

# FINANCIAL REPORT



*2016 – 2017*





# 2016-2017 Financial Report

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January 19, 2018

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 20 through 25, 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





## **Report of Independent Auditors**

To the Board of Trustees of The University of Alabama:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units 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, which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows (where applicable) for the years then ended, and the related notes to the financial statements, which collectively comprise the University's basic financial statements.

### ***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.

### ***Auditors' 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 business-type activities and the aggregate discretely presented component units of The University of Alabama as of September 30, 2017 and 2016 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.

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### ***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 the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2017 and 2016, its changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

The accompanying management's discussion and analysis on pages 5 through 17 and the accompanying supplementary information on page 72 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 pages 18 and 19 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 22, 2018

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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, 2017 and 2016. 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, Mission and Governance

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 bachelor's, master's and doctoral degrees in nearly 200 fields of study. Professional programs include law and rural medicine. The University, a beautiful 1,200 acre residential campus located in Tuscaloosa, Alabama, provides a high-quality education, scholarship opportunities, close to 600 student organizations, leading-edge research initiatives, and a focus on facilities and technology.

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 report includes three basic financial statements: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The University's financial statements encompass the University and its blended component unit, The Crimson Tide Foundation ("CTF"). The aggregate financial statements of six affiliated foundations are presented discretely from the University:

- National Alumni Association
- Law School Foundation
- Donor Advised Fund
- Capstone Foundation
- 1831 Foundation
- Capstone Health Services Foundation

The MD&A focuses solely on the University and the Crimson Tide Foundation. Information on discretely presented component units can be found in the component units' annual financial reports, as well as Note 2 – Component Units. 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 notes 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, 2017 and 2016.

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. The earnings on these funds support the programs and activities as determined by the donors, typically 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 and is typically internally designated or committed for specific academic programs or initiatives.

At September 30, 2017, the University's assets and deferred outflows of resources were \$4.4 billion, liabilities and deferred inflows of resources were \$2.3 billion, leaving a net position of \$2.1 billion, an overall increase in net position of \$224.3 million from 2016. The overall increase in net position results in part from tuition growth, an increase in auxiliary units' profitability, and unrealized investment gains generated by favorable market performance.

## The University's Assets

Current assets are used to support the University's normal operations and include cash and cash equivalents, short-term investments available for operating purposes, net accounts

receivable (primarily student accounts receivable, receivables from sponsoring agencies and accrued interest receivable), prepaid expenses, and unearned scholarships.

The University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Current cash and cash equivalents totaled \$58.9 million at September 30, 2017, an increase of \$357,000 from the prior year. At September 30, 2016, cash and cash equivalents totaled \$58.5 million, a decrease of \$12.0 million from the prior year. Current cash balances fluctuate based on operating needs, timing of expenditures, and cash management strategies.

Short-term investments include both unrestricted and restricted balances. Unrestricted short-term investments were \$222.4 million, \$173.7 million, and \$212.6 million at September 30, 2017, 2016, and 2015, respectively. These investments are available for operating purposes. Restricted short-term investments were \$84.6 million, \$120.9 million, and \$77.1 million at September 30, 2017, 2016, and 2015, respectively. Restricted short-term investments are comprised of deposits held and invested by the University relating to the Gulf State Park Project. During fiscal year 2017, the University of Alabama entered into an agreement with the State of Alabama Department of Conservation and Natural Resources ("DCNR") to provide financial services for the Gulf State Park Project (previously the agreement had been between the DCNR and the University of Alabama System Office). The University deposits and disburses the funds authorized

## Condensed Statements of Net Position

	September 30,		
	2017	2016	2015
<b>Assets</b>			
Current assets	\$ 584,449,063	\$ 549,059,715	\$ 564,683,889
Capital assets, net	1,983,596,717	1,904,412,183	1,811,315,270
Other noncurrent assets	1,704,578,655	1,435,131,090	1,349,823,350
Total assets	<u>4,272,624,435</u>	<u>3,888,602,988</u>	<u>3,725,822,509</u>
Deferred outflows of resources	<u>158,389,969</u>	<u>126,240,424</u>	<u>66,504,154</u>
<b>Liabilities</b>			
Current liabilities	594,343,066	579,674,791	539,494,343
Noncurrent liabilities	1,685,516,066	1,521,284,078	1,448,060,583
Total liabilities	<u>2,279,859,132</u>	<u>2,100,958,869</u>	<u>1,987,554,926</u>
Deferred inflows of resources	<u>16,054,000</u>	<u>3,103,000</u>	<u>35,395,000</u>
<b>Net Position</b>			
Net investment in capital assets	1,076,735,303	1,002,586,271	927,823,421
Restricted	817,913,402	718,571,000	710,606,406
Unrestricted	240,452,567	189,624,272	130,946,910
Total net position	<u>\$ 2,135,101,272</u>	<u>\$ 1,910,781,543</u>	<u>\$ 1,769,376,737</u>



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by the DCNR. The University did not receive additional funds for the Gulf State Park Project in fiscal year 2017; however, total short-term investments increased \$12.4 million from the prior year. This follows an increase of \$4.8 million during fiscal year 2016 related to funds received for the Gulf State Park Project.

