Fund June 30, 2014
Operating revenues			
Gifts	\$ 2,998,481	\$ 1,854,068	\$ 341,817
Other operating revenues	1,305,231	38,436	-
Total operating revenues	<u>4,303,712</u>	<u>1,892,504</u>	<u>341,817</u>
Operating expenses			
Salaries, wages and benefits	-	-	-
Scholarships and fellowships	2,000,267	1,316,095	-
Supplies and other services	1,137,177	603,283	58,722
Depreciation	-	-	-
Total operating expenses	<u>3,137,444</u>	<u>1,919,378</u>	<u>58,722</u>
Operating income (loss)	<u>1,166,268</u>	<u>(26,874)</u>	<u>283,095</u>
Nonoperating revenues (expenses)			
Investment income	5,488,650	3,718,820	401,333
Interest expense	-	-	-
Contributions to The University of Alabama	(925,618)	(243,133)	(833,899)
Change in value of split-interest agreements	-	-	-
Net nonoperating revenues (expenses)	<u>4,563,032</u>	<u>3,475,687</u>	<u>(432,566)</u>
Income (loss) before other changes in net position	5,729,300	3,448,813	(149,471)
Other changes in net position			
Intragovernmental transfers	-	-	-
Increase (decrease) in net position	<u>5,729,300</u>	<u>3,448,813</u>	<u>(149,471)</u>
Net position, beginning of year	43,631,456	28,999,881	3,672,471
Net position, end of year	<u>\$ 49,360,756</u>	<u>\$ 32,448,694</u>	<u>\$ 3,523,000</u>

The University of Alabama
Discretely Presented Component Units
Statements of Revenues, Expenses and Changes in Net Position, Continued
Years Ended 2014

	Capstone Foundation Sept. 30, 2014	1831 Foundation Sept. 30, 2014	Capstone Health Services Foundation Sept. 30, 2014
Operating revenues			
Gifts	\$ 3,827,652	\$ 48,000	\$ -
Other operating revenues	282,488	15,215,478	17,167,145
Total operating revenues	<u>4,110,140</u>	<u>15,263,478</u>	<u>17,167,145</u>
Operating expenses			
Salaries, wages and benefits	-	-	9,817,382
Scholarships and fellowships	177,950	-	-
Supplies and other services	2,474,964	3,205,277	919,850
Depreciation	-	2,339,878	9,577
Total operating expenses	<u>2,652,914</u>	<u>5,545,155</u>	<u>10,746,809</u>
Operating income	<u>1,457,226</u>	<u>9,718,323</u>	<u>6,420,336</u>
Nonoperating revenues (expenses)			
Investment income	990,417	40,080	124,699
Interest expense	-	(6,330,089)	-
Contributions to The University of Alabama	(1,646,520)	(11,393)	(4,469,876)
Change in value of split-interest agreements	(681,499)	-	-
Net nonoperating revenues (expenses)	<u>(1,337,602)</u>	<u>(6,301,402)</u>	<u>(4,345,177)</u>
Income before other changes in net position	119,624	3,416,921	2,075,159
Other changes in net position			
Intragovernmental transfers	-	-	-
Increase in net position	<u>119,624</u>	<u>3,416,921</u>	<u>2,075,159</u>
Net position, beginning of year	10,210,643	3,998,947	14,160,460
Net position, end of year	<u>\$ 10,330,267</u>	<u>\$ 7,415,868</u>	<u>\$ 16,235,619</u>

The University of Alabama
Discretely Presented Component Units
Statements of Revenues, Expenses and Changes in Net Position
Years Ended 2013

	National Alumni Association June 30, 2013	Law School Foundation June 30, 2013	Donor Advised Fund June 30, 2013
Operating revenues			
Gifts	\$ 3,255,990	\$ 1,820,374	\$ 467,314
Other operating revenues	1,300,271	141,608	-
Total operating revenues	<u>4,556,261</u>	<u>1,961,982</u>	<u>467,314</u>
Operating expenses			
Salaries, wages and benefits	-	-	-
Scholarships and fellowships	1,856,352	1,168,737	-
Supplies and other services	1,155,071	593,655	62,044
Depreciation	-	-	-
Total operating expenses	<u>3,011,423</u>	<u>1,762,392</u>	<u>62,044</u>
Operating income	<u>1,544,838</u>	<u>199,590</u>	<u>405,270</u>
Nonoperating revenues (expenses)			
Investment income	3,121,490	2,145,333	292,735
Interest expense	-	-	-
Contributions to The University of Alabama	(935,779)	(643,433)	(139,000)
Change in value of split-interest agreements	-	-	-
Net nonoperating revenues (expenses)	<u>2,185,711</u>	<u>1,501,900</u>	<u>153,735</u>
Income before other changes in net position	3,730,549	1,701,490	559,005
Other changes in net position			
Intragovernmental transfers	-	-	-
Increase in net position	<u>3,730,549</u>	<u>1,701,490</u>	<u>559,005</u>
Net position, beginning of year	39,900,907	27,298,391	3,113,466
Net position, end of year	<u>\$ 43,631,456</u>	<u>\$ 28,999,881</u>	<u>\$ 3,672,471</u>

The University of Alabama
Discretely Presented Component Units
Statements of Revenues, Expenses and Changes in Net Position, Continued
Years Ended 2013

	Capstone Foundation Sept. 30, 2013	1831 Foundation Sept. 30, 2013	Capstone Health Services Foundation Sept. 30, 2013
Operating revenues			
Gifts	\$ 4,291,066	\$ -	\$ -
Other operating revenues	431,068	14,961,652	14,891,998
Total operating revenues	<u>4,722,134</u>	<u>14,961,652</u>	<u>14,891,998</u>
Operating expenses			
Salaries, wages and benefits	-	-	8,009,465
Scholarships and fellowships	161,349	-	-
Supplies and other services	2,954,292	3,142,776	1,162,890
Depreciation	-	2,339,764	11,924
Total operating expenses	<u>3,115,641</u>	<u>5,482,540</u>	<u>9,184,279</u>
Operating income	<u>1,606,493</u>	<u>9,479,112</u>	<u>5,707,719</u>
Nonoperating revenues (expenses)			
Investment income	1,166,964	2,731	11,648
Interest expense	-	(6,528,774)	-
Contributions to The University of Alabama	(1,122,405)	-	(3,975,202)
Change in value of split-interest agreements	(626,079)	-	-
Net nonoperating revenues (expenses)	<u>(581,520)</u>	<u>(6,526,043)</u>	<u>(3,963,554)</u>
Income before other changes in net position	1,024,973	2,953,069	1,744,165
Other changes in net position			
Intragovernmental transfers	-	-	-
Increase in net position	<u>1,024,973</u>	<u>2,953,069</u>	<u>1,744,165</u>
Net position, beginning of year	9,185,670	1,045,878	12,416,295
Net position, end of year	<u>\$ 10,210,643</u>	<u>\$ 3,998,947</u>	<u>\$ 14,160,460</u>

Note 3 – Cash and Cash Equivalents

The Board approves, by resolution, all banks or other financial institutions utilized as depositories for University funds. Prior to approval, each proposed depository must provide evidence of its designation by the Alabama State Treasurer as a qualified public depository under the Security of Alabama Funds Enhancement Act (“SAFE”). From time to time, the Board may request that the depository provide evidence of its continuing designation as a qualified public depository. Under the mandatory SAFE program, each qualified public depository (“QPD”) is required to hold collateral for all its public depositories on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity

should suffer a deposit 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.

