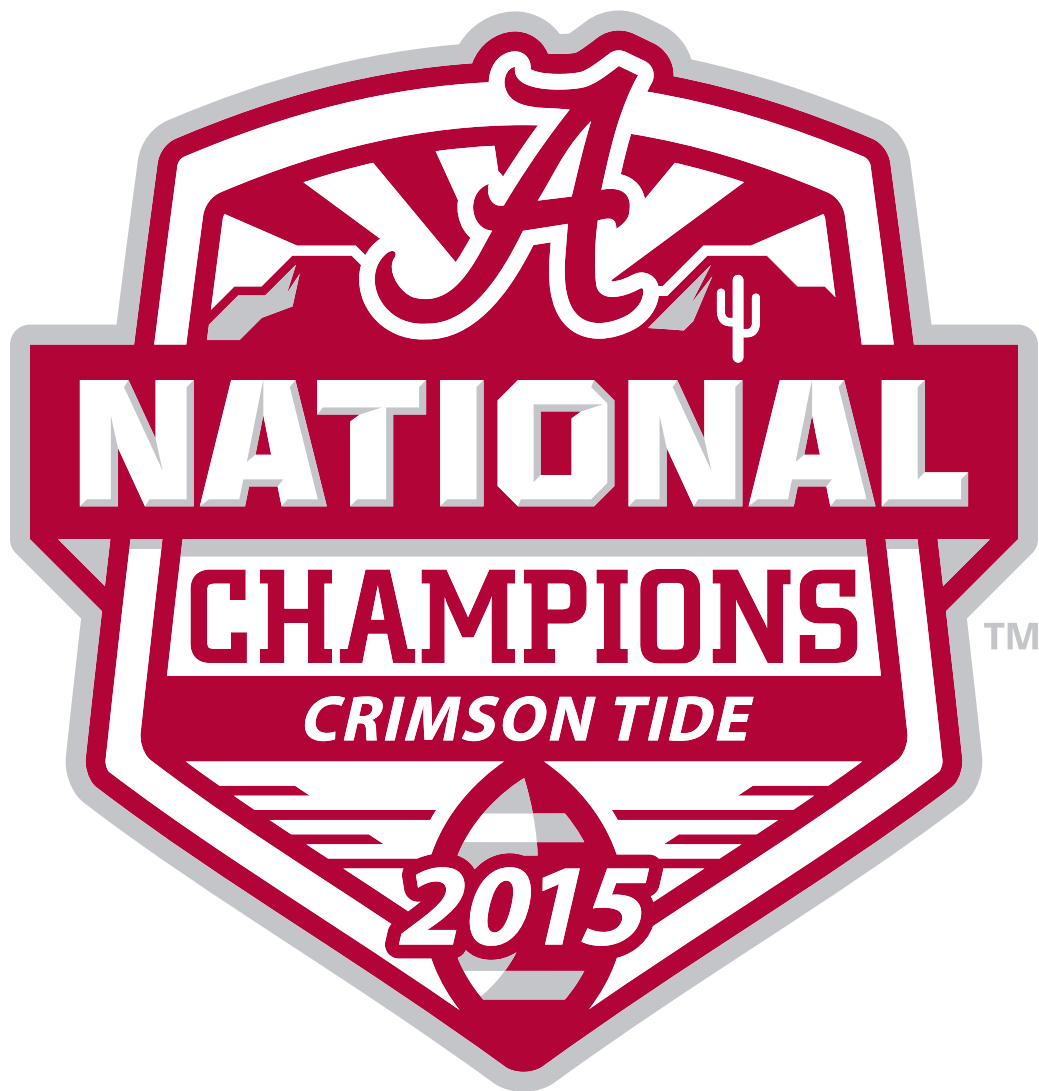


# FINANCIAL REPORT

2014 – 2015



THE UNIVERSITY OF ALABAMA®



# 2014-2015 Financial Report

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Division of  
Financial Affairs

January 14, 2016

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

**THE UNIVERSITY OF ALABAMA®**



## **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, 2015 and 2014, 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 of 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, 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, 2015 and 2014, or at June 30, 2015 and 2014, 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

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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, 2015 and 2014, 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.

As discussed in Notes 1 and 11 to the basic financial statements, in the year ended September 30, 2015, the University adopted new accounting guidance related to the manner in which it accounts for pensions. As described within the notes to the financial statements, the University adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

The accompanying management's discussion and analysis on pages 5 through 16 and the required supplementary information on page 66 are 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 opinions 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 25, 2016



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# **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, 2015 and 2014. 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 instruction, research 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 legislature 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, changes in financial position 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 concludes the footnotes with brief summations of recently issued statements of the Governmental Accounting Standards Board ("GASB").

### **Statements of Net Position**

The statements of net position present the financial position of the University at the end of the fiscal year. These statements reflect the various assets, deferred outflows, liabilities, deferred inflows, and net position of the University as of the fiscal years ended September 30, 2015 and 2014.

From the data presented, readers of the statements 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 statements of net position outline the net position (assets and deferred outflows minus liabilities and deferred inflows) 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, 2015, the University's assets and deferred outflows of resources were \$3.8 billion, liabilities and deferred inflows of resources were \$2.0 billion, leaving a net position of \$1.8 billion, an overall decrease in net position of \$377.3 million from 2014. The overall decrease in net position results primarily from the recognition of the University's proportionate share of the Teachers' Retirement System of Alabama Plan's ("the Plan") net pension liability as required by GASB 68, totaling \$472.1 million.

## The University's Assets

The University's cash and cash equivalents include both current and noncurrent balances of \$70.5 million and \$2.5 million, respectively, at the end of 2015. 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. In 2015 the University discontinued using the Federated Treasury Obligation money market fund for investing cash, which contributed to a \$53.3 million decrease

in total cash and cash equivalents for the fiscal year as these funds were transferred to the Long Term Reserve Pool Fund. Total cash and cash equivalents decreased slightly by \$3.2 million in 2014 from the prior year.

Accounts receivable experienced a decrease of approximately \$2.9 million in fiscal year 2015, primarily due to student account activity.

Pledges receivable (included below in other current assets and other noncurrent assets) decreased \$1.8 million in 2015 to \$24.5 million. Of this decrease, \$2.8 million was attributable to the University, while CTF pledges receivable increased slightly by \$942,000. In 2014, pledges receivable increased \$2.7 million to \$26.3 million. 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 other long-term investments, increased \$96.2 million. During fiscal year 2015, the University of Alabama System Office entered into an agreement with the State of Alabama Department

## Condensed Statements of Net Position

	September 30,		
	2015	2014	2013
Current assets			
Cash and cash equivalents	\$ 70,528,886	\$ 121,099,600	\$ 105,627,822
Short-term investments	289,764,844	214,516,288	224,328,503
Accounts receivable, net	99,255,867	102,155,637	94,558,012
Other current assets	105,134,292	96,976,261	87,807,544
Noncurrent assets			
Endowment, life income and other investments	1,176,119,652	1,155,133,839	1,027,965,684
Capital assets, net	1,811,315,270	1,655,111,628	1,539,631,730
Other noncurrent assets	159,121,640	150,322,941	130,087,220
Total assets	<u>3,711,240,451</u>	<u>3,495,316,194</u>	<u>3,210,006,515</u>
Deferred outflows of resources	<u>66,504,154</u>	<u>15,285,207</u>	<u>13,283,391</u>
Current liabilities	539,494,343	427,367,090	424,242,388
Noncurrent liabilities	1,448,060,583	951,092,958	820,116,340
Total liabilities	<u>1,987,554,926</u>	<u>1,378,460,048</u>	<u>1,244,358,728</u>
Deferred inflows of resources	<u>35,395,000</u>	<u>-</u>	<u>-</u>
Net Position			
Net investment in capital assets	927,823,421	862,965,092	817,415,403
Restricted	698,132,292	713,220,712	682,843,388
Unrestricted	128,838,966	555,955,549	478,672,387
Total net position	<u>\$ 1,754,794,679</u>	<u>\$ 2,132,141,353</u>	<u>\$ 1,978,931,178</u>

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of Conservation and Natural Resources to provide project management, compliance and financial services for the Gulf State Park Project. The University of Alabama System and the University of Alabama entered into an agency agreement whereby the University deposits and disburses the funds authorized by the System. The total amount deposited was approximately \$83.8 million, of which \$77.1 million was allocated to restricted short-term investments. These funds, along with increased endowment assets, account for the majority of the increase in investments for fiscal year 2015.

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 2015 reflects a \$1.9 million decrease in unrestricted short-term investments. At the 2014 fiscal year-end, unrestricted short-term investments decreased \$9.8 million.

Noncurrent notes receivable increased \$12.9 million for additional student organization housing loans, which follows an increase in noncurrent notes receivable of \$37.1 million in fiscal year 2014 also related to student organization housing loans.

Capital assets include land and land improvements, infrastructure, buildings and improvements, equipment, construction in progress, library materials, collections and intangible assets. During fiscal year 2015 the University had the opportunity to purchase property within close proximity to the main campus from the Alabama Department of Mental Health ("ADMH"), which allows the University to devote more of its core campus to academic and student life activities. The total purchase, commonly referred to as the Partlow Property, encompasses approximately 362 acres and is composed of both land and associated buildings. As part of the purchase agreement, the University leases back some of the buildings to the ADMH who continues to operate the mental health facilities. The leaseback period is 99 years. The purchase of this property, along with the construction of new buildings, resulted in a \$156.2 million increase in capital assets for fiscal year 2015. During 2014, capital assets rose \$115.5 million also due largely to the construction of new buildings which are further outlined on page 14. 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 2015 include Sewell Thomas Baseball Stadium renovation (\$23.2 million), Student Organizations (refer to Note 5) (\$21.0 million), Magnolia Parking Deck (\$10.4 million), Houser Hall renovation (\$9.1 million), General Classroom Building (\$8.7 million), UAPD Radio System Tower (\$4.2 million), and Central Campus Thermal Piping Extension (\$3.7 million).

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 Magnolia Parking Deck (\$2.6 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 2015, the University's receivable from The Capstone Foundation investment for the Eminent Scholars Program decreased slightly from \$8.9 million in 2014 to \$8.2 million in 2015, the result of unrealized losses.

Deferred outflows of resources consist of bond deferred refunding amounts, employer contributions to the Teachers' Retirement System of Alabama subsequent to the Plan's measurement date (September 30, 2014), and changes in proportion of the allocated pension liability and differences between employer contributions and the employer's proportionate share of the total contributions. Bond deferred refunding decreased \$814,000 from the prior year to \$14.5 million at September 30, 2015. This follows an increase in bond deferred refunding of \$2.0 million in fiscal year 2014 as the University defeased certain indebtedness. The remaining increase of \$52.0 million in 2015 results from the implementation of GASB 68 during 2015. At September 30, 2015 employer contributions to the Teachers' Retirement System subsequent to the Plan's measurement date totaled \$39.1 million. Changes in the proportion of the allocated pension liability and differences between employer contributions and the employer's proportionate share of the total contributions totaled \$12.9 million.



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## 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 portion of 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 \$539.5 million in 2015 compared to \$427.4 million in 2014, an increase of \$112.1 million. Accounts payable and accrued liabilities increased \$4.5 million in 2015 from the prior year. Deposits consist primarily of agency funds, food service deposits, debit card operation deposits and Capstone Village entrance fees. The \$84.2 million increase in deposits in 2015 stems primarily from the funds received for the Gulf State Park Project agency agreement. Additionally, the University had an agreement with the ADMH whereas the University acted as agent for the construction of the new adult psychiatric facility, which was completed in 2014, thus the balance is \$2.1 million less than it was in 2014. The University also acted as agent to the System Office for the construction of Sid McDonald Hall, which houses the new System Office. This project was completed in 2014 and funds on deposit for this project decreased \$350,000. In 2014, deposits decreased \$13.2 million due primarily to the disbursement of restricted cash from the ADMH for the construction of the new adult psychiatric facility.

In 2015, the University implemented GASB 68 requiring the recognition of \$472.1 million for its proportionate share of net pension liability in the Teachers' Retirement System Plan. Long-term debt increased \$26.2 million in 2015 due to two new notes payable for the Partlow property, offset by debt repayments.