Accounts receivable increased approximately \$14.2 million in fiscal year 2017 due to a \$16.6 million increase in the CTF accounts receivable balance. The majority of this increase relates to a receivable between the University and its blended component unit, CTF, at June 30, 2017. Due to the timing of the payment after CTF's June 30 year end, it was a receivable for CTF at June 30, 2017, but not a payable for UA at September 30, 2017. In fiscal year 2016 accounts receivable decreased \$12.8 million primarily due to student account activity.

Prepaid expenses and unearned scholarships experienced growth of \$9.9 million in 2017, resulting from an increase in unearned scholarships. 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. Fall 2017 classes started a week later than in the prior year, thus more scholarships were deferred to fiscal year 2018. This, coupled with the growth in enrollment, contributed to an increase in current unearned scholarships at September 30, 2017. In the prior year, prepaid expenses and unearned scholarships increased \$6.9 million, also due in large part to unearned scholarships.

Noncurrent assets are predominantly composed of endowment and life income investments, investments for capital activities, other long-term investments, notes receivable (net), and capital assets (net).

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. Total noncurrent investments increased \$260.2 million at September 30, 2017. During fiscal year 2017, the University issued new bonds which contributed to a \$160.5 million increase in investments for capital activities. Additionally, the University experienced a rise in unrealized gains due to favorable market performance. This follows an increase of \$58.8 million in noncurrent investments at September 30, 2016, also due to unrealized gains as well as an increase in investments.

Noncurrent notes receivable increased \$9.1 million due to the issuance of an additional student organization housing loan, which follows an increase of \$25.4 million in fiscal year 2016, also related to the issuance of 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. The construction of new buildings on campus contributed to a rise in capital assets of \$79.2 million in fiscal year 2017 and \$93.1 million during 2016. 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. 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 2017 include Student Organizations (refer to note 5) (\$22.7 million), Freshman Residential Housing (\$11.2 million), Little Hall renovation (\$8.3 million), Central Campus Thermal Energy Connection (\$7.0 million), University Boulevard improvements (\$6.3 million), and the Adapted Athletics facility (\$6.0 million).

Major capital expenditures in 2016 include Student Organizations (refer to note 5) (\$39.5 million), North Lawn Hall (\$21.7 million), Peter Bryce Boulevard and North Campus Way (\$16.8 million), Sewell Thomas Baseball Stadium renovation (\$12.3 million), Moody Music Building addition and renovation (\$9.7 million), Printing and Mail Services renovation and relocation (\$9.5 million), and Bryant Drive retail center (\$7.7 million).

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A deferred outflow of resources is a use of net position that is applicable to future reporting periods. The University's deferred outflows of resources consist of both bond deferred refunding amounts and pension obligations. Pension obligations include:

- Employer contributions to the Teachers' Retirement System of Alabama cost-sharing multiple-employer public employee retirement plan (the "Plan") subsequent to the Plan's measurement date
- Changes in proportion of the allocated pension liability and differences between employer contributions and the employer's proportionate share of the total contributions
- Changes of actuarial assumptions, including discount rate
- Net difference between projected and actual earnings on pension plan investments

At September 30, 2017, the University's total deferred outflows of resources increased \$32.2 million, resulting from changes in the proportion of the allocated pension liability as well as changes in the discount rate and actuarial assumptions used by the Teachers' Retirement System of Alabama. Additionally, the University defeased certain indebtedness during fiscal year 2017. At September 30, 2016, the University's deferred outflows of resources increased \$59.7 million, largely resulting from changes in proportion of the allocated pension liability.

## The University's Liabilities

Current liabilities consist primarily of accounts payable, accrued liabilities, unearned revenue, and deposits. The majority of accounts payable and accrued liabilities represent amounts owed for salaries, wages and benefits, and supplies and services. Accounts payable and accrued liabilities increased \$14.4 million in 2017 from the prior year. This follows a decrease of \$9.0 million in 2016. 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. Fall 2017 classes started a week later than in the prior year, thus more revenue was deferred to fiscal year 2018. This, coupled with the growth in enrollment, contributed to an increase in current unearned revenue of \$36.2 million in fiscal year 2017. This follows an increase of \$6.1 million in fiscal year 2016. Deposits consist primarily of agency funds, food service deposits, debit card operation deposits and Capstone Village entrance fees. Deposits decreased \$43.4 million at September 30, 2017 due to expenditures for the Gulf State Park Project. At September 30, 2016 deposits increased \$42.2 million which includes funds received for the Gulf State Park Project.