The System sponsors a short-term fund, which is a short-term investment pool that allows for the System entities to invest operating cash reserves. The Short-Term Fund is invested in the Federated Treasury Obligation money market fund. As of September 30, 2014 and 2013, the University had approximately \$35 million and \$60 million, respectively, in the Short-Term Fund. The assets held in the money market fund are presented in unrestricted cash and cash equivalents.



Note 4 – Investments

The Board has the responsibility for the establishment of the investment policy and the oversight of the investments for the System and related entities. In order to facilitate System-wide investment objectives and achieve economies of scale, the Board has established four distinct investment pools based primarily on the projected investment time-horizons for System funds. These investment pools are the Endowment Fund, Prime Fund, Intermediate Fund and the Short-Term Fund (collectively, the “System Pools”). Pursuant to Board investment policies, each System or related entity may include all or a portion of their investments within the System-sponsored investment pools. These investment funds are considered “internal” investment pools under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with the assets pooled on a market value basis. Separately managed funds that reside with each entity are to be invested consistent with the asset mix of the corresponding System investment pool. The following disclosures relate to both the System Pools, which include the investments of other System entities and other affiliated entities, and the University-specific investment portfolio.

Endowment Fund

The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over a perpetual time frame. Accordingly, the primary investment objectives of the Endowment Fund are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support to the endowment beneficiaries. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocation targets are established to meet the return objectives, while providing adequate diversification in order to minimize investment volatility. As discussed in Note 1, certain investments within the Endowment Fund are valued at cost, unless impaired. The University’s portion of investments in the Endowment Fund which are measured at cost totaled approximately \$63.7 million and \$59.7 million at September 30, 2014 and 2013, respectively.

Prime Fund

The Prime Fund is a longer-term pool used as an

investment vehicle to manage operating reserves with a time horizon of seven to ten years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid and semi-liquid securities. This fund is not currently invested in long-term lockup funds with illiquid assets. As discussed in Note 1, certain investments in the Prime Fund are valued at cost, unless impaired. The University’s portion of investments which are measured at cost totaled approximately \$2.1 million and \$2.2 million at September 30, 2014 and 2013, respectively.

Intermediate Fund

The Intermediate Fund serves as an investment vehicle to manage operating reserves with a time horizon of two to six years. This fund is also used to balance the other funds when looking at the System’s entire asset allocation of operating reserves relative to its investment objectives. The Intermediate Fund has an investment objective of income with preservation of capital and is invested in intermediate term fixed income securities. System policy states that at least one of the Intermediate Fund investment managers must be a large mutual fund providing daily liquidity.

Short-Term Fund

The Short-Term Fund contains the short-term operating reserves of the various System entities. Because of the different income and disbursement requirements of each entity, consolidation of these funds reduces daily cash fluctuations and minimizes the amount of short-term cash reserves needed. Assets held in the Short-Term Fund are invested with the primary objectives of stability of principal and liquidity. Such investments are restricted to high quality, liquid, money market funds and other fixed income obligations with a maturity of one year or less. Refer to Note 3 for additional information related to the Short-Term Fund.

At the September 2014 Investment Committee meeting of The Board of Trustees of The University of Alabama, the committee approved the consolidation of three working capital pools to two and a name change for these investment pools. The Intermediate Fund will be renamed the Short Term Liquidity Pool (STLP) and the Prime Investment Fund will be renamed the Long Term Reserve Pool (LTRP). The Short Term Fund (Federated Account) will become part of the Short Term Liquidity Pool.



The name changes became effective for October 1, 2014.

Although the investment philosophy of the Board is to minimize the direct ownership of investment vehicles, with ownership preference in appropriate investment fund groups, certain direct investments are held in the name of the Board. All other investments in the Systems Pools are classified as commingled funds.

Land and Other Real Estate Held as Investments by Endowments

The University values land and other real estate held as investments by endowments at fair value.

The University holds, as part of its endowment investments, 173 tracts of timber land located in twelve counties in north Alabama totaling 28,588 acres. In the University's opinion, timber production and related commercial recreation is the highest and best

use for the 173 tracts individually and as a whole; the property is located in an area with a favorable climate for growing trees and contains good markets for forest products. Timber production is the predominant land use in the counties that contain the property. The fee simple market value of timber and land of \$55.1 million and \$56.9 million as of September 30, 2014 and 2013, respectively, was derived through the application of the cost, sales comparison, and income capitalization approaches to value. The value of minerals and mineral exploitation rights contained in fee and mineral rights only and surface mining rights only for over 38,000 acres are valued at \$11.9 million and \$17.2 million as of September 30, 2014 and 2013, respectively. The fair value of these rights were determined using non-quantitative "menus" of incremental value, enhanced values for perceived early exploitation, risk discounted cash flow, and rules-of-thumb developed over time in appraising mineral assets.

The composition of investments, by investment type, for the System Pools, at September 30, 2014 and 2013 is as follows:

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2014	2013	2014	2013	2014	2013	2014	2013
Receivables:								
Accrued Income Receivables	\$ 1,003,301	\$ 1,096,967	\$ 881,205	\$ 651,549	\$ 3,704,124	\$ 4,056,788	\$ -	\$ -
Total Receivables	1,003,301	1,096,967	881,205	651,549	3,704,124	4,056,788	-	-
Cash Equivalents:								
Certificates of Deposit	-	-	-	-	-	8,094,239	-	-
Commercial Paper	-	-	-	-	-	2,599,751	-	-
Money Market Funds	57,886,211	56,519,604	40,085,105	50,827,901	89,200,493	69,728,143	176,466,706	201,099,030
Total Cash Equivalents	57,886,211	56,519,604	40,085,105	50,827,901	89,200,493	80,422,133	176,466,706	201,099,030
Equities:								
U. S. Common Stock	91,626,275	74,460,258	64,167,500	53,886,837	-	-	-	-
U. S. Preferred Stock	1,081,641	1,238,188	970,703	1,125,625	-	-	-	-
Non-U.S. Stock	9,122,500	10,624,062	7,016,834	6,771,037	-	-	-	-
Total Equities	101,830,416	86,322,508	72,155,037	61,783,499	-	-	-	-
Fixed Income Securities:								
U.S. Government Obligations	16,426,862	21,850,510	14,060,742	11,213,984	356,983,685	317,145,893	-	-
Municipal Government Obligations	-	-	-	-	-	217,383	-	-
Mortgage Backed Securities	-	-	-	-	107,336,734	120,283,662	-	-
Collateralized Mortgage Obligations	-	-	-	-	36,037,561	50,078,274	-	-
Corporate Bonds	32,525,648	59,987,039	25,320,584	30,751,076	243,885,772	343,033,010	-	-
Non-U. S. Bonds	4,717,740	-	3,586,194	-	86,740,041	1,046,990	-	-
Total Fixed Income Securities	53,670,250	81,837,549	42,967,520	41,965,060	830,983,793	831,805,212	-	-
Commingled Funds:								
U. S. Equity Funds	70,497,226	102,773,998	90,049,678	110,668,279	-	-	-	-
Non-U. S. Equity Funds	299,154,328	280,637,986	277,766,811	259,399,547	-	-	-	-
U. S. Bond Funds	59,672,727	31,464,754	44,754,545	59,945,698	88,967,993	78,977,322	-	-
Non-U. S. Bond Funds	62,211,203	61,765,298	61,965,572	56,698,721	-	-	-	-
Hedge Funds	237,682,807	153,064,178	196,514,795	120,473,011	-	-	-	-
Private Equity Funds	67,605,100	62,791,546	-	-	-	-	-	-
Timberland Funds	-	16,960	-	-	-	-	-	-
Real Estate Funds	136,647,983	131,161,560	90,219,359	104,551,847	-	-	-	-
Total Commingled Funds	933,471,374	823,676,280	761,270,760	711,737,103	88,967,993	78,977,322	-	-
Total Fund Investments	1,146,858,252	1,048,355,941	916,478,421	866,313,563	1,009,152,280	991,204,667	176,466,706	201,099,030
Total Fund Assets	1,147,861,552	1,049,452,908	917,359,627	866,965,112	1,012,856,403	995,261,455	176,466,706	201,099,030
Total Fund Liabilities	(254,559)	(122,926)	(175,311)	(85,447)	(566,898)	(584,144)	-	-
Affiliated Entity Investments	(147,147,272)	(138,865,562)	(56,162,298)	(53,288,957)	(106,232,340)	(88,296,301)	-	-
Total Net Asset Value	\$1,000,459,721	\$ 910,464,420	\$ 861,022,018	\$ 813,590,708	\$ 906,057,165	\$906,381,010	\$ 176,466,706	\$ 201,099,030