Deferred inflows of resources are composed of the proportionate share of the net difference between projected and actual investment earnings on pension assets. At September 30, 2015, deferred inflows of resources totaled \$35.4 million as the University implemented GASB 68 during fiscal year 2015.

## The University's Net Position

Net position represents the residual interest in the University's assets and deferred outflows of resources after all liabilities and deferred inflows of resources are deducted. The University's net position decreased \$377.3 million, or 17.7%, during fiscal 2015, totaling \$1.8 billion. This decrease follows a 7.7% increase of \$153.2 million in 2014. The decrease for fiscal year 2015 results primarily from the aforementioned implementation of GASB 68.

Net investment in capital assets increased \$64.9 million from \$863.0 million in 2014. The previous year increase of \$45.5 million rose from \$817.4 million reported in 2013. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted nonexpendable net position increased approximately \$13.8 million primarily because of additions to true endowments. This net position type encompasses true endowments and life income/annuities that are required to be held in perpetuity. In the prior year, restricted nonexpendable net position experienced growth of \$16.1 million.

Restricted expendable net position decreased \$28.9 million, or 8.4%, primarily due to endowment losses. This follows an increase of \$14.3 million in 2014, primarily due to gift revenue. This net position category includes restricted gifts, institutional loan funds, sponsored programs, restricted quasi endowments, term endowments, endowment income and unrealized appreciation, and restricted plant funds. Restricted expendable net position is restricted by externally-imposed constraints.

Unrestricted net position decreased \$427.1 million during fiscal year 2015 primarily due to the implementation of GASB 68 (refer to note 1 and note 11). Activity in auxiliary units and housing slightly offset the decrease. In fiscal year 2014, unrestricted net position rose \$77.3 million. CTF unrestricted net position comprises \$17.9 million of the increase in the prior year. The remaining prior year increase results from activity in auxiliary units, quasi unrestricted endowments, unrestricted plant funds and unrestricted gift funds.

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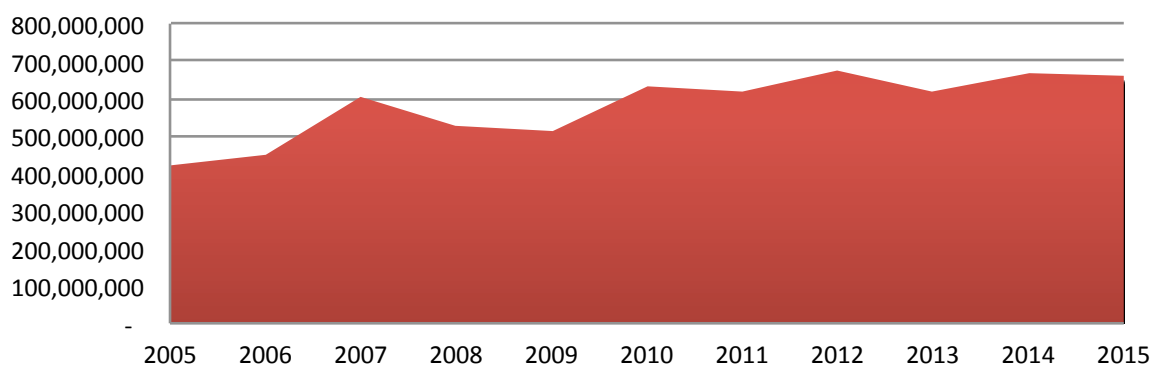
## University Endowments

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.

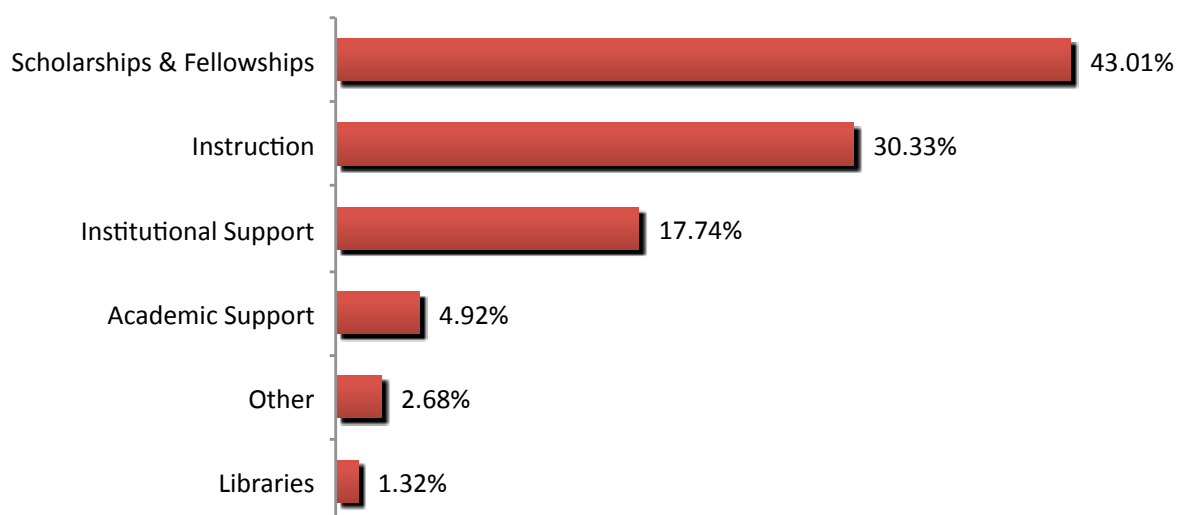
Despite additions to the endowment of \$19.4 million, the University's endowments declined \$9.3 million to \$658.7 million during fiscal year 2015 as a result of unrealized losses.

The University's endowments experienced an increase of \$50.4 million in fiscal 2014 with a September 30 value of \$668.0 million.

### Endowment Pool Market Value (2005-2015) Fiscal Years Ending September 30



### Endowment Pool Earnings By Purpose



## Statements of Revenues, Expenses and Changes in Net Position

The statements of revenues, expenses and changes in net position (SRECNP) present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, both operating and nonoperating, and any other revenues and expenses received or expended by the University. Primary components of the University's operating revenue sources 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 State capital appropriations, capital gifts and grants, additions to permanent endowments, and intragovernmental transfers between the University and CTF, its blended component unit, and other state agencies.

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,		
	2015	2014	2013
Operating revenues			
Tuition and fees	\$ 633,391,063	\$ 572,020,518	\$ 514,370,549
Less: scholarship allowances	(180,673,861)	(152,538,453)	(127,427,695)
Tuition and fees, net	452,717,202	419,482,065	386,942,854
Sponsored programs	78,135,644	72,949,971	72,690,633
Sales and services of educational activities	11,232,780	11,299,340	12,986,742
Auxiliary sales and services, net	172,792,048	148,640,394	144,765,209
Other operating revenues	55,755,300	61,166,131	42,516,071
Total operating revenues	770,632,974	713,537,901	659,901,509
Operating expenses	887,977,454	834,795,390	800,668,320
Operating loss	(117,344,480)	(121,257,489)	(140,766,811)
Nonoperating revenues (expenses)			
State educational appropriations	146,222,914	144,234,844	140,699,910
Gifts	53,728,959	56,587,991	45,366,130
Grants	31,714,496	31,769,026	30,805,700
Investment (loss) income, net	(38,738,483)	57,911,278	64,135,946
Interest expense	(39,690,885)	(35,996,803)	(34,936,244)
Other nonoperating expenses, net	(2,698,702)	(837,766)	(2,079,700)
Net nonoperating revenues	150,538,299	253,668,570	243,991,742
Income before other changes in net position	33,193,819	132,411,081	103,224,931
Other changes in net position			
State capital appropriations	81,796	203,976	769,264
Capital gifts and grants	3,137,703	5,305,187	15,911,727
Additions to permanent endowments	19,373,585	14,385,976	16,999,033
Intragovernmental transfers	22,678,423	903,955	(3,674,528)
Increase in net position	78,465,326	153,210,175	133,230,427
Net position, beginning of year,			
as previously reported	2,132,141,353	1,978,931,178	1,845,700,751
Adoption of GASB 68 adjustment (see note 1)	(455,812,000)	-	-
Net position, beginning of year, as restated,			
as of October 1, 2014	1,676,329,353	1,978,931,178	1,845,700,751
Net position, end of year	\$ 1,754,794,679	\$ 2,132,141,353	\$ 1,978,931,178

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The University's net position increased \$78.5 million, \$153.2 million, and \$133.2 million, for the fiscal years ended September 30, 2015, 2014, and 2013, respectively. Changes in the market resulted in investment losses during fiscal year 2015 which significantly reduced the University's increase in net position as compared to prior years. As noted in the SRECNP, the University experienced operating losses in all fiscal years presented of \$117.3 million, \$121.3 million, and \$140.8 million, respectively. These operating losses highlight the University's dependency on nonoperating revenues, such as State educational appropriations and private gifts, to meet its cost of operations.

## 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 2015 were \$452.7 million, a \$33.2 million increase over 2014's \$419.5 million, which increased \$32.6 million over \$386.9 million in 2013. 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 increased by \$4.4 million in 2015, reflecting an overall increase in sponsored research activity. This increase is due to institutional initiatives to increase sponsored research awards and reverse the declines experienced since the expiration of the American Recovery and Reinvestment Act (ARRA). This increase follows decreases of \$3.1 million in 2014 and \$5.8 million in 2013 as the University experienced a declining federal research and development budget during those years. As mentioned above, ARRA expenditures for 2015 were \$0 due to its expiration, and \$619,000 in 2014. State and local grants and contracts increased approximately \$2.4 million in 2015 following a \$440,000 increase in 2014, collectively, while private grants and contracts decreased \$1.6 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 \$24.2 million, primarily from athletic income, supply store sales, and housing income. The 2015 increase follows a \$3.9 million increase in the prior year, also due to the aforementioned auxiliary units. 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 a decrease of \$5.4 million in 2015 as CTF received signing bonus income in fiscal year 2014. Other operating revenue increased \$18.7 million in fiscal year 2014, of which \$9.9 million stemmed primarily from the aforementioned signing bonus income of CTF.

## Non-Operating Revenues and Expenses

The University's non-operating revenues assist in offsetting the University's operating loss of \$117.3 million for 2015. In fiscal year 2015, the University received \$146.2 million in State educational appropriations for operating purposes and \$53.7 million in private gifts. The University posted a net investment loss of \$38.7 million primarily due to unrealized losses. 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.

Gift revenues decreased \$2.9 million in 2015 due to a decline in quasi-endowment gifts. Gift revenues increased \$11.2 million in 2014 primarily due to increased pledges.

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 Bond and Recovery Zone Economic Development Bond interest reimbursements. In 2015, nonoperating grant revenue decreased slightly to \$31.7 million, from \$31.8 million in 2014.

Both investment and endowment income are combined as investment income on the SRECNP. Investment income decreased \$96.6 million as the University posted substantial unrealized losses in fiscal year 2015. Fiscal year 2014 also ended with a decrease in net investment income from the prior year as the University posted unrealized losses following a more positive market performance in fiscal year 2013.

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## Operating Expenses

The University reports natural classifications of expenditures in the SRECNP. Salaries, wages and benefits increased \$32.1 million to \$575.4 million in 2015 from \$543.3 million in 2014, which was a \$33.1 million increase over \$510.2 million in 2013. 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 an increase of \$12.3 million from 2014. Factors contributing to the increase

include a rise in the Supply Store's cost of goods sold, athletic-related travel expenses, maintenance, and repairs.

Scholarships and fellowships expense is reported net of scholarship allowances. The net expenses of \$23.5 million and \$21.2 million for fiscal years 2015 and 2014, respectively, represent payments made directly to students after awards have been applied against tuition and fees and auxiliary housing charged to student accounts. Gross scholarship expenses totaled \$214.4 million and \$184.5 million, for the years ended September 30, 2015 and 2014, respectively.

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### Operating Expenses (by natural classification)

Years ended September 30,

	2015	2014	2013
Salaries, wages and benefits	\$ 575,450,330	\$ 543,326,645	\$ 510,176,635
Scholarships and fellowships	23,505,262	21,221,373	20,647,980
Supplies and other services	227,772,694	215,442,218	220,120,548
Depreciation	61,249,168	54,805,154	49,723,157
Total operating expenses	<u>\$ 887,977,454</u>	<u>\$ 834,795,390</u>	<u>\$ 800,668,320</u>

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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.