The University's long-term debt and pension liability comprise the majority of its noncurrent liabilities. Long-term debt (current and noncurrent combined) increased \$122.6 million in fiscal year 2017

due to the new 2017A, 2017B and 2017C bond issuances, offset by payments and defeasances. This follows a decrease of \$25.3 million in 2016 due to debt repayments. In 2017, the University's proportionate share of the net pension liability in the Teachers' Retirement System Plan increased by \$50.6 million to \$623.4 million, following a \$100.7 million increase from 2015.

A deferred inflow of resources is the acquisition of net position in future periods. The University's deferred inflows of resources are composed of the proportionate share of the net difference between expected and actual experience. At September 30, 2017, deferred inflows of resources increased \$13.0 million to \$16.1 million. This follows a decrease of \$32.3 million in fiscal year 2016.

## 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 increased \$224.3 million, or 11.7%, during fiscal 2017, totaling \$2.1 billion. In fiscal year 2016, net position increased \$141.4 million, or 8.0%, totaling \$1.9 billion.

Net investment in capital assets increased \$74.1 million from \$1.0 billion in 2016. The previous year increase of \$74.8 million rose from \$927.8 million reported in 2015. 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 \$31.8 million primarily due to gifts and earnings on true endowment corpus funds. 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 \$17.6 million.

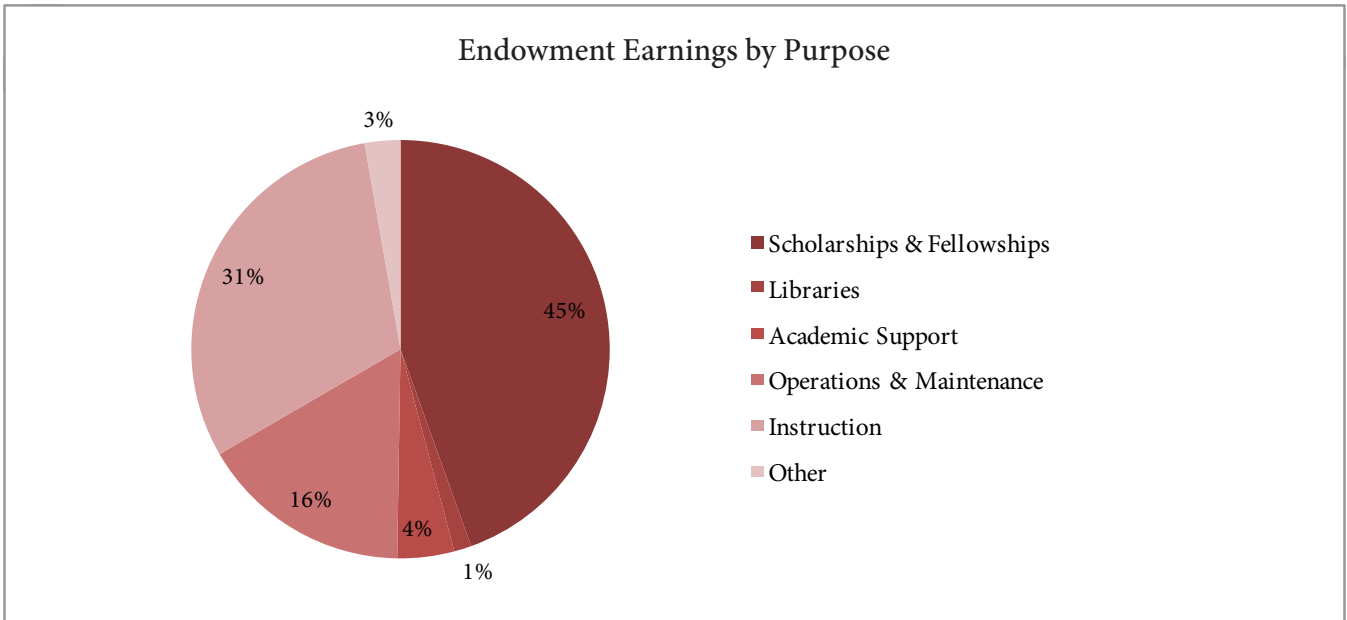
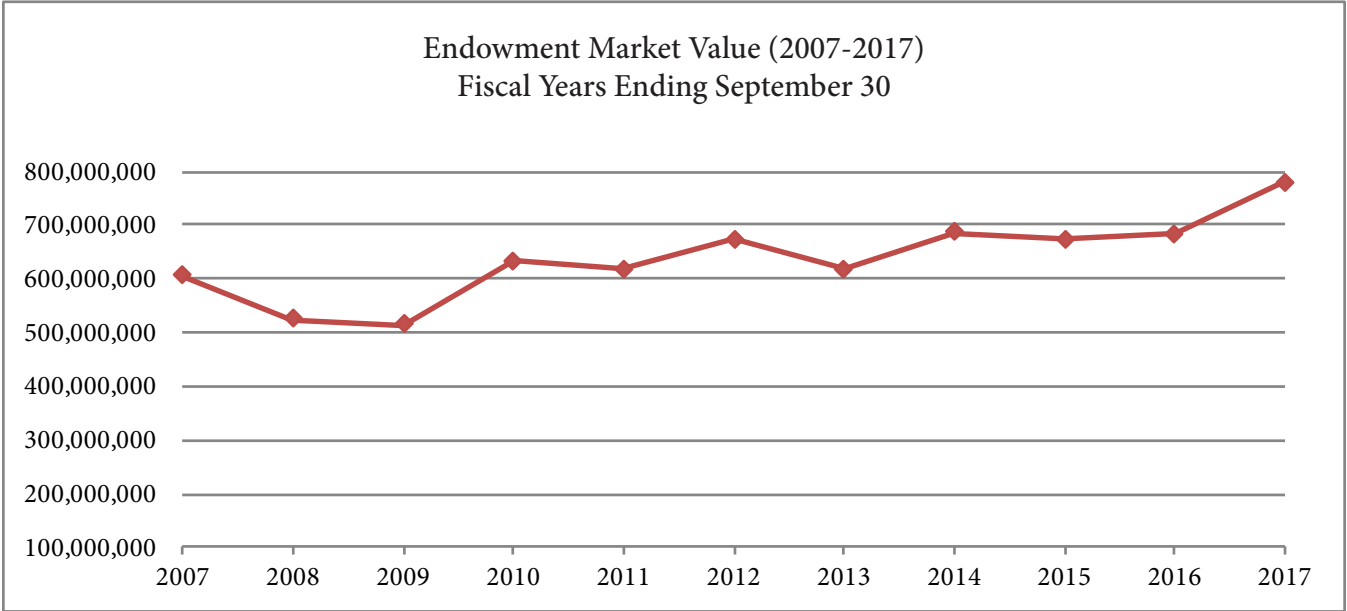
Restricted expendable net position increased \$67.6 million in 2017 largely due to higher mineral rights and timber land valuations, true endowment gains, and an increase in restricted quasi endowments. This follows a decrease of \$9.6 million in 2016 primarily as a result of lower appraisal values of the University's endowed timber land and the adoption of GASB 72 (see note 1 and note 4). 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 increased \$50.8 million in fiscal year 2017 due to unrealized gains, unrestricted quasi endowments, and an increase in CTF unrestricted net position. In the prior year, unrestricted net position increased \$58.7 million due to auxiliary revenue, unrealized gains, and unrestricted quasi endowments.