The composition of investments, by investment type, for the University's investments, at September 30, 2014 and 2013 is as follows:

	2014	2013
Cash, Receivables and Equivalents		
Regions Trust Cash	\$ 140,072,513	\$ -
Money Market Funds	281,192	281,326
Accrued Income Receivables	37,200	40,050
Total Cash, Receivables and Equivalents	<u>140,390,905</u>	<u>321,376</u>
Equities		
U.S. Common Stock	4,752,129	4,278,119
Total Equities	<u>4,752,129</u>	<u>4,278,119</u>
Fixed Income Securities		
U.S. Government Obligations	170,322	159,477
Total Fixed Income Securities	<u>170,322</u>	<u>159,477</u>
Commingled Funds		
U.S. Equity Funds	9,209,156	104,694,558
U.S. Bond Funds	3,009,671	2,817,603
Private Equity Funds	175,938	175,938
Total Commingled Funds	<u>12,394,765</u>	<u>107,688,099</u>
Total Real Estate	<u>67,951,043</u>	<u>77,059,557</u>
System Pooled Investments		
Short-Term Fund	35,035,997	60,040,248
Endowment Fund	593,030,952	533,489,545
Prime Fund	243,611,148	232,258,446
Intermediate Fund	307,348,863	297,039,568
Total System Pooled Investments	<u>1,179,026,960</u>	<u>1,122,827,807</u>
Less Short-Term Fund Cash Equivalents	<u>(35,035,997)</u>	<u>(60,040,248)</u>
Total University Investments	<u>\$ 1,369,650,127</u>	<u>\$ 1,252,294,187</u>



Investment Risk Factors

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

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have significant credit risk.

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service ("Moody's") or Standard and Poor's ("S&P"). The lower the rating, the greater the chance—in the rating agency's opinion—that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Board policy recognizes that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark. Credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. Fixed income holdings in a single entity (excluding obligations of the U.S. government and its agencies) may not exceed 5% of a manager's portfolio measured at market value. At least 95% of these fixed income investments must be in investment grade securities (securities with ratings of BBB- or Baa3) or higher. However, multi-strategy fixed income managers may have up to 20% of their investments in non-investment grade securities. Securities of foreign entities denominated in U.S.

dollars are limited to 10% of a manager's portfolio. Securities denominated in currencies other than U.S. dollars are not permissible unless part of a multi-strategy fixed income account where the limitation is 20% of the manager's portfolio.

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Government Credit Index for U.S. investments and the Citigroup WGBI Index for international investments benchmarks for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate, mortgage backed, asset backed and U.S. treasury and/or agency bonds with a minimum BBB- rating and an average duration of four years. In addition, approximately \$1.5 million in the Endowment and Prime Funds, at September 30, 2014, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$326.6 million and \$317.2 in the Endowment and Prime Funds, at September 30, 2014 and 2013, respectively.

The Intermediate Fund is benchmarked against the 1-3 Year Barclays Government Credit Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For September 30, 2014 and 2013, approximately \$64.9 million and \$135.8 million, respectively, was invested by the Intermediate Fund in unrated fixed income securities; excluding commingled bond funds, money market funds and commercial paper. Fixed income commingled funds and commercial paper totaled approximately \$178.2 million and \$151.3 million at September 30, 2014 and 2013, respectively. For September 30, 2014 and 2013, \$0 and \$8.1 million, respectively, was invested by the Intermediate Fund in certificates of deposit.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the System campuses and hospital. The Short-Term Fund is invested in a money market fund, which in turn invests mostly in U.S. Treasury Securities and repurchase agreements that are collateralized by U.S. Treasury Securities. These funds are all commingled with funds of other investors. Refer to Note 3 for additional information related to the Short-Term Fund.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2014 and 2013 are as follows:

	2014			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Fixed or Variable Income Securities				
U.S. Government Obligations	\$ 16,426,862	\$ 14,060,742	\$ 356,983,685	\$ -
Other U.S. and Non-U.S. Denominated:				
AAA	-	-	48,981,389	-
AA	6,632,713	5,082,925	83,143,881	-
A	16,894,747	13,410,517	151,341,278	-
BBB	12,850,553	9,766,791	84,810,054	-
BB	-	-	29,352,911	-
B	-	-	8,810,464	-
C and < C	-	-	2,648,442	-
Unrated	865,375	646,545	64,911,689	-
Commingled Funds:				
U.S. Bond Funds: Unrated	59,672,727	44,754,545	88,967,993	-
Non-U.S. Bond Funds: Unrated	62,211,203	61,965,572	-	-
Money Market Funds: Unrated	57,886,211	40,085,105	89,200,493	176,466,706
Total	<u>\$ 233,440,391</u>	<u>\$ 189,772,742</u>	<u>\$ 1,009,152,279</u>	<u>\$ 176,466,706</u>
	2013			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Fixed or Variable Income Securities				
U.S. Government Obligations	\$ 21,850,510	\$ 11,213,984	\$ 317,145,893	\$ -
Municipal Government Obligations	-	-	217,383	-
Other U.S. and Non-U.S. Denominated:				
AAA	1,254,938	642,291	18,861,309	-
AA	11,441,938	5,792,481	85,433,796	-
A	27,814,947	14,242,504	182,513,978	-
BBB	19,475,216	10,073,800	78,670,892	-
BB	-	-	6,740,499	-
B	-	-	3,613,132	-
C and < C	-	-	2,818,596	-
Unrated	-	-	135,789,735	-
Commingled Funds:				
U.S. Bond Funds: Unrated	31,464,754	59,945,698	78,977,321	-
Non-U.S. Bond Funds: Unrated	61,765,298	56,698,721	-	-
Money Market Funds: Unrated	56,519,604	50,827,901	69,728,143	201,099,030
Commercial Paper: Unrated	-	-	2,599,751	-
Certificates of Deposits	-	-	8,094,239	-
Total	<u>\$ 231,587,205</u>	<u>\$ 209,437,380</u>	<u>\$ 991,204,667</u>	<u>\$ 201,099,030</u>



In accordance with the Board policy disclosed previously, credit risk for the University's fixed and variable income securities held outside of the System Pools is managed by diversifying across issuers and limiting the amount of portfolio assets that are invested in non-investment grade securities.