### 2015 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 241,497,266	\$ -	\$ 44,249,767	\$ 14,778,848	\$ 300,525,881
Research	27,635,940	-	20,642,140	4,687,988	52,966,068
Public Service	31,949,787	-	11,717,739	1,492,789	45,160,315
Academic Support	55,087,540	-	12,235,644	12,106,193	79,429,377
Student Services	31,991,023	-	16,984,646	4,476,447	53,452,116
Institutional Support	65,895,728	-	14,099,791	4,102,577	84,098,096
Operations and Maintenance	55,069,937	-	22,854,266	-	77,924,203
Scholarships and Fellowships	-	19,902,736	-	-	19,902,736
Auxiliary Enterprises	66,323,109	3,602,526	84,988,701	19,604,326	174,518,662
	<u>\$ 575,450,330</u>	<u>\$ 23,505,262</u>	<u>\$ 227,772,694</u>	<u>\$ 61,249,168</u>	<u>\$ 887,977,454</u>

### 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>

## Other Changes in Net Position

Capital gifts and grants have declined over the three years presented in the condensed SRECNP. Revenues slightly declined by \$2.2 million in fiscal year 2015 with the closing out of the North Engineering Research Complex. Fiscal year 2014 experienced a decline of \$10.6 million, due to project close out of both the North and South Engineering Research Complexes.

Additions to permanent endowments increased in fiscal year 2015 by \$5.0 million, following a brief decline of \$2.6 million in fiscal year 2014.

Intragovernmental transfers are typically limited to transactions with the Crimson Tide Foundation, a blended component unit of the University; however, during fiscal year 2015 the University purchased the Partlow properties from the ADMH. Because this was a purchase between two state agencies for operating purposes, the difference between the transferor's net book value and the purchase price is considered an intragovernmental transfer.

## Capital Assets and Debt Administration

At September 30, 2015, the University had \$2.5 billion invested in gross capital assets and accumulated depreciation of \$688.4 million, a net of \$1.8 billion as reflected in the schedule below summarizing the University's assets, net of accumulated depreciation. Depreciation expense totaled

\$61.2 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

	2015	2014	2013
Land	\$ 75,579,820	\$ 75,292,818	\$ 74,159,318
Land Improvements	41,932,891	37,903,035	39,332,357
Infrastructure	48,437,454	32,311,381	32,636,908
Buildings and Fixed Equipment	1,428,535,904	1,327,345,111	1,145,732,252
Construction in Progress	71,169,177	53,264,646	134,921,338
Equipment	59,257,633	52,581,588	46,203,430
Library Materials & Collections	46,068,689	37,278,594	27,716,809
Intangible Assets	40,333,702	39,134,455	38,929,318
	<u>\$ 1,811,315,270</u>	<u>\$ 1,655,111,628</u>	<u>\$ 1,539,631,730</u>

Capital asset expenditures for fiscal year 2015 (in millions):

Sewell Thomas Baseball Stadium	\$23.2
Student Organizations (refer to Note 5)	\$21.0
Magnolia Parking Deck	\$10.4
Houser Hall Renovation	\$9.1
General Classroom Building	\$8.7
UAPD Radio System Tower	\$4.2
Central Campus Thermal Piping Extension	\$3.7

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

At September 30, 2015, the University had \$976.3 million of debt outstanding, of which \$24.1 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.

Capital asset expenditures for fiscal year 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 Baseball Stadium	\$3.0
Russell Hall Renovation & Addition	\$2.6
Magnolia Parking Deck	\$2.6

The University's outstanding debt obligations, exclusive of debt discounts and premiums of \$36.6 million, \$38.4

million, and \$20.4 million, respectively, are summarized below. Further information may also be found in Note 9.

### Schedules of Long Term Debt

	2015	2014	2013
Bonds Payable	\$ 885,650,000	\$ 903,490,000	\$ 791,995,000
Notes Payable	54,088,062	8,199,113	8,050,860
	<u>\$ 939,738,062</u>	<u>\$ 911,689,113</u>	<u>\$ 800,045,860</u>

### Statements of Cash Flows

The statements of cash flows present 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

	2015	2014	2013
Cash received from operations	\$ 793,215,180	\$ 723,291,645	\$ 667,566,152
Cash payments from operations	(825,025,055)	(783,057,431)	(743,106,085)
Net cash used in operating activities	(31,809,875)	(59,765,786)	(75,539,933)
Net cash provided by noncapital financing activities	341,733,894	230,056,150	221,004,788
Net cash used in capital and related financing activities	(203,940,609)	(78,892,464)	(83,922,072)
Net cash (used in) provided by investing activities	(159,320,565)	(94,569,419)	4,800,675
Net (decrease) increase in cash and cash equivalents	(53,337,155)	(3,171,519)	66,343,458
Cash and cash equivalents, beginning of year	126,377,370	129,548,889	63,205,431
Cash and cash equivalents, end of year	<u>\$ 73,040,215</u>	<u>\$ 126,377,370</u>	<u>\$ 129,548,889</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 2015, the University used \$31.8 million for operating activities, while \$341.7 million was received from noncapital financing activities. In 2014, the University used \$59.8 million of cash for operating activities, while \$230.1 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 \$203.9 million and \$78.9 million were used in capital and related financing activities during 2015 and 2014, respectively. Cash used in investing activities was \$159.3 million in 2015, while cash used in investing activities in 2014 totaled \$94.6 million.



## Future Economic Outlook

The University has positioned itself to weather the uncertain times our economy experiences. Prudent management, cost containment, conservative budgeting, 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.

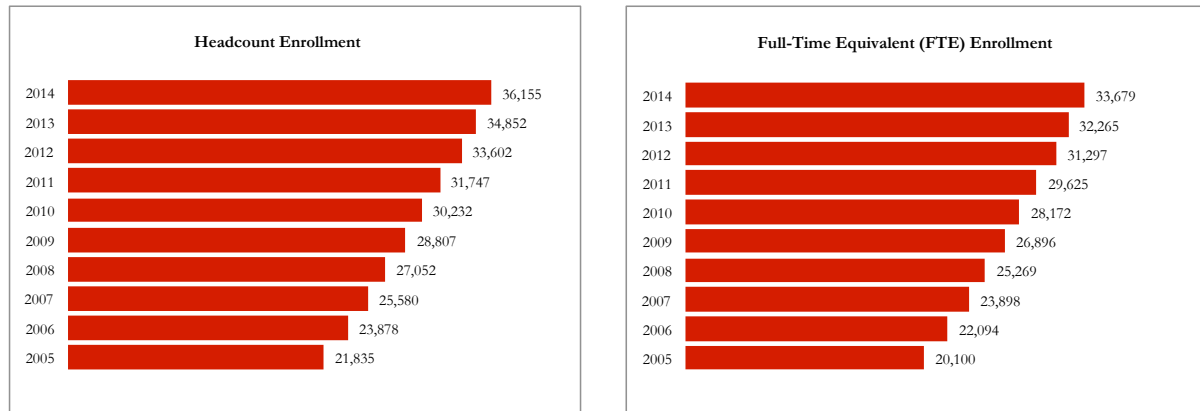
A direct relationship exists between the growth of state support and the University's ability to control tuition growth as declines in state appropriations adversely affect tuition levels. There can be no assurance of future state appropriations. The University expects to be able to absorb this loss 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 36,155 in Fall 2014, a significant increase of 1,303, while Full-time equivalent (“FTE”) enrollment totaled 33,679, an increase of 1,414. The chart below displays counts taken for each fall semester; the last of which (2014), demonstrates enrollment figures occurring for the fall semester of the 2015 fiscal year.



## The University of Alabama Statistical Highlights Fall Semester

Fall Headcount Enrollment	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Undergraduate	30,754	29,443	28,026	26,234	24,884	23,702	22,343	21,082	19,474	17,553
Graduate	4,870	4,851	4,994	4,913	4,726	4,473	3,978	3,851	3,781	3,687
Professional	531	558	582	600	622	632	731	647	623	595
Total Fall Enrollment	36,155	34,852	33,602	31,747	30,232	28,807	27,052	25,580	23,878	21,835

Fall First-Time Freshman Admissions	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Applications	33,736	30,975	26,409	22,136	20,112	19,518	18,500	14,313	12,513	10,707
Admits	17,221	17,515	14,019	9,636	10,790	11,194	11,172	9,140	8,766	7,755
Enrolled	6,856	6,478	6,397	5,772	5,519	5,116	5,116	4,538	4,378	3,735
Percent Admitted	51.0%	56.5%	53.1%	43.5%	53.7%	57.4%	60.4%	63.9%	70.1%	72.4%
Percent Enrolled	39.8%	37.0%	45.6%	59.9%	51.2%	45.7%	45.8%	49.6%	49.9%	48.2%

Degrees Conferred Academic Years Ending May	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06
Baccalaureate	5,662	5,408	5,000	4,482	4,463	4,284	3,713	3,398	3,131	2,815
Master's	1,672	1,645	1,659	1,571	1,513	1,287	1,265	1,237	1,183	1,151
Juris Doctor	144	172	168	175	159	171	172	154	152	172
Educational Specialist	48	28	38	53	44	52	51	83	62	50
Doctoral	379	329	325	252	242	209	192	191	160	181
Total Degrees Conferred	7,905	7,582	7,190	6,533	6,421	6,003	5,393	5,063	4,688	4,369

Academic Years Ending May	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06
Undergraduate and Graduate Tuition										
Tuition Per Full-Time In-State Student	\$9,826	\$9,450	\$9,200	\$8,600	\$7,900	\$7,000	\$6,400	\$5,700	\$5,278	\$4,864
Percent Increase Over Prior Year	4.0%	2.7%	7.0%	8.9%	12.9%	9.4%	12.3%	8.0%	8.5%	5.1%
Tuition Per Full-Time Out-of-State Student	\$24,950	\$23,950	\$22,950	\$21,900	\$20,500	\$19,200	\$18,000	\$16,518	\$15,294	\$13,516
Percent Increase Over Prior Year	4.2%	4.4%	4.8%	6.8%	6.8%	6.7%	9.0%	8.0%	13.1%	6.7%
Law School Tuition										
Tuition Per Full-Time In-State Student	\$21,320	\$20,770	\$19,660	\$18,030	\$15,760	\$14,450	\$12,564	\$11,190	\$9,736	\$8,660
Percent Increase Over Prior Year	2.6%	5.6%	9.0%	14.4%	9.1%	15.0%	12.3%	14.9%	12.4%	6.5%
Tuition Per Full-Time Out-of-State Student	\$36,000	\$34,840	\$32,920	\$30,950	\$28,070	\$26,560	\$24,158	\$22,170	\$19,902	\$18,028
Percent Increase Over Prior Year	3.3%	5.8%	6.4%	10.3%	5.7%	9.9%	9.0%	11.4%	10.4%	7.3%

\*Data provided by the Office of Institutional Research and Assessment



The University of Alabama  
Statements of Net Position  
September 30, 2015 and 2014