# University Endowments

The University carefully navigates the investment environment and works diligently to manage its financial resources effectively. Endowment spending has remained stable. 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.

In 2017, the University’s endowments grew \$102.1 million to reach \$785.4 million. The growth results from additions to the endowment of \$23.7 million and unrealized gains. This follows an increase of \$10.9 million in 2016 resulting from additions to the endowment of \$18.9 million, offset by an overall net unrealized loss for endowments due to lower appraisal values of the University’s timber land and minerals.





## 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 UA 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; supplies and services; depreciation; and scholarships and fellowships. The SRECNP also includes other changes affecting its net position including 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,		
	2017	2016	2015
Operating revenues			
Tuition and fees, net	\$ 482,761,041	\$ 476,732,091	\$ 452,717,202
Auxiliary sales and services, net	202,333,172	193,964,754	172,792,048
All other operating revenues	148,555,442	147,834,966	145,123,724
Total operating revenues	833,649,655	818,531,811	770,632,974
Operating expenses	1,016,919,818	948,912,956	887,977,454
Operating loss	(183,270,163)	(130,381,145)	(117,344,480)
Nonoperating revenues (expenses)			
State educational appropriations	154,836,324	148,441,872	146,222,914
Gifts	56,126,778	52,203,061	53,728,959
Investment income (loss), net	159,687,169	54,741,992	(41,755,145)
All other nonoperating expenses	(7,773,392)	(16,638,624)	(10,675,091)
Net nonoperating revenues	362,876,879	238,748,301	147,521,637
Income before other changes in net position	179,606,716	108,367,156	30,177,157
Other changes in net position	44,713,013	33,037,650	45,271,507
Increase in net position	224,319,729	141,404,806	75,448,664
Net position, beginning of year, as previously reported	1,910,781,543	1,769,376,737	2,149,740,073
Adoption of GASB 68 adjustment (see note 1)	-	-	(455,812,000)
Net position, beginning of year, as restated	1,910,781,543	1,769,376,737	1,693,928,073
Net position, end of year	\$ 2,135,101,272	\$ 1,910,781,543	\$ 1,769,376,737