The credit risk for fixed and variable income securities, for the University's separately held investments, at September 30, 2014 and 2013 is as follows:

	2014	2013
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$ 170,322	\$ 159,477
Other U.S. Dollar, Money Market Funds, and Commingled Bonds		
AAA	1,199,215	1,074,529
AA	226,210	282,605
A	218,333	248,089
BBB	348,861	286,732
BB	347,703	441,773
B	332,833	400,357
Below B	38,689	19,069
Unrated	579,019	345,775
	<u>\$ 3,461,185</u>	<u>\$ 3,258,406</u>

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a corporate failure of a custodian, the investment securities may not be returned.

Investment securities in the System Pools and the University's separately held portfolio are registered in the Board's name by the custodial bank as an agent for the System. Other types of investments (e.g. open-ended mutual funds, money market funds) represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

As previously mentioned, credit risk in each investment pool and the University's separately held investment portfolio is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2014 and 2013, no investment in a single issuer represents 5% or more of total investments held by any single investment manager of the System Pools or the University's separately held investment portfolio, except

for investments issued by the U.S. government and money market fund investments held by the Short Term Fund.

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis points (1 percentage point) change in the level of interest rates. It is not a measure of time. The Board does not have a specific policy relative to interest rate risk. As such, there are no restrictions on weighted average maturity for each investment pool as they are managed relative to the investment objectives and liquidity demands of the investors.

Although the Board does not have a specific policy relative to interest rate risk, the University has historically invested funds outside of the investment pools in fixed income and variable income securities with short maturity terms.

The effective durations presented in years for fixed or variable income securities, for the System Pools, at September 30, 2014 and 2013 are as follows:

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2014	2013	2014	2013	2014	2013	2014	2013
U. S. Government Obligations	7.1	5.6	6.5	5.4	3.2	1.8	-	-
Municipal Government Oblig.	-	-	-	-	-	0.2	-	-
Corporate Bonds	3.8	4.2	3.8	4.2	1.9	1.5	-	-
Non-U. S. Bonds	-	-	-	-	1.9	1.5	-	-
Commingled Bond Funds	2.3	1.5	2.2	2.3	2.8	2.3	-	-

The effective durations for fixed or variable income securities, for the University's separately held investments, at September 30, 2014 and 2013 are as follows:

	2014	2013
U.S. Government Obligations	13.6	14.3
Commingled Bond Funds	2.7	2.8



Investments may also include mortgage pass through securities and collateralized mortgage obligations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or

conversion features. At September 30, 2014 and 2013 the fair market value of these investments, for the System Pools, are as follows:

2014					
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund	
Mortgage Backed Securities	\$ -	\$ -	\$ 107,336,734	\$ -	-
Collateralized Mortgage Obligations	-	-	36,037,561	-	-
Total Fixed	\$ -	\$ -	\$ 143,374,295	\$ -	-

2013					
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund	
Mortgage Backed Securities	\$ -	\$ -	\$ 120,283,662	\$ -	-
Collateralized Mortgage Obligations	-	-	50,078,274	-	-
Total Fixed	\$ -	\$ -	\$ 170,361,936	\$ -	-

Mortgage Backed Securities. These securities are issued by the Federal National Mortgage Association (“Fannie Mae”), Government National Mortgage Association (“Ginnie Mae”) and Federal Home Loan Mortgage Association (“Freddie Mac”) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduce the total expected rate of return.

Collateralized Mortgage Obligations. Collateralized mortgage obligations (“CMOs”) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The re-

lationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

At September 30, 2014 and 2013, the effective durations for these securities held in the System Pools are listed below. At September 30, 2014 and 2013, the University did not hold any investments in these security types outside of the System Pools.

	2014			
	Endowment Fund	Prime Fund	Intermediate Fund	Short-Term Fund
Mortgage Backed Securities	-	-	1.3	-
Collateralized Mortgage Obligations	-	-	1.0	-

	2013			
	Endowment Fund	Prime Fund	Intermediate Fund	Short-Term Fund
Mortgage Backed Securities	-	-	0.7	-
Collateralized Mortgage Obligations	-	-	1.0	-

Foreign Currency Risk

The strategic asset allocation policy for the Endowment Fund and the Prime Fund includes an allocation to non-United States equity and fixed income securities. Each international equity manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager’s portfolio, measured at market value. Currency hedging of foreign bonds and stocks is allowed under System policy. As of September 30, 2014 and 2013, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$86.7 million and \$1.0 million of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, the University did not hold any foreign securities in its separately held investment portfolio.

Securities Lending

Board policies permit security lending as a mechanism to augment income. Loans of the securities are required to be collateralized by cash, letters of credit or securities issued or guaranteed by the U.S. Government or its agencies. The collateral must equal at least 102% of the current market value of the loaned securities. Securities lending contracts must state acceptable collateral for securities loaned, duties of the borrower, delivery of loaned securities and acceptable investment of the collateral.

At September 30, 2014 and 2013, no securities were on loan from the investment pools.

Note 5 – Accounts and Notes Receivable

Accounts receivable consist of amounts for student tuition and fees, contract and grant reimbursements due from third parties, and interest due on investments.

The note receivable from The 1831 Foundation, a discretely presented component unit, represents a related party transaction to fund the construction of dormitories held by The 1831 Foundation. The note was satisfied in October 2013.

During 2014, the University entered into an intradivision loan agreement with the University of Alabama System related to the construction of Sid McDonald Hall, which houses administrative offices for System employees. The University loaned \$2.0 million to the System at no interest for a period of four years.

In 2005, the University established a program to provide financial assistance to University Student Organizations to help those organizations improve the quality and safety of the residential options those organizations provide to our students. This program has supported the construction of several new Student Organization facilities and renovations and additions to many others. As a result, the University has entered into notes receivables transactions with various student organizations. Notes receivable from student organizations bear interest rates ranging from 0% to 5.73% with terms up to 40 years.