	2015	2014
<b>Current assets</b>		
Unrestricted cash and cash equivalents	\$ 59,994,443	\$ 118,389,672
Restricted cash and cash equivalents	10,534,443	2,709,928
Unrestricted short-term investments	212,618,731	214,516,288
Restricted short-term investments	77,146,113	-
Accounts receivable, net	99,255,867	102,155,637
Current portion of notes receivable, net	2,701,798	2,752,636
Current portion of student loans receivable	2,011,646	1,956,516
Current portion of pledges receivable	9,345,092	10,535,857
Inventories	7,407,491	7,623,215
Prepaid expenses and unearned scholarships	82,420,743	72,749,393
Other current assets	1,247,522	1,358,644
<b>Total current assets</b>	<u>564,683,889</u>	<u>534,747,786</u>
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	2,511,329	5,277,770
Endowment and life income investments	658,672,567	667,980,131
Investments for capital activities	180,887,624	320,393,929
Other long-term investments	336,559,461	166,759,779
Notes receivable, net	124,190,244	111,282,107
Student loans receivable, net	9,077,914	9,053,703
Pledges receivable, net	15,140,723	15,773,444
Capital assets, net	1,811,315,270	1,655,111,628
Other noncurrent assets	8,201,430	8,935,917
<b>Total noncurrent assets</b>	<u>3,146,556,562</u>	<u>2,960,568,408</u>
<b>Total assets</b>	<u>3,711,240,451</u>	<u>3,495,316,194</u>
<b>Deferred outflows of resources</b>		
Bond deferred refunding	14,471,215	15,285,207
TRS employer contributions	39,092,939	-
Pension related	12,940,000	-
<b>Total deferred outflows of resources</b>	<u>66,504,154</u>	<u>15,285,207</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 3,777,744,605</u>	<u>\$ 3,510,601,401</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 139,126,040	\$ 134,590,998
Current portion of unearned revenue	261,790,575	240,432,573
Deposits	114,491,781	30,295,768
Current portion of long-term debt	24,085,947	22,047,751
<b>Total current liabilities</b>	<u>539,494,343</u>	<u>427,367,090</u>
<b>Noncurrent liabilities</b>		
Federal refundable loans	8,191,477	8,019,604
Other liabilities	6,163,123	5,604,264
Net pension liability	472,075,000	-
Unearned revenue	9,422,669	9,384,375
Long-term debt, net	952,208,314	928,084,715
<b>Total noncurrent liabilities</b>	<u>1,448,060,583</u>	<u>951,092,958</u>
<b>Total liabilities</b>	<u>1,987,554,926</u>	<u>1,378,460,048</u>
<b>Deferred inflows of resources</b>	<u>35,395,000</u>	<u>-</u>
<b>Net position</b>		
Net investment in capital assets	927,823,421	862,965,092
Restricted		
Nonexpendable	382,130,652	368,301,686
Expendable	316,001,640	344,919,026
Unrestricted	128,838,966	555,955,549
<b>Total net position</b>	<u>1,754,794,679</u>	<u>2,132,141,353</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 3,777,744,605</u>	<u>\$ 3,510,601,401</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, 2015 and 2014

	2015	2014
<b>Operating revenues</b>		
Tuition and fees	\$ 633,391,063	\$ 572,020,518
Less: scholarship allowances	<u>(180,673,861)</u>	<u>(152,538,453)</u>
Tuition and fees, net	452,717,202	419,482,065
Federal grants and contracts	43,578,770	39,215,448
State grants and contracts	27,275,883	26,112,621
Local grants and contracts	2,179,603	957,654
Private grants and contracts	5,101,388	6,664,248
Sales and services of educational activities	11,232,780	11,299,340
Auxiliary sales & services, net of \$10,239,897 in 2015 and \$10,692,070 in 2014 of scholarship allowances	172,792,048	148,640,394
Other operating revenues	<u>55,755,300</u>	<u>61,166,131</u>
<b>Total operating revenues</b>	<u>770,632,974</u>	<u>713,537,901</u>
<b>Operating expenses</b>		
Salaries, wages and benefits	575,450,330	543,326,645
Scholarships and fellowships	23,505,262	21,221,373
Supplies and other services	227,772,694	215,442,218
Depreciation	<u>61,249,168</u>	<u>54,805,154</u>
<b>Total operating expenses</b>	<u>887,977,454</u>	<u>834,795,390</u>
<b>Operating loss</b>	<u>(117,344,480)</u>	<u>(121,257,489)</u>
<b>Nonoperating revenues (expenses)</b>		
State educational appropriations	146,222,914	144,234,844
Gifts	53,728,959	56,587,991
Grants	31,714,496	31,769,026
Investment (loss) income, net	(38,738,483)	57,911,278
Interest expense	(39,690,885)	(35,996,803)
Other nonoperating expenses, net	<u>(2,698,702)</u>	<u>(837,766)</u>
<b>Net nonoperating revenues</b>	<u>150,538,299</u>	<u>253,668,570</u>
<b>Income before other changes in net position</b>	33,193,819	132,411,081
<b>Other changes in net position</b>		
State capital appropriations	81,796	203,976
Capital gifts and grants	3,137,703	5,305,187
Additions to permanent endowments	19,373,585	14,385,976
Intragovernmental transfers	<u>22,678,423</u>	<u>903,955</u>
<b>Increase in net position</b>	<u>78,465,326</u>	<u>153,210,175</u>
Net position, beginning of year, as previously reported	2,132,141,353	1,978,931,178
Adoption of GASB 68 adjustment (see note 1)	(455,812,000)	-
<b>Net position, beginning of year, as restated, as of October 1, 2014</b>	<u>1,676,329,353</u>	<u>1,978,931,178</u>
<b>Net position, end of year</b>	<u>\$ 1,754,794,679</u>	<u>\$ 2,132,141,353</u>

See accompanying notes to financial statements.

The University of Alabama  
Statements of Cash Flows  
For the Years Ended September 30, 2015 and 2014

	2015	2014
<b>Cash flows from operating activities</b>		
Student tuition and fees, net	\$ 472,819,425	\$ 428,481,571
Grants and contracts	75,442,576	75,115,347
Sales and services of educational activities	11,657,869	11,050,534
Other receipts	58,806,155	56,658,798
Auxiliary enterprises	174,489,155	151,985,395
Payments to suppliers	(220,874,657)	(216,196,026)
Payments to employees	(572,261,848)	(539,102,793)
Payments for scholarships and fellowships	(31,809,208)	(27,630,998)
Student loan disbursements	(79,342)	(127,614)
<b>Net cash used in operating activities</b>	<u>(31,809,875)</u>	<u>(59,765,786)</u>
<b>Cash flows from noncapital financing activities</b>		
State educational appropriations	146,222,914	144,234,844
Private gifts	74,926,030	68,314,481
Grants	31,714,496	31,769,026
Student direct lending receipts	186,744,289	175,114,308
Student direct lending disbursements	(187,057,462)	(176,459,521)
Deposits from affiliates	313,173	1,345,213
Other receipts (disbursements)	89,059,391	(13,113,107)
Intragovernmental transfers	(188,937)	(1,149,094)
<b>Net cash provided by noncapital financing activities</b>	<u>341,733,894</u>	<u>230,056,150</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of notes and bonds payable	-	258,496,253
Capital gifts, grants and contracts	646,253	2,124,511
Purchases of capital assets	(139,265,137)	(174,402,920)
Principal payments on capital debt	(27,614,051)	(19,314,497)
Defeasance of debt	-	(111,635,416)
Interest payments on capital debt	(39,792,896)	(36,213,445)
Intragovernmental transfers	2,085,222	2,053,050
<b>Net cash used in capital and related financing activities</b>	<u>(203,940,609)</u>	<u>(78,892,464)</u>
<b>Cash flows from investing activities</b>		
Interest and dividends on investments	45,681,404	40,859,528
Purchases of investments	(336,418,619)	(236,428,925)
Proceeds from sales and maturities of investments	150,202,138	132,669,026
Payments received on notes receivable	8,935,291	6,797,201
Disbursements from issuance of notes receivable	(27,720,779)	(38,466,249)
<b>Net cash used in investing activities</b>	<u>(159,320,565)</u>	<u>(94,569,419)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(53,337,155)</u>	<u>(3,171,519)</u>
<b>Cash and cash equivalents, beginning of year</b>	126,377,370	129,548,889
<b>Cash and cash equivalents, end of year</b>	<u>\$ 73,040,215</u>	<u>\$ 126,377,370</u>

*See accompanying notes to financial statements.*



	2015	2014
Reconciliation of cash and cash equivalents to the statements of net position		
Unrestricted cash and cash equivalents-current	\$ 59,994,443	\$ 118,389,672
Restricted cash and cash equivalents-current and noncurrent	13,045,772	7,987,698
Total cash and cash equivalents	<u>\$ 73,040,215</u>	<u>\$ 126,377,370</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (117,344,480)	\$ (121,257,489)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	61,249,168	54,805,154
Pension expense	38,718,000	-
Bad debt expense	1,982,173	1,314,252
Changes in assets and liabilities		
Accounts and other receivables	3,636,017	(9,075,748)
Inventories and other assets	(6,976,236)	(8,819,778)
Pension obligations	(39,092,939)	-
Accounts payable and accrued liabilities	4,622,127	4,591,908
Unearned revenue	21,396,295	18,675,915
<b>Net cash used in operating activities</b>	<u>\$ (31,809,875)</u>	<u>\$ (59,765,786)</u>
<b>Supplemental noncash activities information</b>		
Gift of capital assets	\$ 2,491,450	\$ 3,180,676
Assets acquired with a liability	98,794,657	23,470,696
Loss on the disposal of capital assets	(7,220,008)	(933,836)
Capital appropriations	81,796	203,976
Crimson Tide Foundation	2,522,274	2,415,166

See accompanying notes to financial statements.

The University of Alabama  
Discretely Presented Component Units  
Statements of Net Position  
2015 and 2014

	2015	2014
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,241,594	\$ 2,775,270
Restricted cash and cash equivalents	13,729,119	10,659,350
Short-term investments	32,934,318	30,196,282
Accounts receivable, net	1,991,649	1,864,781
Current portion of notes receivable, net	828,467	967,054
Current portion of pledges receivable, net	253,373	226,224
Inventories	646,160	526,001
Prepaid expenses and unearned scholarships	125,619	140,403
Other current assets	907,785	829,725
Due from The University of Alabama	<u>397,565</u>	<u>323,093</u>
Total current assets	<u>55,055,649</u>	<u>48,508,183</u>
Noncurrent assets		
Restricted cash and cash equivalents	8,057,200	8,057,200
Endowment investments	79,468,669	81,390,239
Other long-term investments	16,152,853	15,886,844
Pledges receivable, net	132,543	179,446
Capital assets, net	78,326,093	80,170,229
Other noncurrent assets	<u>65,297</u>	<u>65,297</u>
Total noncurrent assets	<u>182,202,655</u>	<u>185,749,255</u>
Total assets	<u>\$ 237,258,304</u>	<u>\$ 234,257,438</u>
<b>Liabilities and net position</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,969,363	\$ 4,054,996
Unearned revenue	4,167,568	4,226,857
Current portion of long-term debt	2,020,000	1,720,000
Due to The University of Alabama	<u>864,683</u>	<u>856,831</u>
Total current liabilities	<u>11,021,614</u>	<u>10,858,684</u>
Noncurrent liabilities		
Other liabilities	5,977,160	4,839,689
Long-term debt, net	88,453,179	90,310,022
Due to The University of Alabama	<u>8,107,088</u>	<u>8,934,839</u>
Total noncurrent liabilities	<u>102,537,427</u>	<u>104,084,550</u>
Total liabilities	<u>113,559,041</u>	<u>114,943,234</u>
Net position		
Net investment in capital assets	(540,796)	(54,679)
Restricted		
Nonexpendable	49,337,420	47,199,014
Expendable	28,018,939	30,751,591
Unrestricted	<u>46,883,700</u>	<u>41,418,278</u>
Total net position	<u>123,699,263</u>	<u>119,314,204</u>
Total liabilities and net position	<u>\$ 237,258,304</u>	<u>\$ 234,257,438</u>

*See accompanying notes to financial statements.*



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The University of Alabama  
Discretely Presented Component Units  
Statements of Revenues, Expenses and Changes in Net Position  
2015 and 2014

	2015	2014
<b>Operating revenues</b>		
Gifts	\$ 9,249,483	\$ 9,070,018
Other operating revenues	34,577,680	34,008,778
Total operating revenues	<u>43,827,163</u>	<u>43,078,796</u>
<b>Operating expenses</b>		
Salaries, wages and benefits	9,919,055	9,817,382
Scholarships and fellowships	3,463,197	3,494,312
Supplies and other services	9,303,343	8,399,273
Depreciation	2,365,336	2,349,455
Contributed services from affiliate	2,687,806	2,403,933
Total operating expenses	<u>27,738,737</u>	<u>26,464,355</u>
Operating income	<u>16,088,426</u>	<u>16,614,441</u>
<b>Nonoperating revenues (expenses)</b>		
Investment (loss) income, net	(207,459)	10,763,999
Interest expense	(6,256,301)	(6,330,089)
Contributions to The University of Alabama	(6,968,263)	(8,130,439)
Change in value of split-interest agreements	(959,150)	(681,499)
Contributed services from affiliate	2,687,806	2,403,933
Net nonoperating expenses	<u>(11,703,367)</u>	<u>(1,974,095)</u>
Increase in net position	4,385,059	14,640,346
<b>Net position, beginning of year</b>	119,314,204	104,673,858
<b>Net position, end of year</b>	<u>\$ 123,699,263</u>	<u>\$ 119,314,204</u>

*See accompanying notes to financial statements.*

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# The University of Alabama

## Notes to Financial Statements

### Years Ended September 30, 2015 and 2014

#### 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 University 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

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liabilities and 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.