The University's net position increased \$224.3 million, \$141.4 million, and \$75.4 million, for the fiscal years ended September 30, 2017, 2016, and 2015, respectively. Improved market performance resulted in investment gains in fiscal years 2017 and 2016, which significantly increased the University's net position both years as compared to fiscal year 2015 when the market performed poorly. As noted in the SRECNP, the University experienced operating losses in all fiscal years presented of \$183.3, \$130.4 million, and \$117.3 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 modest tuition rate increases. Net tuition and fees in 2017 was \$482.8 million, a \$6.0 million increase over 2016's \$476.7 million, which increased \$24.0 million over \$452.7 million in 2015. 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. These funds are used to further the mission of the University – to advance the intellectual and social condition of the people of the state, the nation and the world through the creation, translation and dissemination of knowledge with an emphasis on quality programs in the areas of teaching, research and service. The following chart reflects the funding sources for federal operating grant and contract revenues for the years ended September 30:



## Federal Contracts and Grants Revenue

	Years ended September 30,		
	2017	2016	2015
Department of Health & Human Services	\$ 10,200,232	\$ 9,464,247	\$ 10,556,682
National Science Foundation	7,859,398	7,770,332	7,472,615
U.S. Department of Education	4,553,825	4,899,962	4,304,829
U.S. Department of Energy	2,437,981	2,876,795	3,417,111
U.S. Department of Transportation	5,020,545	5,911,511	6,770,138
Office of Defense	3,010,674	3,326,892	2,766,911
Other Federal Sources	7,333,995	7,657,237	8,290,484
Total Federal Contracts and Grants Revenue	<u>\$ 40,416,650</u>	<u>\$ 41,906,976</u>	<u>\$ 43,578,770</u>

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Federal grants and contracts decreased by \$1.5 million and \$1.7 million in 2017 and 2016, respectively, which reflects a decrease in federal funding for instruction and research. State and local grants and contracts decreased slightly by \$71,000 in 2017 following a \$2.9 million increase in 2016 collectively. Private grants and contracts decreased \$1.3 million in 2017, following a \$73,000 increase in the prior year.

The University's auxiliary activities are comprised of Intercollegiate Athletics, food service, housing, the UA Supply Store, telecommunications, and other miscellaneous auxiliary enterprises. Auxiliary income increased \$8.4 million, primarily from athletic income and licensing income. The 2017 increase follows a \$21.2 million increase in the prior year, also due to the aforementioned auxiliary units, as well as increases in housing income and Supply Store income.

Other operating revenue for the University totaled \$28.7 million, while CTF revenue of \$30.6 million contributed to the combined total of \$59.3 million as reported in 2017, an increase of \$3.5 million from the prior year, largely due to an increase in CTF revenues. In 2016, other operating revenue increased slightly by \$29,000.

## Non-Operating Revenues and Expenses

Due to the required classification of key revenue sources such as State appropriations, financial aid grants, and private gifts as non-operating revenues, the University's operating expenses will typically exceed operating revenues, resulting in an operating loss. These non-operating revenues are essential in offsetting the operating loss.

In fiscal year 2017, the University received \$154.8 million in State educational appropriations for operating purposes, an increase of \$6.4 million. In 2016, the University received \$148.4 million, which was an increase of \$2.2 million from 2015.

Gift revenue for the University totaled \$56.1 million at September 30, 2017, of which \$31.3 million was recorded by the Crimson Tide Foundation. This was an increase of \$3.9 million from the prior year due to an increase in CTF gifts. Gift revenues decreased \$1.5 million in 2016 to \$52.2 million due to a decline in CTF gifts.

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 2017, nonoperating grant revenue increased slightly to \$31.6 million, following a small decrease to \$31.1 million in 2016.

Both investment and endowment income are combined as investment income on the SRECNP. The University posted net investment income of \$159.7 million at September 30, 2017, an increase of \$105.0 million as the University posted substantial unrealized gains following a positive market performance, coupled with an increase in the mineral rights and timber land valuations. In fiscal year 2016, the University posted net investment income of \$54.7 million, an increase of \$96.5 million from fiscal year 2015, also due to unrealized gains.







## Operating Expenses

The University reports natural classifications of expenditures in the SRECNP. Salaries, wages and benefits increased \$53.8 million to \$666.3 million in 2017 from \$612.5 million in 2016, which was a \$37.0 million increase over \$575.5 million in 2015. The University is committed to recruiting and retaining outstanding faculty, staff and graduate students. New positions are strategically added to accommodate student enrollment growth. Compensation packages and benefit offerings provide leverage for the University to successfully compete with peer institutions and employers outside of the academic sector. Additionally, in fiscal year 2017, the University's GASB 68 adjustment to pension expense increased \$31.8 million resulting from changes in the discount rate and actuarial assumptions used by the Teachers' Retirement System of Alabama.

Supplies and services experienced an increase of \$5.0 million during fiscal year 2017. Factors contributing to the increase include a rise in advertising, program development and marketing expenditures, as well as an increase in the Capstone Village future services obligation. This follows an increase of \$20.9 million from 2015 due to a rise in athletic post-season participation expenditures and renewal and replacement projects performed during the year.