The composition of accounts receivable and notes receivable at September 30, 2014 and 2013 is summarized as follows:

	2014	2013
Accounts Receivable		
Student accounts	\$ 67,594,056	\$ 60,456,043
Receivables from sponsoring agencies	16,407,938	21,045,929
Accrued interest receivable	8,139,065	7,351,327
Other	13,728,177	9,508,219
Total accounts receivable	105,869,236	98,361,518
Less provision for doubtful accounts	(3,713,599)	(3,803,506)
Accounts receivable, net	\$ 102,155,637	\$ 94,558,012
Notes Receivable		
Note receivable from The 1831 Foundation	\$ -	\$ 2,686,540
Note receivable from The University of Alabama System	2,000,000	-
Notes receivable from student organizations	112,034,743	75,789,119
Total notes receivable	114,034,743	78,475,659
Less current portion	(2,752,636)	(4,277,022)
Notes receivable, net	\$ 111,282,107	\$ 74,198,637

Note 6 – Loans and Pledges Receivable

Loans receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs. Pledges receivable represent unconditional promises to give from third party donors and are presented at their gross, undiscounted amount.

The composition of loans and pledges receivable at September 30, 2014 and 2013, is summarized as follows:

	2014	2013
Loans receivable		
Federal loan program	\$ 12,932,699	\$ 12,884,781
University loan funds	1,774,237	1,694,541
Less allowance for doubtful loans	(3,696,717)	(3,696,717)
Total loans outstanding, net	11,010,219	10,882,605
Less current portion	(1,956,516)	(1,899,015)
Total loans outstanding, noncurrent	\$ 9,053,703	\$ 8,983,590
Pledges outstanding		
Operations	\$ 23,766,315	\$ 24,053,902
Capital	4,025,633	1,013,804
Less allowance for doubtful pledges	(1,482,647)	(1,417,891)
Total pledges, net	26,309,301	23,649,815
Less current portion	(10,535,857)	(9,798,492)
Total pledges, noncurrent	\$ 15,773,444	\$ 13,851,323



Note 7 – Capital Assets

Capital assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received if gifted to the University. Capital

assets as of September 30, 2014 and 2013 are summarized as follows:

	Balance October 1, 2013	Additions	Retirements/ Transfers	Balance September 30, 2014
Nondepreciable capital assets:				
Land	\$ 74,159,318	\$ 1,133,500	\$ -	\$ 75,292,818
Collections	21,952,058	2,515,696	-	24,467,754
Construction in progress	134,921,338	144,524,867	(226,181,559)	53,264,646
Total nondepreciable capital assets	231,032,714	148,174,063	(226,181,559)	153,025,218
Depreciable capital assets:				
Land improvements	58,409,952	1,036,575	-	59,446,527
Infrastructure	58,035,614	1,921,647	-	59,957,261
Buildings and fixed equipment	1,463,267,725	259,873,158	(45,129,324)	1,678,011,559
Equipment	129,425,675	17,186,270	(3,438,483)	143,173,462
Library materials	101,927,963	8,764,626	-	110,692,589
Intangible assets	80,239,825	4,407,492	-	84,647,317
Total depreciable capital assets	1,891,306,754	293,189,768	(48,567,807)	2,135,928,715
Less accumulated depreciation:				
Land improvements	19,077,595	2,465,897	-	21,543,492
Infrastructure	25,398,706	2,247,174	-	27,645,880
Buildings and fixed equipment	317,535,473	33,812,425	(681,450)	350,666,448
Equipment	83,222,245	10,358,766	(2,989,137)	90,591,874
Library materials	96,163,212	1,718,537	-	97,881,749
Intangible assets	41,310,507	4,202,355	-	45,512,862
Total accumulated depreciation	582,707,738	54,805,154	(3,670,587)	633,842,305
Total depreciable capital assets, net	1,308,599,016	238,384,614	(44,897,220)	1,502,086,410
Total capital assets, net	\$ 1,539,631,730	\$ 386,558,677	\$ (271,078,779)	\$ 1,655,111,628

	Balance October 1, 2012	Additions	Retirements/ Transfers	Balance September 30, 2013
Nondepreciable capital assets:				
Land	\$ 18,508,472	\$ 55,650,846	\$ -	\$ 74,159,318
Collections	20,882,929	1,073,400	(4,271)	21,952,058
Construction in progress	97,613,604	197,267,681	(159,959,947)	134,921,338
Total nondepreciable capital assets	137,005,005	253,991,927	(159,964,218)	231,032,714
Depreciable capital assets:				
Land improvements	50,879,812	7,530,140	-	58,409,952
Infrastructure	49,551,921	8,483,693	-	58,035,614
Buildings and fixed equipment	1,293,471,375	190,117,251	(20,320,901)	1,463,267,725
Equipment	120,107,405	17,780,776	(8,462,506)	129,425,675
Library materials	101,385,352	542,611	-	101,927,963
Intangible assets	78,509,171	1,730,654	-	80,239,825
Total depreciable capital assets	1,693,905,036	226,185,125	(28,783,407)	1,891,306,754
Less accumulated depreciation:				
Land improvements	16,813,721	2,263,874	-	19,077,595
Infrastructure	23,574,124	1,824,582	-	25,398,706
Buildings and fixed equipment	287,623,798	30,440,830	(529,155)	317,535,473
Equipment	80,656,939	9,495,301	(6,929,995)	83,222,245
Library materials	94,141,399	2,021,813	-	96,163,212
Intangible assets	37,633,750	3,676,757	-	41,310,507
Total accumulated depreciation	540,443,731	49,723,157	(7,459,150)	582,707,738
Total depreciable capital assets, net	1,153,461,305	176,461,968	(21,324,257)	1,308,599,016
Total capital assets, net	\$ 1,290,466,310	\$ 430,453,895	\$ (181,288,475)	\$ 1,539,631,730

Note 8 – Construction Commitments and Financing

The University has contracted for the construction and renovation of several facilities. At September 30, 2014 and 2013, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$56.9 million and \$113.8 million, respectively, which is expected to be financed from grants, bond proceeds, University funds, and private gifts.

Note 9 – Long-term Debt

Long-term debt activity for the years ended September 30, 2014 and 2013 is summarized as follows:

Type/Supported by	Balance October 1, 2013	New Debt	Principal Repayment	Reclass	Balance September 30, 2014
Notes payable					
Crimson Tide Foundation airplane	\$ 1,213,907	\$ -	\$ 615,237	\$ -	\$ 598,670
Student housing revenue	2,749,788	-	212,867	-	2,536,921
Rental income	1,087,163	-	109,843	-	977,320
Bryce Property	3,000,000	-	-	-	3,000,000
General fee	-	1,357,750	271,550	-	1,086,200
Bonds					
Student housing revenue	201,136,269	35,533,834	40,232,944	-	196,437,159
Fraternities/Sororities	46,739,267	-	6,393,831	-	40,345,436
Intercollegiate athletics	210,074,379	62,073,950	60,555,342	-	211,592,987
Auxiliaries	30,016,812	19,344,332	5,041,947	-	44,319,197
General fee	304,028,275	120,932,884	14,165,936	-	410,795,223
	<u>800,045,860</u>	<u>\$239,242,750</u>	<u>\$127,599,497</u>	<u>\$ -</u>	<u>911,689,113</u>
Plus net unamortized bond premium/discount	20,423,136				38,443,353
Less current portion	<u>(22,042,947)</u>				<u>(22,047,751)</u>
	<u>\$ 798,426,049</u>				<u>\$ 928,084,715</u>