**Implementation of New Standard:** During the year ended September 30, 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. These statements revise existing standards for employer financial statements relating to measuring and reporting pension liabilities for multi-employer cost-sharing pension plans provided by the University to its employees. The University is required to recognize a liability equal to its proportionate share of the Teachers' Retirement System of Alabama Plan's net pension liability. The implementation of GASB 68 and 71 resulted in an adjustment to net position of approximately \$455.8 million as of October 1, 2014 (refer to note 11). The standard was not applied retroactively to the 2014 financial statements because the state pension plan did not provide the necessary information.

Other significant accounting policies of the University are as follows:

**Cash and Cash Equivalents:** For purposes of the statements of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents, 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 Long Term Reserve Pool 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 statements 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 student 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.

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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.

Interest costs for certain qualifying assets acquired with the proceeds of tax-exempt borrowings are capitalized and amortized over the life of the related asset.

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 \$6.3 million and \$6.8 million at September 30, 2015 and 2014, 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 \$5.1 million and \$4.5 million at September 30, 2015 and 2014, 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 gift revenue 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, 2015 and 2014 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 statements of net position include both the notes receivable and the related federal refundable loan liability representing federal capital contributions and related activity owed upon termination of the program.



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**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, employer contributions to the Teachers' Retirement System subsequent to the Plan's measurement date (September 30, 2014), and changes in proportion of the allocated pension liability and differences between employer contributions and the employer's proportionate share of the total contributions.

**Deferred Inflows of Resources:** Deferred inflows of resources is composed of the proportionate share of the net difference between projected and actual investment earnings on pension assets.

**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.

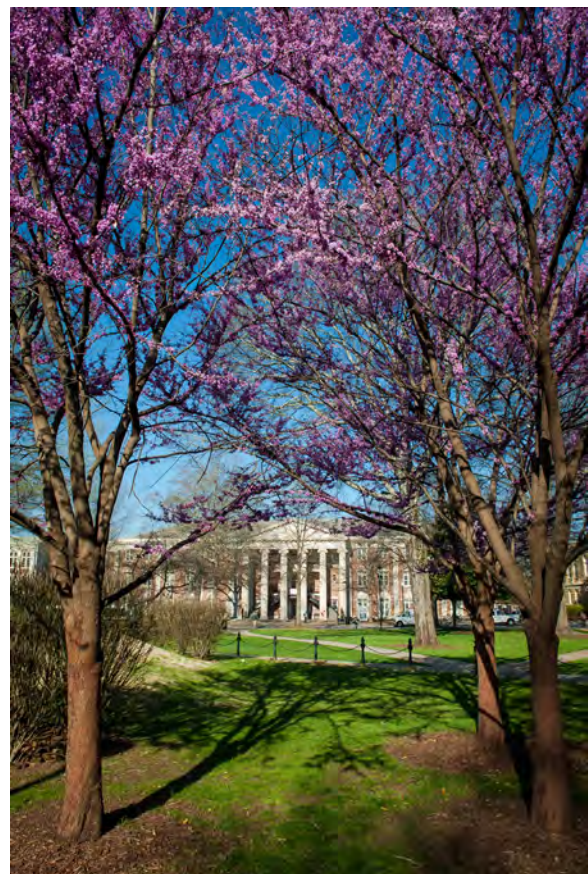
## Note 2 – Component Units

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 Athletics Department and it almost exclusively benefits the University. Gift revenue, which is presented as operating revenue for CTF on its statements of revenues, 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, 2015 and 2014 is included in the University's financial statements and presented as follows:





The Crimson Tide Foundation  
Statements of Net Position  
June 30, 2015 and 2014

	2015	2014
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 142,607	\$ 147,949
Short-term investments	41,046,284	57,971,350
Current portion of pledges receivable, net	4,239,432	4,958,672
Other current assets	5,180	-
Other receivables	853,982	6,017,517
Total current assets	<u>46,287,485</u>	<u>69,095,488</u>
Noncurrent assets		
Restricted cash and cash equivalents	20,075	89,273
Endowment investments	23,031,413	18,693,950
Pledges receivable, net	10,252,341	8,590,866
Other long-term investments	71,638,386	54,208,219
Capital assets, net	4,636,623	4,975,345
Total noncurrent assets	<u>109,578,838</u>	<u>86,557,653</u>
Total assets	<u><u>\$ 155,866,323</u></u>	<u><u>\$ 155,653,141</u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 143,944	\$ 179,097
Unearned revenue	8,704,078	8,541,895
Note payable, current portion	-	598,670
Other current liabilities	252,950	2,378,679
Total current liabilities	<u>9,100,972</u>	<u>11,698,341</u>
<b>Net position</b>		
Net investment in capital assets	4,636,623	4,376,675
Restricted		
Nonexpendable	21,782,972	16,742,253
Expendable	18,071,778	18,076,338
Unrestricted	102,273,978	104,759,534
Total net position	<u>146,765,351</u>	<u>143,954,800</u>
Total liabilities and net position	<u><u>\$ 155,866,323</u></u>	<u><u>\$ 155,653,141</u></u>

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**The Crimson Tide Foundation**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended June 30, 2015 and 2014**

	2015	2014
<b>Operating revenues</b>		
Private gifts	\$ 34,038,459	\$ 30,153,188
Other operating revenues	27,161,159	32,474,064
Total operating revenues	<u>61,199,618</u>	<u>62,627,252</u>
<b>Operating expenses</b>		
Gifts to other foundations	-	75,000
Benefits	912,741	635,103
Scholarships	829,100	769,742
Professional fees	729,040	635,249
Travel	1,399,384	891,290
Supplies	1,692,090	400,460
Conference and entertainment	1,057,938	969,872
Communication and information	68,095	166,783
Rentals	353,076	533,416
Repairs and maintenance	32,288	519,032
Depreciation	338,722	338,721
Other	357,326	182,442
Total operating expenses	<u>7,769,800</u>	<u>6,117,110</u>
Operating income	<u>53,429,818</u>	<u>56,510,142</u>
<b>Nonoperating (expenses) revenues</b>		
Investment (loss) income, net	(2,274,207)	9,865,754
Interest expense	(21,762)	(58,444)
Net nonoperating (expenses) revenues	<u>(2,295,969)</u>	<u>9,807,310</u>
Income before other changes in net position	<u>51,133,849</u>	<u>66,317,452</u>
<b>Other changes in net position</b>		
Additions to permanent endowments	4,932,399	2,967,805
Intergovernmental transfers	(53,255,697)	(45,903,225)
Increase in net position	<u>2,810,551</u>	<u>23,382,032</u>
<b>Net position, beginning of year</b>	<u>143,954,800</u>	<u>120,572,768</u>
<b>Net position, end of year</b>	<u>\$ 146,765,351</u>	<u>\$ 143,954,800</u>

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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 Financial Accounting Standards Board ("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 of accounting.

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 are reported at their fair market values based on published market prices or other observable inputs. These Foundations invest certain amounts in System-sponsored investment pools: the Endowment Fund, the Long Term Reserve Pool Fund, and the Short Term Liquidity Pool 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.

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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 statements of activities and changes in net assets. All interest income and realized and unrealized gains and losses are reported in the statements 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 net 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  
2015

	National Alumni Association June 30, 2015	Law School Foundation June 30, 2015	Donor Advised Fund June 30, 2015
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 131,483	\$ 188,906	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	5,960,368	1,244,839	923,495
Accounts receivable, net	-	-	-
Current portion of notes receivable, net	-	2,000	-
Current portion of pledges receivable	-	176,913	-
Inventories	174,211	-	-
Prepaid expenses and unearned scholarships	29,384	-	-
Other current assets	490,980	308,476	4,438
Due from The University of Alabama	108,869	161,116	-
Total current assets	<u>6,895,295</u>	<u>2,082,250</u>	<u>927,933</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	-	-
Endowment investments	39,425,683	29,891,583	-
Other long-term investments	3,522,176	73,750	2,662,594
Pledges receivable, net	-	63,712	-
Capital assets, net	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	<u>42,947,859</u>	<u>30,029,045</u>	<u>2,662,594</u>
Total assets	<u>\$ 49,843,154</u>	<u>\$ 32,111,295</u>	<u>\$ 3,590,527</u>
<b>Liabilities and net position</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 79,761	\$ 9,510	\$ -
Unearned revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	-	-	-
Total current liabilities	<u>79,761</u>	<u>9,510</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>79,761</u>	<u>9,510</u>	<u>-</u>
Net Position			
Net investment in capital assets	-	-	-
Restricted			
Nonexpendable	25,270,058	24,049,333	-
Expendable	6,281,684	5,844,497	3,546,964
Unrestricted	18,211,651	2,207,955	43,563
Total net position	<u>49,763,393</u>	<u>32,101,785</u>	<u>3,590,527</u>
Total liabilities and net position	<u>\$ 49,843,154</u>	<u>\$ 32,111,295</u>	<u>\$ 3,590,527</u>



The University of Alabama  
Discretely Presented Component Units  
Statements of Net Position, continued  
2015

	Capstone Foundation Sept. 30, 2015	1831 Foundation Sept. 30, 2015	Capstone Health Services Foundation Sept. 30, 2015
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 220,460	\$ 484,162	\$ 2,216,583
Restricted cash and cash equivalents	-	13,729,119	-
Short-term investments	4,510,885	5,469,086	14,825,645
Accounts receivable, net	154,623	-	1,837,026
Current portion of notes receivable, net	-	-	826,467
Current portion of pledges receivable	76,460	-	-
Inventories	103,700	-	368,249
Prepaid expenses and unearned scholarships	96,235	-	-
Other current assets	96,400	7,491	-
Due from The University of Alabama	-	-	127,580
Total current assets	5,258,763	19,689,858	20,201,550
Noncurrent assets			
Restricted cash and cash equivalents	-	8,057,200	-
Endowment investments	10,151,403	-	-
Other long-term investments	8,702,133	1,192,200	-
Pledges receivable, net	68,831	-	-
Capital assets, net	135,111	77,659,777	531,205
Other noncurrent assets	-	-	65,297
Total noncurrent assets	19,057,478	86,909,177	596,502
Total assets	\$ 24,316,241	\$ 106,599,035	\$ 20,798,052
<b>Liabilities and net position</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 163,386	\$ 1,551,614	\$ 2,165,092
Unearned revenue	-	4,167,568	-
Current portion of long-term debt	-	2,020,000	-
Due to The University of Alabama	368,893	495,790	-
Total current liabilities	532,279	8,234,972	2,165,092
Noncurrent liabilities			
Other liabilities	5,977,160	-	-
Long-term debt, net	-	88,453,179	-
Due to The University of Alabama	8,107,088	-	-
Total noncurrent liabilities	14,084,248	88,453,179	-
Total liabilities	14,616,527	96,688,151	2,165,092
Net Position			
Net investment in capital assets	-	(1,072,001)	531,205
Restricted			
Nonexpendable	18,029	-	-
Expendable	8,946,204	3,399,590	-
Unrestricted	735,481	7,583,295	18,101,755
Total net position	9,699,714	9,910,884	18,632,960
Total liabilities and net position	\$ 24,316,241	\$ 106,599,035	\$ 20,798,052

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
<b>Assets</b>			
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>
<b>Liabilities and net position</b>			
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	<u>17,681,471</u>	<u>2,374,376</u>	<u>47,579</u>
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
<b>Assets</b>			
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>
<b>Liabilities and net position</b>			
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>

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The University of Alabama  
Discretely Presented Component Units  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended 2015