Scholarships and fellowships expense is reported net of scholarship allowances. The net expenses of \$24.6 million, \$20.4 million, and \$23.5 million for fiscal years 2017, 2016, and 2015, 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 \$268.1 million, \$245.0 million, and \$214.4 million for the years ended September 30, 2017, 2016, and 2015, respectively.

### Operating Expenses (by natural classification)

	Years ended September 30,		
	2017	2016	2015
Salaries, wages and benefits	\$ 666,320,083	\$ 612,470,213	\$ 575,450,330
Supplies and services	253,651,612	248,660,589	227,772,694
Depreciation	72,374,750	67,410,991	61,249,168
Scholarships and fellowships	24,573,373	20,371,163	23,505,262
Total operating expenses	<u>\$ 1,016,919,818</u>	<u>\$ 948,912,956</u>	<u>\$ 887,977,454</u>

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.



### 2017 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Supplies and services	Depreciation	Scholarships and fellowships	Total 2017
Instruction	\$ 272,651,446	\$ 45,010,438	\$ 17,328,353	\$ -	\$ 334,990,237
Research	32,158,790	22,787,845	4,816,825	-	59,763,460
Public service	35,820,319	12,622,036	1,819,980	-	50,262,335
Academic support	63,353,617	13,862,042	13,272,217	-	90,487,876
Student services	37,558,653	16,656,342	5,221,098	-	59,436,093
Institutional support	75,429,790	23,152,462	6,456,673	-	105,038,925
Operations and maintenance	67,329,833	21,726,593	-	-	89,056,426
Scholarships and fellowships	-	-	-	14,594,420	14,594,420
Auxiliary enterprises	82,017,635	97,833,854	23,459,604	9,978,953	213,290,046
Total operating expenses	<u>\$ 666,320,083</u>	<u>\$ 253,651,612</u>	<u>\$ 72,374,750</u>	<u>\$ 24,573,373</u>	<u>\$ 1,016,919,818</u>

### 2016 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Supplies and services	Depreciation	Scholarships and fellowships	Total 2016
Instruction	\$ 253,292,566	\$ 45,779,734	\$ 15,974,686	\$ -	\$ 315,046,986
Research	29,092,346	21,537,358	4,838,154	-	55,467,858
Public service	34,064,403	12,197,975	1,871,552	-	48,133,930
Academic support	58,564,978	14,188,559	12,919,509	-	85,673,046
Student services	34,198,856	15,963,120	4,716,391	-	54,878,367
Institutional support	72,001,227	19,231,793	5,420,555	-	96,653,575
Operations and maintenance	59,510,033	26,382,011	-	-	85,892,044
Scholarships and fellowships	-	-	-	13,853,660	13,853,660
Auxiliary enterprises	71,745,804	93,380,039	21,670,144	6,517,503	193,313,490
Total operating expenses	<u>\$ 612,470,213</u>	<u>\$ 248,660,589</u>	<u>\$ 67,410,991</u>	<u>\$ 20,371,163</u>	<u>\$ 948,912,956</u>

## Other Changes in Net Position

Capital gifts and grants experienced a slight increase of \$131,000 in fiscal year 2017, following an increase of \$15.4 million in fiscal year 2016. The large 2016 increase resulted from grants received for the construction of Peter Bryce Boulevard/North Campus Way and improvements to University Boulevard in that fiscal year.

Additions to permanent endowments grew by \$4.8 million in 2017 due to restricted endowment gifts made throughout the year. This follows a slight decrease of \$479,000 in fiscal year 2016.

Intragovernmental transfers are typically limited to transactions with the Crimson Tide Foundation, a blended component unit of the University. At September 30, 2017, intragovernmental transfers had increased \$6.8 million from the prior year. At September 30, 2016 intragovernmental transfers had decreased \$27.1 million from the prior year. The prior year decrease results from the purchase of the Partlow properties from the ADMH in fiscal year 2015. 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 was considered an intragovernmental transfer, resulting in an increase of \$21.8 million in 2015, followed by a decrease in 2016.

## Capital Assets and Debt Administration

At September 30, 2017, the University had \$2.8 billion invested in gross capital assets and accumulated depreciation of \$786.7 million, a net of \$2.0 billion. At September 30, 2016, the University had \$2.6 billion invested in gross capital assets and accumulated depreciation of \$723.6 million, a net of \$1.9 billion. 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. Depreciation expense for fiscal years 2017, 2016, and 2015 totaled \$72.4 million, \$67.4 million, and \$61.2 million, respectively. Buildings and fixed equipment are responsible for the largest increase for each year presented. The following schedule summarizes the University's capital assets, net of accumulated depreciation:

### Capital Assets, Net of Accumulated Depreciation

	2017	2016	2015
Land	\$ 75,713,043	\$ 75,713,043	\$ 75,579,820
Land improvements	55,161,468	48,901,013	41,932,891
Infrastructure	79,028,793	73,543,953	48,437,454
Buildings and fixed equipment	1,506,097,751	1,517,948,614	1,428,535,904
Construction in progress	105,047,275	34,141,931	71,169,177
Equipment	74,593,221	67,522,512	59,257,633
Library materials and collections	45,388,385	45,721,427	46,068,689
Intangible assets	42,566,781	40,919,690	40,333,702
Total capital assets, net of accumulated depreciation	<u>\$ 1,983,596,717</u>	<u>\$ 1,904,412,183</u>	<u>\$ 1,811,315,270</u>

#### Capital asset expenditures for fiscal year 2017 (in millions):

Student Organizations (refer to note 5)	\$22.7
Freshman Residential Housing	\$11.2
Little Hall renovation	\$8.3
Central Campus Thermal Energy Connection	\$7.0
University Boulevard improvements	\$6.3
Adapted Athletics Facility	\$6.0

#### Capital asset expenditures for fiscal year 2016 (in millions):

Student Organizations (refer to note 5)	\$39.5
North Lawn Hall	\$21.7
Peter Bryce Boulevard/North Campus Way	\$16.8
Sewell Thomas Baseball Stadium	\$12.3
Moody Music Building	\$9.7
Printing and Mail Services	\$9.5
Bryant Drive Retail Center	\$7.7



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

At September 30, 2017, the University had \$1.1 billion of debt outstanding, of which \$32.3 million was classified as current. The University issued the 2017A, 2017B and 2017C bonds during fiscal year 2017, resulting in an increase in outstanding debt from the prior year. At September 30, 2016, the University had \$951.0 million of debt outstanding, of which \$24.9 million was classified as current. The University had \$976.3 million of debt outstanding at September 30, 2015, of which \$24.1 million was classified as current. The large

majority of debt obligations bears interest at fixed rates ranging from 0.0% to 6.3% and matures at various dates through fiscal year 2047. The University defeased certain indebtedness during the fiscal year 2017 bond issuance to secure more favorable rates. This is discussed further in note 7.

The University's outstanding debt obligations at September 30, 2017, 2016, and 2015, exclusive of debt discounts and premiums of \$43.1 million, \$34.7 million, and \$36.6 million, respectively, are summarized below. Further information may also be found in note 7.

### Schedules of Long Term Debt

	2017	2016	2015
Bonds payable	\$ 988,495,000	\$ 867,755,000	\$ 885,650,000
Notes payable	42,066,167	48,597,293	54,088,062
Total long term debt	<u>\$ 1,030,561,167</u>	<u>\$ 916,352,293</u>	<u>\$ 939,738,062</u>







## 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 rates. 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.

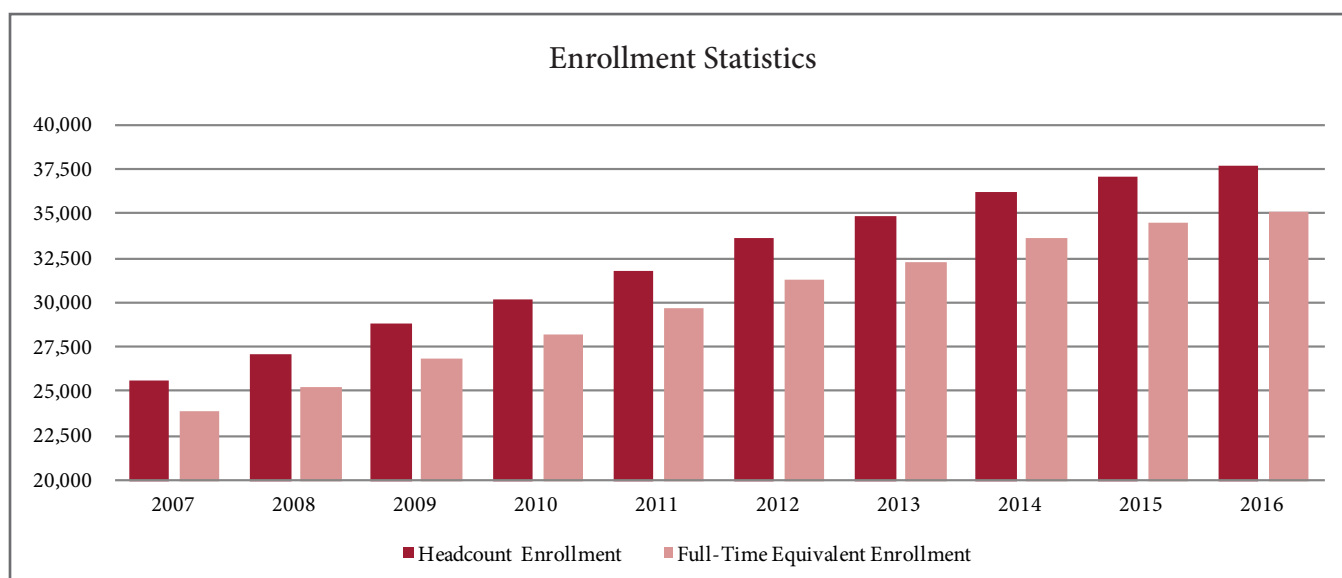
The University's private support is fundamental in meeting budgetary needs. Gifts received are testaments to the high regard in which alumni, corporations, foundations, and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University's programs and the importance of its mission. At the same time, economic pressures and potential tax law changes 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.