Type/Supported by	Balance October 1, 2012	New Debt	Principal Repayment	Reclass	Balance September 30, 2013
Notes payable					
Crimson Tide Foundation airplane	\$ 1,791,963	\$ -	\$ 578,056	\$ -	\$ 1,213,907
Student housing revenue	2,954,759	-	204,971	-	2,749,788
Rental income	1,190,788	-	103,625	-	1,087,163
Bryce Property	3,000,000	-	-	-	3,000,000
Bonds					
Student housing revenue	152,099,857	83,722,905	24,249,413	(10,437,080)	201,136,269
Fraternities/Sororities	37,799,899	13,541,546	6,324,847	1,722,669	46,739,267
Intercollegiate athletics	196,608,830	53,876,982	44,658,025	4,246,592	210,074,379
Auxiliaries	26,430,364	11,179,026	6,242,571	(1,350,007)	30,016,812
General fee	247,941,050	123,624,541	73,355,142	5,817,826	304,028,275
	<u>669,817,510</u>	<u>\$285,945,000</u>	<u>\$155,716,650</u>	<u>\$ -</u>	<u>800,045,860</u>
Plus net unamortized bond premium/discount	1,526,842				20,423,136
Less current portion	<u>(19,621,650)</u>				<u>(22,042,947)</u>
	<u>\$ 651,722,702</u>				<u>\$ 798,426,049</u>

Debt obligations generally bear interest at fixed rates ranging from 0% to 6.3% and mature at various dates through fiscal year 2044.

Maturities and interest on notes, leases and bonds payable, using rates in effect at September 30, 2014, for the next five years and in subsequent five-year periods are as follows:

	Notes Principal	Bonds Principal	Total Principal	Notes Interest	Bonds Interest	Total Interest	Total Debt Service
2015	\$ 4,207,751	\$ 17,840,000	\$ 22,047,751	\$ 195,447	\$ 39,594,553	\$ 39,790,000	\$ 61,837,751
2016	624,647	17,895,000	18,519,647	161,011	40,533,112	40,694,123	59,213,770
2017	640,996	18,405,000	19,045,996	144,661	39,844,789	39,989,450	59,035,446
2018	658,173	22,035,000	22,693,173	127,485	39,085,347	39,212,832	61,906,005
2019	404,670	23,665,000	24,069,670	109,438	38,158,325	38,267,763	62,337,433
2020-2024	865,697	153,800,000	154,665,697	334,130	171,342,765	171,676,895	326,342,592
2025-2029	714,484	194,145,000	194,859,484	135,199	129,990,212	130,125,411	324,984,895
2030-2034	82,695	233,105,000	233,187,695	2,274	84,640,395	84,642,669	317,830,364
2035-2039	-	155,930,000	155,930,000	-	37,318,699	37,318,699	193,248,699
2040-2044	-	66,670,000	66,670,000	-	6,464,038	6,464,038	73,134,038
	<u>\$ 8,199,113</u>	<u>\$903,490,000</u>	<u>\$911,689,113</u>	<u>\$ 1,209,645</u>	<u>\$626,972,235</u>	<u>\$ 628,181,880</u>	<u>\$ 1,539,870,993</u>

Pledged revenues for the years ended September 30, 2014 and 2013 as defined by outstanding bond covenants are as follows:

	2014	2013
Tuition and fees	\$ 572,020,518	\$ 514,370,549
Sales and services of educational activities	11,299,340	12,986,742
Auxiliary sales and services	159,332,464	155,448,111
Investment income	40,859,528	41,760,631
Other operating revenue	61,166,131	42,516,071
Total pledged revenues	<u>\$ 844,677,981</u>	<u>\$ 767,082,104</u>

The University defeased certain indebtedness during fiscal years 2014 and 2013 with the 2014 and the 2012 bond issuances, respectively. For these defeasances, funds were deposited in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreements, funds deposited in the trust accounts were invested in obligations of the U.S. Government. The University estimates that the amounts on deposit will be sufficient to satisfy the debt service requirements on the defeased indebtedness and that the defeasance will result in lower overall debt service payments to the University. Should the amounts on deposit not be sufficient to retire the defeased indebtedness upon maturity, the University would be responsible to satisfy the shortfall. The University remains legally obligated for the repayment of the defeased indebtedness. Neither the assets of the trust accounts nor the defeased indebtedness are included

in the accompanying statements of net position. The principal outstanding on the 2012A defeased indebtedness at September 30, 2014 and 2013 is approximately \$0 and \$114.2 million, respectively. The principal outstanding on the 2014 defeased indebtedness at September 30, 2014 is approximately \$25.1 million.

The undiscounted cash flows required to service principal and interest under the old bonds as of September 30, 2014, would have been \$116.2 million compared to undiscounted cash flow requirements of \$103.2 million under the new bonds. The economic gain to the University of the bond refinancing in fiscal year 2014 was calculated to be approximately \$13.0 million using an effective interest rate of 4.25% applied to the old and new bond cash flow requirements.

The undiscounted cash flows required to service principal and interest under the old bonds as of September 30, 2013, would have been \$151.5 million, respectively, compared to undiscounted cash flow requirements of \$139.7 million, respectively, under the new bonds. The economic gain to the University of the bond refinancing in fiscal year 2013 was calculated to be approximately \$11.9 million using an effective interest rate of 4.01% applied to the old and new bond cash flow requirements.

The University's general revenue bonds are subject to certain covenants. These covenants, among other things, require the Board to adopt an annual budget; to establish and maintain reasonable fees, rates, and other charges to ensure pledged revenues are sufficient for debt service coverage; to maintain books and records pertaining to the pledged revenues; to furnish annual audits and other periodic reports; and

to comply with certain restrictions as to additional indebtedness. Based on pledged revenues received in fiscal year 2014 of \$844.7 million, the projected maximum annual debt service requirement of \$65.4 million in 2022 is covered approximately 12.9 times by pledged revenues. The University is in compliance with all covenants as of September 30, 2014.

In November 2014, the University finalized a purchase agreement with the Alabama Department of Mental Health ("ADMH") for approximately 118 acres of land and certain other defined appurtenances of the property, known as the Partlow Property. This \$32 million purchase is payable over a ten-year period.