	National Alumni Association June 30, 2015	Law School Foundation June 30, 2015	Donor Advised Fund June 30, 2015
<b>Operating revenues</b>			
Gifts	\$ 3,632,181	\$ 1,536,481	\$ 123,111
Other operating revenues	1,242,285	162,694	-
Total operating revenues	<u>4,874,466</u>	<u>1,699,175</u>	<u>123,111</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	-	-	-
Scholarships and fellowships	2,161,160	1,106,005	-
Supplies and other services	1,174,449	536,069	143,897
Depreciation	-	-	-
Contributed services from affiliate	1,413,182	864,183	-
Total operating expenses	<u>4,748,791</u>	<u>2,506,257</u>	<u>143,897</u>
Operating income (loss)	<u>125,675</u>	<u>(807,082)</u>	<u>(20,786)</u>
<b>Nonoperating revenues (expenses)</b>			
Investment (loss) income, net	(212,512)	(185,570)	110,913
Interest expense	-	-	-
Contributions to The University of Alabama	(923,708)	(218,440)	(22,600)
Change in value of split-interest agreements	-	-	-
Contributed services from affiliate	1,413,182	864,183	-
Net nonoperating revenues	<u>276,962</u>	<u>460,173</u>	<u>88,313</u>
Increase (decrease) in net position	402,637	(346,909)	67,527
<b>Net position, beginning of year</b>	<u>49,360,756</u>	<u>32,448,694</u>	<u>3,523,000</u>
<b>Net position, end of year</b>	<u>\$ 49,763,393</u>	<u>\$ 32,101,785</u>	<u>\$ 3,590,527</u>

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The University of Alabama  
Discretely Presented Component Units  
Statements of Revenues, Expenses and Changes in Net Position, Continued  
Years Ended 2015

	Capstone Foundation Sept. 30, 2015	1831 Foundation Sept. 30, 2015	Capstone Health Services Foundation Sept. 30, 2015
<b>Operating revenues</b>			
Gifts	\$ 3,957,710	\$ -	\$ -
Other operating revenues	298,887	14,840,340	18,033,474
Total operating revenues	<u>4,256,597</u>	<u>14,840,340</u>	<u>18,033,474</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	-	-	9,919,055
Scholarships and fellowships	196,032	-	-
Supplies and other services	2,224,572	3,787,621	1,436,735
Depreciation	-	2,339,878	25,458
Contributed services from affiliate	410,441	-	-
Total operating expenses	<u>2,831,045</u>	<u>6,127,499</u>	<u>11,381,248</u>
Operating income	<u>1,425,552</u>	<u>8,712,841</u>	<u>6,652,226</u>
<b>Nonoperating revenues (expenses)</b>			
Investment (loss) income, net	(123,588)	38,476	164,822
Interest expense	-	(6,256,301)	-
Contributions to The University of Alabama	(1,383,808)	-	(4,419,707)
Change in value of split-interest agreements	(959,150)	-	-
Contributed services from affiliate	410,441	-	-
Net nonoperating (expenses) revenues	<u>(2,056,105)</u>	<u>(6,217,825)</u>	<u>(4,254,885)</u>
(Decrease) increase in net position	(630,553)	2,495,016	2,397,341
<b>Net position, beginning of year</b>	<u>10,330,267</u>	<u>7,415,868</u>	<u>16,235,619</u>
<b>Net position, end of year</b>	<u>\$ 9,699,714</u>	<u>\$ 9,910,884</u>	<u>\$ 18,632,960</u>



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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
<b>Operating revenues</b>			
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>
<b>Operating expenses</b>			
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	-	-	-
Contributed services from affiliate	1,387,934	545,831	-
Total operating expenses	<u>4,525,378</u>	<u>2,465,209</u>	<u>58,722</u>
Operating (loss) income	<u>(221,666)</u>	<u>(572,705)</u>	<u>283,095</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income, net	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	-	-	-
Contributed services from affiliate	1,387,934	545,831	-
Net nonoperating revenues (expenses)	<u>5,950,966</u>	<u>4,021,518</u>	<u>(432,566)</u>
 Increase (decrease) in net position	 5,729,300	 3,448,813	 (149,471)
<b>Net position, beginning of year</b>	<u>43,631,456</u>	<u>28,999,881</u>	<u>3,672,471</u>
<b>Net position, end of year</b>	<u><u>\$ 49,360,756</u></u>	<u><u>\$ 32,448,694</u></u>	<u><u>\$ 3,523,000</u></u>

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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
<b>Operating revenues</b>			
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>
<b>Operating expenses</b>			
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
Contributed services from affiliate	470,168	-	-
Total operating expenses	<u>3,123,082</u>	<u>5,545,155</u>	<u>10,746,809</u>
Operating income	<u>987,058</u>	<u>9,718,323</u>	<u>6,420,336</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income, net	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)	-	-
Contributed services from affiliate	470,168	-	-
Net nonoperating expenses	<u>(867,434)</u>	<u>(6,301,402)</u>	<u>(4,345,177)</u>
Increase in net position	119,624	3,416,921	2,075,159
<b>Net position, beginning of year</b>	10,210,643	3,998,947	14,160,460
<b>Net position, end of year</b>	<u>\$ 10,330,267</u>	<u>\$ 7,415,868</u>	<u>\$ 16,235,619</u>

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## 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.

During 2015, the University discontinued using the Federated Treasury Obligation money market fund resulting in a \$35.0 million decrease in cash and cash equivalents. These funds were transferred to the Long Term Reserve Pool Fund. Previously, the System sponsored a short-term fund, which was a short-term investment pool invested in Federated that allowed the System entities to invest operating cash reserves. At the September 2014 Investment Committee meeting of the Board of Trustees of the University of Alabama, the Board approved the consolidation of the Short-Term Fund and the Short Term Liquidity Pool Fund (previously the Intermediate Fund).



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## 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 initially established four distinct investment pools based primarily on the projected investment time-horizons for System funds: the Endowment Fund, Prime Fund, Intermediate Fund and Short-Term Fund (collectively, the “System Pools”). At the September 2014 Investment Committee meeting of The Board of Trustees of The University of Alabama, the committee approved the consolidation of three of the working capital pools to two and a name change for these investment pools. The Intermediate Fund was renamed the Short Term Liquidity Pool Fund (STLPF) and the Prime Investment Fund was renamed the Long Term Reserve Pool Fund (LTRPF). The Short Term Fund (Federated Account) became part of the Short Term Liquidity Pool Fund. The name changes became effective for October 1, 2014. 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.

### Short Term Liquidity Pool Fund

The Short Term Liquidity Pool 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 STLPF 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 STLPF investment managers must be a large mutual fund providing daily liquidity.

### 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 \$73.0 million and \$63.7 million at September 30, 2015 and 2014, respectively.

### Long Term Reserve Pool Fund

The Long Term Reserve Pool 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 LTRPF are valued at cost, unless impaired. The University’s portion of investments which are measured at cost totaled approximately \$643,000 and \$2.1 million at September 30, 2015 and 2014, respectively.

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 fourteen 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 at both September 30, 2015 and September 30, 2014, 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 \$16.6 million and \$11.9 million as of September 30, 2015 and 2014, 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 number of acres evaluated for mineral values is assessed without regard for ownership of the surface or land above and differs from the aforementioned timber land acres.



The composition of investments, by investment type, for the System Pools, at September 30, 2015 and 2014 is as follows:

	Endowment Fund		LTRPF		STLPF		Short Term Fund	
	2015	2014	2015	2014	2015	2014	2015	2014
Receivables:								
Accrued Income Receivables	\$ 732,281	\$ 1,003,301	\$ 928,183	\$ 881,205	\$ 2,875,267	\$ 3,704,124	\$ -	\$ -
Total Receivables	732,281	1,003,301	928,183	881,205	2,875,267	3,704,124	-	-
Cash Equivalents:								
Money Market Funds	45,827,694	57,886,211	53,715,774	40,085,105	107,786,001	89,200,493	-	176,466,706
Total Cash Equivalents	45,827,694	57,886,211	53,715,774	40,085,105	107,786,001	89,200,493	-	176,466,706
Equities:								
U. S. Common Stock	91,674,908	91,626,275	78,549,689	64,167,500	-	-	-	-
U. S. Preferred Stock	-	1,081,641	-	970,703	-	-	-	-
Non-U.S. Stock	6,733,725	9,122,500	7,331,290	7,016,834	-	-	-	-
Total Equities	98,408,633	101,830,416	85,880,979	72,155,037	-	-	-	-
Fixed Income Securities:								
U.S. Government Obligations	11,925,085	16,426,862	17,681,310	14,060,742	233,056,868	356,983,685	-	-
Mortgage Backed Securities	-	-	-	-	155,032,472	107,336,734	-	-
Collateralized Mortgage Obligations	-	-	-	-	22,197,142	36,037,561	-	-
Corporate Bonds	22,370,872	32,525,648	32,050,655	25,320,584	185,111,586	243,885,772	-	-
Non-U. S. Bonds	2,573,773	4,717,740	3,857,095	3,586,194	67,420,921	86,740,041	-	-
Total Fixed Income Securities	36,869,730	53,670,250	53,589,060	42,967,520	662,818,989	830,983,793	-	-
Commingled Funds:								
U. S. Equity Funds	-	70,497,226	52,678,292	90,049,678	-	-	-	-
Non-U. S. Equity Funds	196,196,151	299,154,328	299,302,691	277,766,811	-	-	-	-
U. S. Bond Funds	59,672,727	59,672,727	55,754,545	44,754,545	208,669,176	88,967,993	-	-
Non-U. S. Bond Funds	27,041,898	62,211,203	33,568,513	61,965,572	-	-	-	-
Hedge Funds	448,537,456	237,682,807	528,911,449	196,514,795	-	-	-	-
Private Equity Funds	77,314,663	67,605,100	-	-	-	-	-	-
Real Estate Funds	121,833,226	136,647,983	67,950,890	90,219,359	-	-	-	-
Total Commingled Funds	930,596,121	933,471,374	1,038,166,380	761,270,760	208,669,176	88,967,993	-	-
Total Fund Investments	1,111,702,178	1,146,858,251	1,231,352,193	916,478,422	979,274,166	1,009,152,279	-	176,466,706
Total Fund Assets	1,112,434,459	1,147,861,552	1,232,280,376	917,359,627	982,149,433	1,012,856,403	-	176,466,706
Total Fund Liabilities	(138,496)	(254,559)	(100,561)	(175,311)	(320,823)	(566,898)	-	-
Affiliated Entity Investments	(145,926,518)	(147,147,272)	(72,859,331)	(56,162,298)	(76,155,181)	(106,232,340)	-	-
Total Net Asset Value	\$ 966,369,445	\$1,000,459,721	\$1,159,320,484	\$ 861,022,018	\$ 905,673,429	\$ 906,057,165	\$ -	\$ 176,466,706

The composition of investments, by investment type, for the University's investments, at September 30, 2015 and 2014 is as follows:

	2015	2014
<b>Cash, Receivables and Equivalents</b>		
Regions Trust Cash	\$ 80,752,875	\$ 140,072,513
Money Market Funds	-	281,192
Other	34,500	37,200
Total Cash, Receivables and Equivalents	80,787,375	140,390,905
<b>Equities</b>		
Common Stock	4,044,043	4,752,129
Total Equities	4,044,043	4,752,129
<b>Fixed Income Securities</b>		
U.S. Government Obligations	180,948	170,322
Total Fixed Income Securities	180,948	170,322
<b>Commingled Funds</b>		
U.S. Equity Funds	5,212,544	9,209,156
Non-U.S. Equity Funds	610,709	-
U.S. Bond Funds	2,771,017	3,009,671
Private Equity Funds	120,192	175,938
Total Commingled Funds	8,714,462	12,394,765
<b>Total Real Estate</b>	72,654,935	67,951,043
<b>System Pooled Investments</b>		
Endowment Fund	579,582,434	593,030,952
Long Term Reserve Pool Fund	391,683,792	243,611,148
Short Term Liquidity Pool Fund	328,236,507	307,348,863
Federated Short Term Fund	-	35,035,997
Total System Pooled Investments	1,299,502,733	1,179,026,960
<b>Less Short-Term Fund Cash Equivalents</b>	-	(35,035,997)
<b>Total University Investments</b>	\$ 1,465,884,496	\$ 1,369,650,127



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### 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 Long Term Reserve Pool 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 Long Term Reserve Pool Funds include corporate and U.S. treasury and/or agency bonds with a minimum BBB- rating and an average duration of four years. In addition, approximately \$1.4 million and \$1.5 million in the Endowment and Long Term Reserve Pool Funds, at September 30, 2015 and 2014, respectively, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$275.6 million and \$326.6 million in the Endowment and Long Term Reserve Pool Funds, at September 30, 2015 and 2014, respectively.

The Short Term Liquidity Pool 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, 2015 and 2014, approximately \$86.7 million and \$64.9 million, respectively, was invested by the Short Term Liquidity Pool Fund in unrated fixed income securities; excluding commingled bond funds and money market funds. Fixed income commingled funds and commercial paper totaled approximately \$316.5 million and \$178.2 million at September 30, 2015 and 2014, respectively.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2015 and 2014 is as follows:

2015				
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund	Short Term Fund
Fixed or Variable Income Securities				
U.S. Government Obligations	\$ 11,925,085	\$ 17,681,310	\$ 233,056,868	\$ -
Other U.S. Denominated:				
AAA	-	-	76,994,388	-
AA	5,308,729	7,818,545	56,012,019	-
A	10,171,266	14,500,606	99,306,842	-
BBB	8,504,328	12,154,468	77,043,546	-
BB	410,273	634,058	21,027,641	-
B	-	-	8,654,442	-
C and < C	-	-	4,052,387	-
Unrated	550,050	800,073	86,670,856	-
Commingled Funds:				
U.S. Bond Funds: Unrated	59,672,727	55,754,545	208,669,176	-
Non-U.S. Bond Funds: Unrated	27,041,898	33,568,513	-	-
Money Market Funds: Unrated	45,827,694	53,715,774	107,786,001	-
Total	<u>\$ 169,412,050</u>	<u>\$ 196,627,892</u>	<u>\$ 979,274,166</u>	<u>\$ -</u>

2014				
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool 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. 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>



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, 2015 and 2014 is as follows:

	2015	2014
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$ 180,948	\$ 170,322
Other U.S. Dollar, Money Market Funds, and Commingled Bonds		
AAA	1,055,079	1,199,215
AA	-	226,210
A	226,448	218,333
BBB	675,127	348,861
BB	362,658	347,703
B	311,352	332,833
Below B	7,866	38,689
Unrated	132,487	579,019
Total	<u>\$ 2,951,965</u>	<u>\$ 3,461,185</u>



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**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, 2015 and 2014, 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.

**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, 2015 and 2014 are as follows:

(The information presented below does not take into account the relative weighting of the portfolio components to the total portfolio.)

	Endowment Fund		Long Term Reserve Pool Fund		Short Term Liquidity Pool Fund	
	2015	2014	2015	2014	2015	2014
U.S. Government Obligations	7.3	7.1	7.2	6.5	1.7	3.2
Corporate Bonds	4.4	3.8	4.4	3.8	2.0	1.9
Non-U. S. Bonds	-	-	-	-	2.0	1.9
Commingled Bond Funds	2.4	2.3	2.1	2.2	2.7	2.8

The effective durations for fixed or variable income securities, for the University's separately held investments, at September 30, 2015 and 2014 are as follows:

	2015	2014
U.S. Government Obligations	13.2	13.6
Commingled Bond Funds	2.9	2.7



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, 2015 and 2014 the fair market value of these investments, for the System Pools, are as follows:

	2015		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	\$ -	\$ -	\$ 155,032,472
Collateralized Mortgage Obligations	-	-	22,197,142
Total Fixed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 177,229,614</u>

	2014		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	\$ -	\$ -	\$ 107,336,734
Collateralized Mortgage Obligations	-	-	36,037,561
Total Fixed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,374,295</u>

*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 relationship 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, 2015 and 2014, the effective durations for these securities held in the System Pools are listed below. At September 30, 2015 and 2014, the University did not hold any investments in these security types outside of the System Pools.

	2015		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	-	-	1.1
Collateralized Mortgage Obligations	-	-	0.9

	2014		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	-	-	1.3
Collateralized Mortgage Obligations	-	-	1.0

### Foreign Currency Risk

The strategic asset allocation policy for the Endowment Fund and the Long Term Reserve Pool 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, 2015 and 2014, 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 \$67.4 million and \$86.7 million of foreign bonds denominated in U.S. dollars and held by the Short Term Liquidity Pool Fund at September 30, 2015 and 2014, respectively. At September 30, 2015 and 2014, 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, 2015 and 2014, 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.

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. This note was fully paid off during fiscal year 2015.

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 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 3.55% to 5.73% with terms up to 40 years.

The composition of accounts receivable and notes receivable at September 30, 2015 and 2014 is summarized as follows:

	2015	2014
<b>Accounts Receivable</b>		
Student accounts	\$ 63,602,344	\$ 67,594,056
Receivables from sponsoring agencies	23,295,323	16,407,938
Accrued interest receivable	10,012,346	8,139,065
Other	6,750,661	13,728,177
Total accounts receivable	103,660,674	105,869,236
Less provision for doubtful accounts	(4,404,807)	(3,713,599)
<b>Accounts receivable, net</b>	<b>\$ 99,255,867</b>	<b>\$ 102,155,637</b>
<b>Notes Receivable</b>		
Note receivable from The University of Alabama System	\$ -	\$ 2,000,000
Notes receivable from student organizations	126,892,042	112,034,743
Total notes receivable	126,892,042	114,034,743
Less current portion	(2,701,798)	(2,752,636)
<b>Notes receivable, noncurrent</b>	<b>\$ 124,190,244</b>	<b>\$ 111,282,107</b>





## 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, 2015 and 2014, is summarized as follows:

	2015	2014
<b>Loans receivable</b>		
Federal loan program	\$ 13,041,680	\$ 12,932,699
University loan funds	1,744,597	1,774,237
Less allowance for doubtful loans	(3,696,717)	(3,696,717)
Total loans outstanding, net	11,089,560	11,010,219
Less current portion	(2,011,646)	(1,956,516)
<b>Total loans outstanding, noncurrent</b>	<b>\$ 9,077,914</b>	<b>\$ 9,053,703</b>
<b>Pledges outstanding</b>		
Operations	\$ 21,869,928	\$ 23,766,315
Capital	4,069,143	4,025,633
Less allowance for doubtful pledges	(1,453,256)	(1,482,647)
Total pledges, net	24,485,815	26,309,301
Less current portion	(9,345,092)	(10,535,857)
<b>Total pledges, noncurrent</b>	<b>\$ 15,140,723</b>	<b>\$ 15,773,444</b>





## 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, 2015 and 2014 are summarized as follows:

	Balance October 1, 2014	Additions	Retirements/ Transfers	Balance September 30, 2015
Nondepreciable capital assets:				
Land	\$ 75,292,818	\$ 287,002	\$ -	\$ 75,579,820
Collections	24,467,754	310,922	(10,200)	24,768,476
Construction in progress	53,264,646	122,059,256	(104,154,725)	71,169,177
Total nondepreciable capital assets	<u>153,025,218</u>	<u>122,657,180</u>	<u>(104,164,925)</u>	<u>171,517,473</u>
Depreciable capital assets:				
Land improvements	59,446,527	6,623,489	(50,267)	66,019,749
Infrastructure	59,957,261	18,552,118	-	78,509,379
Buildings and fixed equipment	1,678,011,559	169,262,063	(28,594,222)	1,818,679,400
Equipment	143,173,462	18,480,215	(4,134,300)	157,519,377
Library materials	110,692,589	10,478,453	-	121,171,042
Intangible assets	84,647,317	4,060,419	(2,436,699)	86,271,037
Total depreciable capital assets	<u>2,135,928,715</u>	<u>227,456,757</u>	<u>(35,215,488)</u>	<u>2,328,169,984</u>
Less accumulated depreciation:				
Land improvements	21,543,492	2,593,633	(50,267)	24,086,858
Infrastructure	27,645,880	2,426,045	-	30,071,925
Buildings and fixed equipment	350,666,448	39,786,970	(309,922)	390,143,496
Equipment	90,591,874	11,592,268	(3,922,398)	98,261,744
Library materials	97,881,749	1,989,080	-	99,870,829
Intangible assets	45,512,862	2,861,172	(2,436,699)	45,937,335
Total accumulated depreciation	<u>633,842,305</u>	<u>61,249,168</u>	<u>(6,719,286)</u>	<u>688,372,187</u>
Total depreciable capital assets, net	<u>1,502,086,410</u>	<u>166,207,589</u>	<u>(28,496,202)</u>	<u>1,639,797,797</u>
Total capital assets, net	<u>\$ 1,655,111,628</u>	<u>\$ 288,864,769</u>	<u>\$ (132,661,127)</u>	<u>\$ 1,811,315,270</u>

	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	<u>231,032,714</u>	<u>148,174,063</u>	<u>(226,181,559)</u>	<u>153,025,218</u>
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	<u>1,891,306,754</u>	<u>293,189,768</u>	<u>(48,567,807)</u>	<u>2,135,928,715</u>
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	<u>582,707,738</u>	<u>54,805,154</u>	<u>(3,670,587)</u>	<u>633,842,305</u>
Total depreciable capital assets, net	<u>1,308,599,016</u>	<u>238,384,614</u>	<u>(44,897,220)</u>	<u>1,502,086,410</u>
Total capital assets, net	<u>\$ 1,539,631,730</u>	<u>\$ 386,558,677</u>	<u>\$ (271,078,779)</u>	<u>\$ 1,655,111,628</u>

## Note 8 – Construction Commitments and Financing

The University has contracted for the construction and renovation of several facilities. At September 30, 2015 and 2014, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$124.6 million and \$56.9 million, respectively, which is expected to be financed from grants, bond proceeds, University funds, and private gifts. The \$67.7 million increase primarily results from construction costs to complete the General Classroom Building, Sewell

Thomas Baseball Stadium and Peter Bryce Boulevard/North Campus Way roadway.

## Note 9 – Long-term Debt

During fiscal year 2015, Standard & Poor's Ratings Services raised the long term and underlying bond rating to AA from AA- on the University's outstanding general revenue bonds. The outlook on all ratings is stable.

Long-term debt activity for the years ended September 30, 2015 and 2014 is summarized as follows:

Type/Supported by	Balance October 1, 2014	New Debt	Principal Repayment	Balance September 30, 2015
Notes payable				
Crimson Tide Foundation airplane	\$ 598,670	\$ -	\$ 598,670	\$ -
Student housing revenue	2,536,921	-	221,098	2,315,823
Rental income	977,320	-	116,433	860,887
Bryce/Partlow Property	3,000,000	55,663,000	8,566,300	50,096,700
General fee	1,086,200	-	271,550	814,650
Bonds				
Student housing revenue	196,437,159	-	1,174,195	195,262,964
Fraternities/Sororities	40,345,436	-	6,574,064	33,771,372
Intercollegiate athletics	211,592,987	-	4,036,979	207,556,008
Auxiliaries	44,319,197	-	2,002,239	42,316,958
General fee	410,795,223	-	4,052,523	406,742,700
	<u>911,689,113</u>	<u>\$ 55,663,000</u>	<u>\$ 27,614,051</u>	<u>939,738,062</u>
Plus net unamortized bond premium/discount	38,443,353			36,556,199
Less current portion	(22,047,751)			(24,085,947)
	<u>\$ 928,084,715</u>			<u>\$ 952,208,314</u>

Type/Supported by	Balance October 1, 2013	New Debt	Principal Repayment	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>911,689,113</u>
Plus net unamortized bond premium/discount	20,423,136			38,443,353
Less current portion	(22,042,947)			(22,047,751)
	<u>\$ 798,426,049</u>			<u>\$ 928,084,715</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, 2015, 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
2016	\$ 6,190,947	\$ 17,895,000	\$ 24,085,947	\$ 161,011	\$ 40,533,112	\$ 40,694,123	\$ 64,780,070
2017	6,207,297	18,405,000	24,612,297	144,661	39,844,789	39,989,450	64,601,747
2018	6,224,473	22,035,000	28,259,473	127,485	39,085,347	39,212,832	67,472,305
2019	5,970,970	23,665,000	29,635,970	109,438	38,158,325	38,267,763	67,903,733
2020	5,819,568	27,370,000	33,189,568	91,741	37,146,442	37,238,183	70,427,751
2021-2025	23,005,454	162,240,000	185,245,454	284,500	163,681,590	163,966,090	349,211,544
2026-2030	669,353	201,630,000	202,299,353	95,362	121,344,178	121,439,540	323,738,893
2031-2035	-	221,090,000	221,090,000	-	74,416,789	74,416,789	295,506,789
2036-2040	-	147,055,000	147,055,000	-	29,414,011	29,414,011	176,469,011
2041-2044	-	44,265,000	44,265,000	-	3,753,100	3,753,100	48,018,100
	<u>\$ 54,088,062</u>	<u>\$ 885,650,000</u>	<u>\$ 939,738,062</u>	<u>\$ 1,014,198</u>	<u>\$ 587,377,683</u>	<u>\$ 588,391,881</u>	<u>\$ 1,528,129,943</u>

Pledged revenues for the years ended September 30, 2015 and 2014 as defined by outstanding bond covenants are as follows:

	2015	2014
Tuition and fees	\$ 633,391,063	\$ 572,020,518
Sales and services of educational activities	11,232,780	11,299,340
Auxiliary sales and services	183,031,945	159,332,464
Investment income	45,681,404	40,859,528
Other operating revenue	55,755,300	61,166,131
Total pledged revenues	<u>\$ 929,092,492</u>	<u>\$ 844,677,981</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 2014 defeased indebtedness at both September 30, 2015 and 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 2015 of \$929.1 million, the projected maximum annual debt service requirement of \$71.2 million in 2022 is covered approximately 13.1 times by pledged revenues. The University is in compliance with all covenants as of September 30, 2015.