The following is a detailed schedule of long-term debt as of September 30, 2014:

Description	Date Issued	Final Maturity	Interest Rate-%	Original Debt	Outstanding Debt
Bonds Payable:					
General Fee Revenue Bond Series 2006A	9/1/06	7/1/36	4.125-5.0	\$ 40,575,000	\$ 14,970,000
General Fee Revenue Bond Series 2006B	9/1/06	7/1/23	5.22-5.9	23,750,000	15,050,000
General Fee Revenue Bond Series 2008A	8/1/08	7/1/34	3.0-5.0	45,425,000	39,710,000
General Fee Revenue Bond Series 2009A	10/30/09	7/1/39	5.14-6.28	135,425,000	135,425,000
General Fee Revenue Bond Series 2009B	10/30/09	7/1/21	1.25-5.14	48,060,000	30,700,000
General Fee Revenue Bond Series 2010A	7/1/10	7/1/40	2.0-5.875	16,495,000	15,065,000
General Fee Revenue Bond Series 2010B	11/18/10	7/1/40	5.7-5.85	18,000,000	18,000,000
General Fee Revenue Bond Series 2010C	11/18/10	7/1/38	3.8-6.1	100,420,000	100,420,000
General Fee Revenue Bond Series 2010D	11/18/10	7/1/19	1.0-4.0	31,040,000	16,315,000
General Fee Revenue Bond Series 2012A	10/16/12	7/1/42	3.0-5.0	265,655,000	265,155,000
General Fee Revenue Bond Series 2012B	10/16/12	7/1/19	1.4-3.0	20,290,000	14,795,000
General Fee Revenue Bond Series 2014A	8/28/14	7/1/21	5.0	25,780,000	25,780,000
General Fee Revenue Bond Series 2014B	8/28/14	7/1/44	3.0-5.0	212,105,000	212,105,000
Total Bonds Payable				<u>983,020,000</u>	<u>903,490,000</u>
Notes Payable:					
U. S. Department of Education	7/20/89	4/15/19	3.0	3,188,000	779,728
Commercial finance co., CTF airplane	5/10/05	5/10/15	6.25	5,000,000	598,670
U.S. Department of Education	3/23/00	1/1/30	5.5	2,483,000	1,757,194
Geist LLC Promissory Note	1/24/07	2/1/21	6.0	1,800,000	977,321
Key Government Finance	6/15/14	7/15/18	0.0	1,357,750	1,086,200
Department of Mental Health	5/28/10	10/15/14	0.0	65,750,000	3,000,000
Total Notes Payable				<u>79,578,750</u>	<u>8,199,113</u>
Total Bonds & Notes Payable				<u>\$ 1,062,598,750</u>	<u>\$ 911,689,113</u>

Note 10 – Self-Insurance

The University participates with other campuses that comprise the System in a self-insurance program for general liability. The Board established a separate revocable trust fund for payment of these self-insurance claims under its risk retention program. Annual contributions are made to the trust fund, at an actuarially determined rate, to provide funding for the retained risk. Accounts payable and accrued liabilities in the accompanying statements includes a reserve of approximately \$1.6 million and \$1.4 million for general liability at September 30, 2014 and 2013, respectively.

The University is self-insured for health insurance. The liability for unpaid claims includes an accrual for an estimate of claims incurred but not reported. The changes in the health insurance liabilities for the years ended September 30, 2014 and 2013 are summarized as follows:

	2014	2013
Balance, beginning of year	\$ 2,619,000	\$ 2,466,000
Claims paid	(34,222,203)	(31,290,498)
Contributions	34,496,203	31,443,498
Balance, end of year	<u>\$ 2,893,000</u>	<u>\$ 2,619,000</u>



Note 11 – Retirement Plan

Most employees of the University participate in the Teachers' Retirement System of Alabama ("TRS"), a cost sharing, multiple-employer public retirement system. In addition, employees meeting eligibility requirements may participate in an optional program with the Teachers Insurance and Annuity Association – College Retirement Equities Fund ("TIAA – CREF") or The Variable Annuity Life Insurance Company ("VALIC"). TRS is a defined benefit plan while the TIAA-CREF and VALIC programs are defined contribution plans.

The TRS 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 the state-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control.

Members of TRS 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.

Covered employees are required by statute to contribute to TRS. In addition, the University, as the employer, contributes to TRS. The total contribution requirement for fiscal years 2014, 2013, and 2012 was approximately \$62.6 million,

\$55.3 million, and \$52.3 million, respectively, which consisted of \$38.3 million from the University and \$24.3 million from employees in 2014, \$31.8 million from the University and \$23.5 million from employees in 2013, and \$30.3 million from the University and \$22.0 million from employees in 2012. The University's contribution rate for the year ended September 30, 2014 was 11.71% for Tier 1 covered employees and 11.08% for Tier 2 covered employees. The University's contribution rate for the year ended September 30, 2013 was 10.08% for Tier 1 covered employees and 9.44% for Tier 2 covered employees. Tier 1 covered employees were required by statute to contribute 7.5% of earned compensation to TRS in fiscal years 2014 and 2013, respectively. Tier 2 covered employees were required to contribute 6.0% of earned compensation to TRS in fiscal years 2014 and 2013. All regular employees of the University are members of TRS with the exception of temporary employees.

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, 2013 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were \$29.7 billion, respectively, resulting in an under-funded AAL of \$10.0 billion. Complete financial presentation and disclosure of the financial position and activities of the TRS are presented in the September 30, 2013 annual financial report of TRS. That report is publicly available and may be obtained by contacting TRS.

As previously noted, some employees participate in the optional TIAA-CREF and VALIC programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All regular full-time and regular part-time employees are eligible to participate from the date of employment. The University contributes a matching amount

up to 5% of the employees monthly contribution for regular, full-time exempt employees. The University's contribution is funded as it accrues and, along with that of employees, is immediately and fully vested. The contribution for fiscal years 2014 and 2013, excluding amounts not eligible for matching, was approximately \$18.5 million and \$17.6 million, which included approximately \$9.2 million and \$8.8 million each from the University and its employees.

The University's total salaries and wages for fiscal years 2014 and 2013 were approximately \$400.6 million and \$381.5 million, respectively. Salaries and wages for covered employees participating in TRS and TIAA – CREF or VALIC were approximately \$329.6 million and \$315.0 million, and \$213.5 million and \$202.2 million, respectively, during the fiscal years 2014 and 2013.

Note 12 – Post-Employment Benefits

Post-employment health care benefits are offered to all employees who officially retire from the University through the Alabama Retired Education Employees' Health Care Trust with TRS or retired employees may elect to continue to participate in the University's group health plan until they are eligible for Medicare by paying the full cost of the plan premium. TRS offers health care benefits through a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board ("PEEHIP"). Retired employees age sixty-five or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer and the University's health care plan becomes the secondary insurer. Despite the availability of the University's plan, most retirees elect to participate in the PEEHIP with TRS, in which case the retirees pay a portion of the PEEHIP premium, with the University paying an allocation toward the cost of retiree coverage.

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 \$1.0 million 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, 2014:

Retired Member Rates:

- Individual Coverage/Non-Medicare Eligible - \$151
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$391
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$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

The required contribution rate of the employer was \$356 per employee per month in the year ended September 30, 2014. The University paid \$7.5 million and \$6.7 million for the years ended September 30, 2014 and 2013 for 1,790 and 1,709 retirees, respectively. The required contribution rate is determined by PEEHIP in accordance with state statute. The complete financial report for PEEHIP can be obtained by contacting TRS at 1-877-517-0020.

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 with 25 or more years of credited service are eligible for tuition assistance benefits for themselves as well as for their spouse and unmarried dependent children.

Note 13 – Compensated Absences

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. Depending on their payroll classification, some employees are also paid one-half of their unused accrued sick leave at their regular rate of pay. Accounts payable and accrued liabilities within the accompanying statements of net position includes an accrual of approximately \$24.4 million and \$22.6 million as of September 30, 2014 and 2013, respectively, primarily for accrued vacation and sick leave.

Note 14 – Federal Direct Lending Program

The Federal Direct Student Loan Program (“FDSLP”) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During the years ended September 30, 2014 and 2013, respectively, the University disbursed approximately \$176.5 million and \$171.0 million, respectively, under the FDSLP.

Note 15 – Contingencies and Commitments

The University has sovereign immunity and is, therefore, in the opinion of University Counsel, immune to ordinary tort actions. The University has consistently been dismissed from lawsuits on the basis of the sovereign immunity doctrine. That doctrine also protects the University from vicarious liability arising from the negligence of its employees. As a matter of policy, the University has chosen to indemnify its employees through a self-insured trust fund against liabilities arising from the performance of their official duties. Some exceptions to the sovereign immunity doctrine exist, most notably federal court cases arising under the federal Constitution or federal statutes. The University is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of those actions will have a material adverse effect on the financial statements. However, the settlement of legal actions is subject to inherent uncertainties, and it is possible that such outcomes could differ materially from management’s current expectations.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by such agencies, principally the United States Government. Any disallowed claims, including amounts already collected, may constitute a liability of the University. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the University expects any such amounts to be immaterial.

Note 16 – Operating Expenses by Function

In addition to their natural classifications, expenses are also classified by their functional classifications. Functional classifications are assigned to departments based on the nature of their activity, such as instruction, public service, institutional support, etc.

Operating expenses by functional classification for the years ended September 30, 2014 and 2013 are summarized as follows:

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total 2014
Instruction	\$ 232,848,427	\$ -	\$ 36,073,134	\$ 14,405,468	\$ 283,327,029
Research	24,638,354	-	17,823,217	4,572,598	47,034,169
Public service	31,845,663	-	11,418,540	1,412,621	44,676,824
Academic support	52,534,394	-	6,478,379	11,823,708	70,836,481
Student services	30,456,826	-	15,503,716	3,239,736	49,200,278
Institutional support	59,731,442	-	14,985,592	3,749,210	78,466,244
Operations and maintenance	49,956,003	-	38,453,098	-	88,409,101
Scholarships and fellowships	-	18,505,726	-	-	18,505,726
Auxiliary enterprises	61,315,536	2,715,647	74,706,542	15,601,813	154,339,538
	<u>\$ 543,326,645</u>	<u>\$ 21,221,373</u>	<u>\$ 215,442,218</u>	<u>\$ 54,805,154</u>	<u>\$ 834,795,390</u>

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total 2013
Instruction	\$ 219,268,643	\$ -	\$ 32,832,994	\$ 12,997,181	\$ 265,098,818
Research	24,834,385	-	19,367,154	4,183,664	48,385,203
Public service	31,314,398	-	11,118,178	1,306,402	43,738,978
Academic support	50,906,650	-	20,943,364	10,095,466	81,945,480
Student services	28,997,209	-	14,510,288	2,937,498	46,444,995
Institutional support	52,836,078	-	12,344,417	3,406,070	68,586,565
Operations and maintenance	45,068,856	-	34,407,639	-	79,476,495
Scholarships and fellowships	-	18,416,038	-	-	18,416,038
Auxiliary enterprises	56,950,416	2,231,942	74,596,514	14,796,876	148,575,748
	<u>\$ 510,176,635</u>	<u>\$ 20,647,980</u>	<u>\$ 220,120,548</u>	<u>\$ 49,723,157</u>	<u>\$ 800,668,320</u>

Note 17 – Other Noncurrent Assets and Liabilities

The composition of other noncurrent assets at September 30, 2014 and 2013 is summarized as follows:

	2014	2013
Receivable from The Capstone Foundation	\$ 8,934,839	\$ 8,729,217
Other	1,078	403,386
	<u>\$ 8,935,917</u>	<u>\$ 9,132,603</u>

The receivable from The Capstone Foundation relates to the Eminent Scholars Program established by the State of Alabama Act No. 85-759 and administered by the Alabama Commission on Higher Education. The program provides that donor gifts of \$600,000 held in a foundation affiliated with the University are eligible for \$400,000 in State matching funds. In prior years, the University received funds from donors intended to be matched in accordance with this program. Consistent with the provision of the program, the University transferred the corpus of these funds to The Capstone Foundation, as agent for the University, whereby the State would match these donations. The program has been inactive since

1997, and no matching funds have been provided to date. These funds held by the Capstone Foundation include both the corpus and any unrealized gains earned thereon and are shown as a receivable from the Capstone Foundation. Unrealized gains earned each year on the corpus are added to the receivable and reported as investment income by the University. Realized gains and investment income earned each year on the corpus amount are distributed to the University and reported as investment income.

The activity with respect to other noncurrent liabilities for the years ended September 30, 2014 and 2013, is as follows:

	2014	2013
Federal loan funds		
Federal refundable loans, beginning of year	\$ 8,036,873	\$ 8,045,094
Deposits received	501,142	519,435
Deposits disbursed	(518,411)	(527,656)
Federal refundable loans, end of year	<u>\$ 8,019,604</u>	<u>\$ 8,036,873</u>
Other liabilities		
Split interest agreement obligations, beginning of year	\$ 4,330,257	\$ 4,268,748
New annuities	-	22,212
Terminated annuities	-	(51,382)
Investment income	488,485	621,192
Payments on obligations	(499,420)	(493,143)
Actuarial change in obligations	113,528	(120,095)
Other income	60,066	82,725
Total split interest agreement obligations	4,492,916	4,330,257
Less current portion	(504,533)	(477,876)
Split interest agreement obligations, end of year	3,988,383	3,852,381
General liability trust fund	1,615,881	1,418,321
Total other liabilities	<u>\$ 5,604,264</u>	<u>\$ 5,270,702</u>

Note 18 – Grants and Contracts

At September 30, 2014, the University had been awarded approximately \$31.9 million in grants and contracts which had not been expended. These awards, which represent commitments of sponsors to provide funds for specific research, training, and service projects, have not been reflected in the financial statements as of and for the year ended September 30, 2014.

During fiscal year 2014, the University continued expending federal funding under the American Recovery and Reinvestment Act (ARRA), primarily in the form of sponsored research grants, totaling approximately \$619,000. ARRA expenditures were much less in 2014 as projects have now ended and no other reporting will be required.

Note 19 – Recently Issued Pronouncements

The GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* (“GASB 66”), in March 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The University has determined there was no impact from the adoption of GASB 66.

The GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* (“GASB 67”), in June 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The University has determined there was no impact from the adoption of GASB 67.

The GASB issued Statement No. 68, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27* (“GASB 68”), in June 2012. The

objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. The University is currently evaluating the impact that GASB 68 will have on its financial statements; but notes that the adoption of this standard will likely result in a material reduction of the University’s unrestricted net assets.

The GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”), in January 2013. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for fiscal years beginning after December 15, 2013. The University is currently evaluating the impact, if any, that GASB 69 will have on its financial statements.

The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”), in April 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for fiscal years beginning after June 13, 2013. The University has determined there was no material impact from the adoption of GASB 70.

The GASB issued Statement No. 71, *Pension Transitions for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* (“GASB 71”), in November 2013. The objective of this Statement is to address an issue regarding application of the transition provisions of GASB 68, *Accounting and Financial Reporting for Pensions*. The provisions of this Statement should be applied simultaneously with the provisions of Statement 68. The University is currently evaluating the impact, if any, that GASB 71 will have on its financial statements.

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