In November 2014, the University finalized a purchase agreement with the 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.

In February 2015, the University finalized an additional purchase agreement with the ADMH for approximately 244 acres of land and certain other defined appurtenances of the property, referred to as the Partlow Property II. This \$23.7 million purchase is also payable over a ten-year period.

The University and the ADMH are both component units of the State of Alabama; therefore, the University's purchase of the Partlow Properties was recorded as an asset at the net book value of the assets as held by the ADMH. The difference between the net book value and the amount paid for the Properties is recognized as an intragovernmental transfer. Additionally, as part of the purchase agreements for the Partlow Properties, the University leases back some of the buildings to the ADMH who continues to operate the mental health facilities. The leaseback period is 99 years.

The following is a detailed schedule of long-term debt as of September 30, 2015:

Description	Date Issued	Final Maturity	Interest Rate-%	Original Debt	Outstanding Debt
Bonds Payable:					
General Fee Revenue Bond Series 2008A	8/1/08	7/1/34	3.0-5.0	\$ 45,425,000	\$ 38,485,000
General Fee Revenue Bond Series 2006A	9/1/06	7/1/36	4.125-5.0	14,970,000	14,935,000
General Fee Revenue Bond Series 2006B	9/1/06	7/1/23	5.22-5.9	23,750,000	13,720,000
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	26,720,000
General Fee Revenue Bond Series 2010A	7/1/2010	7/1/40	2.0-5.875	16,495,000	14,690,000
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	12,915,000
General Fee Revenue Bond Series 2012A	10/16/12	7/1/42	3.0-5.0	265,655,000	263,670,000
General Fee Revenue Bond Series 2012B	10/16/12	7/1/19	1.4-3.0	20,290,000	12,000,000
General Fee Revenue Bond Series 2014A	8/28/14	7/1/21	5.0	25,780,000	22,565,000
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				957,415,000	885,650,000
Notes payable:					
U.S. Department of Education	7/20/89	4/15/19	3.0	3,188,000	632,929
U.S. Department of Education	3/23/00	1/1/30	5.5	2,483,000	1,682,896
Geist LLC Promissory Note	1/24/07	2/1/21	6.0	1,800,000	860,887
Key Government Finance	6/15/14	7/15/18	0.0	1,357,750	814,650
Department of Mental Health (Partlow I)	11/14/14	11/14/23	0.0	32,000,000	28,800,000
Department of Mental Health (Partlow II)	2/27/15	2/27/24	0.0	23,663,000	21,296,700
Total notes payable				64,491,750	54,088,062
Total bonds and notes payable				\$1,021,906,750	\$ 939,738,062



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## 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 for general liability at both September 30, 2015 and 2014.

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, 2015 and 2014 are summarized as follows:

	2015	2014
Balance, beginning of year	\$ 2,893,000	\$ 2,619,000
Claims paid	(38,847,539)	(34,222,203)
Contributions	39,091,539	34,496,203
Balance, end of year	<u>\$ 3,137,000</u>	<u>\$ 2,893,000</u>





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## 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.

### **Defined Benefit Plan - TRS**

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

*Benefits provided.* State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. 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. Benefits for TRS members vest after 10 years of creditable service. Tier 1 members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life 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. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 1 members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

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

*Contributions.* Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. All regular employees of the University are members of the TRS with the exception of temporary employees. Contributions for covered employees are mandatory for both employee and employer.

The University's contractually required contribution rate for the year ended September 30, 2015 was 11.71% of annual pay for Tier 1 members and 11.05% of annual pay for Tier 2 members. The University's contribution rate for the year ended September 30, 2014 was 11.71% of annual pay for Tier 1 members and 11.08% of annual pay for Tier 2 members.

These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year,

with an additional amount to finance any unfunded accrued liability. The total contribution requirement for fiscal years 2015, 2014, and 2013 are as follows:

	2015	2014	2013
Employer Contributions	\$ 40,316,700	\$ 38,347,640	\$ 31,722,050
Employee Contributions	25,244,339	24,286,691	23,531,566
Total Contributions	<u>\$ 65,561,039</u>	<u>\$ 62,634,331</u>	<u>\$ 55,253,616</u>

Pensionable salaries and wages for covered employees participating in TRS were approximately \$347.9 million during fiscal year 2015 and \$329.6 million during fiscal year 2014.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At September 30, 2015, the University reported a liability of \$472,075,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September

30, 2013. The University's proportion of the collective net pension liability was based on the employer's shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2014 the University's proportion was 5.20%, which was an increase of 0.16% from its proportion measured as of September 30, 2013.

For the year ended September 30, 2015, the University recognized pension expense of \$38.7 million. At September 30, 2015 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	35,395,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	12,940,000	-
Employer contributions subsequent to the measurement date	39,092,939	-
Total	<u>\$ 52,032,939</u>	<u>\$ 35,395,000</u>

\$39.1 million reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended September 30:**

2016	\$ (5,840,000)
2017	(5,840,000)
2018	(5,840,000)
2019	(5,840,000)
2020	905,000
Thereafter	0

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of September 30, 2013 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.5% - 8.25%
*Net of pension plan investment expense	

The actuarial assumptions used in the actuarial valuation as of September 30, 2013, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012.

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

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	25.00%	5.00%
U.S. Large Stocks	34.00%	9.00%
U.S. Mid Stocks	8.00%	12.00%
U.S. Small Stocks	3.00%	15.00%
International Developed Market Stocks	15.00%	11.00%
International Emerging Market Stocks	3.00%	16.00%
Real Estate	10.00%	7.50%
Cash	2.00%	1.50%
<b>Total</b>	<b>100.00%</b>	
*Includes assumed rate of inflation of 2.5%		

*Discount rate.* The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate.* The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 8%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Rate (8.00%)	1% Increase (9.00%)
University's proportionate share of collective net pension liability	\$ 643,113,000	\$ 472,075,000	\$ 327,109,000

*Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2014. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2014. The auditor's report dated May 1, 2015 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2014 along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

#### Defined Contribution Plans

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 employee's 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 2015 and 2014, excluding amounts not eligible for matching, was approximately \$19.2 million and \$18.5 million, which included approximately \$9.6 million and \$9.2 million each from the University and its employees. Salaries and wages for covered employees participating in TIAA – CREF or VALIC were approximately \$225.7 million and \$213.5 million, respectively, during the fiscal years 2015 and 2014.

## 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, 2015:

#### 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

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The required contribution rate of the employer was \$370 per employee per month in the year ended September 30, 2015. The University paid \$8.1 million and \$7.5 million for the years ended September 30, 2015 and 2014 for 1,848 and 1,790 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 \$25.3 million and \$24.4 million as of September 30, 2015 and 2014, 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, 2015 and 2014, respectively, the University disbursed approximately \$187.1 million and \$176.5 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, 2015 and 2014 are summarized as follows:

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total 2015
Instruction	\$ 241,497,266	\$ -	\$ 44,249,767	\$ 14,778,848	\$ 300,525,881
Research	27,635,940	-	20,642,140	4,687,988	52,966,068
Public Service	31,949,787	-	11,717,739	1,492,789	45,160,315
Academic Support	55,087,540	-	12,235,644	12,106,193	79,429,377
Student Services	31,991,023	-	16,984,646	4,476,447	53,452,116
Institutional Support	65,895,728	-	14,099,791	4,102,577	84,098,096
Operations and Maintenance	55,069,937	-	22,854,266	-	77,924,203
Scholarships and Fellowships	-	19,902,736	-	-	19,902,736
Auxiliary Enterprises	66,323,109	3,602,526	84,988,701	19,604,326	174,518,662
	<u>\$ 575,450,330</u>	<u>\$ 23,505,262</u>	<u>\$ 227,772,694</u>	<u>\$ 61,249,168</u>	<u>\$ 887,977,454</u>

	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>

## Note 17 – Other Noncurrent Assets and Liabilities

The composition of other noncurrent assets at September 30, 2015 and 2014 is summarized as follows:

	2015	2014
Receivable from The Capstone Foundation	\$ 8,200,353	\$ 8,934,839
Other	1,077	1,078
	<u>\$ 8,201,430</u>	<u>\$ 8,935,917</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 or losses earned thereon and are shown as a receivable from the Capstone Foundation. Unrealized gains or losses earned each year on the corpus are added to or subtracted from 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, 2015 and 2014, is as follows:

	2015	2014
<b>Federal loan funds</b>		
Federal refundable loans, beginning of year	\$ 8,019,604	\$ 8,036,873
Deposits received	615,719	501,142
Deposits disbursed	(443,846)	(518,411)
<b>Federal refundable loans, end of year</b>	<u>\$ 8,191,477</u>	<u>\$ 8,019,604</u>
<b>Other liabilities</b>		
Split interest agreement obligations, beginning of year	\$ 4,492,916	\$ 4,330,257
New annuities	-	-
Terminated annuities	-	-
Investment income	3,635	488,485
Payments on obligations	(516,922)	(499,420)
Actuarial change in obligations	1,012,663	113,528
Other income	63,863	60,066
Total split interest agreement obligations	5,056,155	4,492,916
Less current portion	(521,296)	(504,533)
Split interest agreement obligations, end of year	4,534,859	3,988,383
General liability trust fund	1,628,264	1,615,881
<b>Total other liabilities</b>	<u>\$ 6,163,123</u>	<u>\$ 5,604,264</u>

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## Note 18 – Grants and Contracts

At September 30, 2015, the University had been awarded approximately \$37.0 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, 2015.

The American Recovery and Reinvestment Act (ARRA) expired during fiscal year 2014 thus no funds were received in 2015. Funds of \$619,000 were received during fiscal year 2014, primarily in the form of sponsored research grants.

## Note 19 – Recently Issued Pronouncements

The GASB issued Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”), in February 2015. The objective of this statement is to provide guidance for determining a fair value measurement for financial reporting purposes and enhanced disclosures regarding fair value financial instruments, including the categorization of investment fair value measurements into Levels 1, 2 and 3. This Statement is effective for financial statements for periods beginning after June 15, 2015. The University is evaluating whether there will be any material impact from its adoption of GASB 72.

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

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

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

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

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## The University of Alabama Required Supplementary Information

### **Schedule of The University of Alabama's Proportionate Share of the Net Pension Liability Teachers' Retirement Plan of Alabama**

	2015
Employer's proportion of the net pension liability	5.20%
Employer's proportionate share of the collective net pension liability	\$ 472,075,000
Employer's covered-employee payroll during the measurement period	350,373,093
Employer's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	134.73%
Plan fiduciary net position as a percentage of the total collective pension liability	71.01%

### **Schedule of The University of Alabama's Contributions Teachers' Retirement Plan of Alabama**

	2015
Contractually required contribution	\$ 39,092,939
Contributions in relation to the contractually required contribution	39,092,939
Contribution deficiency (excess)	-
Employer's covered-employee payroll	371,870,647
Contributions as a percentage of covered-employee payroll	10.51%

#### Notes to Schedules

Employer's covered-employee payroll: The total payroll paid to employees (not just pensionable payroll).

Measurement period: For fiscal year 2015, the measurement period is October 1, 2013 - September 30, 2014.

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