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## Enrollment and Statistics (Unaudited)\*

The University of Alabama has ranked among the top 60 public universities in the nation in U.S. News and World Report's annual college rankings for more than a decade, standing at 51st in the 2018 rankings. More than 40 percent of the Fall 2017 freshman class scored 30 or higher on the ACT, and 34 percent of the entering class had a high school GPA of 4.0 or higher. The University of Alabama is also a leader among public universities nationwide in the enrollment of National Merit Scholars with more than 500 currently enrolled. University students continue to win prestigious national awards. 51 University of Alabama students have been named Goldwater Scholars, including four in 2017. The University of Alabama has produced a total of 15 Rhodes Scholars, 16 Truman Scholars, 32 Hollings Scholars and 11 Boren Scholars.

Enrollment at the University continues to grow, reaching 37,665 in Fall 2016, an increase of 565 over the prior year. Full-time equivalent ("FTE") enrollment totaled 35,120, an increase of 581. The chart below displays enrollment counts taken for each fall semester; the last of which (2016), demonstrates enrollment figures occurring for the fall semester of the 2017 fiscal year.





# The University of Alabama

## Statistical Highlights

### Fall Semester

Fall Headcount Enrollment	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Undergraduate	32,564	31,960	30,754	29,443	28,026	26,234	24,884	23,702	22,343	21,082
Graduate	4,629	4,649	4,870	4,851	4,994	4,913	4,726	4,473	3,978	3,851
Professional	472	491	531	558	582	600	622	632	731	647
Total Fall Enrollment	37,665	37,100	36,155	34,852	33,602	31,747	30,232	28,807	27,052	25,580

Fall First-Time Freshman Admissions	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Applications	38,901	36,203	33,736	30,975	26,409	22,136	20,112	19,518	18,500	14,313
Admits	20,109	19,400	17,221	17,515	14,019	9,636	10,790	11,194	11,172	9,140
Enrolled	7,559	7,211	6,856	6,478	6,397	5,772	5,519	5,116	5,116	4,538
Percent Admitted	51.7%	53.6%	51.0%	56.5%	53.1%	43.5%	53.7%	57.4%	60.4%	63.9%
Percent Enrolled	37.6%	37.2%	39.8%	37.0%	45.6%	59.9%	51.2%	45.7%	45.8%	49.6%

Degrees Conferred										
Academic Years Ending May	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08
Baccalaureate	6,501	6,354	5,662	5,408	5,000	4,482	4,463	4,284	3,713	3,398
Master's	1,578	1,651	1,672	1,645	1,659	1,571	1,513	1,287	1,265	1,237
Juris Doctor	133	144	144	172	168	175	159	171	172	154
Educational Specialist	48	38	48	28	38	53	44	52	51	83
Doctoral	304	305	379	329	325	252	242	209	192	191
Total Degrees Conferred	8,564	8,492	7,905	7,582	7,190	6,533	6,421	6,003	5,393	5,063

Academic Years Ending May	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08
Undergraduate and Graduate Tuition										
Tuition Per Full-Time In-State Student	\$10,470	\$10,170	\$9,826	\$9,450	\$9,200	\$8,600	\$7,900	\$7,000	\$6,400	\$5,700
Percent Increase Over Prior Year	2.9%	3.5%	4.0%	2.7%	7.0%	8.9%	12.9%	9.4%	12.3%	8.0%
Tuition Per Full-Time Out-of-State Student	\$26,950	\$25,950	\$24,950	\$23,950	\$22,950	\$21,900	\$20,500	\$19,200	\$18,000	\$16,518
Percent Increase Over Prior Year	3.9%	4.0%	4.2%	4.4%	4.8%	6.8%	6.8%	6.7%	9.0%	8.0%
Law School Tuition										
Tuition Per Full-Time In-State Student	\$22,760	\$22,020	\$21,320	\$20,770	\$19,660	\$18,030	\$15,760	\$14,450	\$12,564	\$11,190
Percent Increase Over Prior Year	3.4%	3.3%	2.6%	5.6%	9.0%	14.4%	9.1%	15.0%	12.3%	14.9%
Tuition Per Full-Time Out-of-State Student	\$38,820	\$37,360	\$36,000	\$34,840	\$32,920	\$30,950	\$28,070	\$26,560	\$24,158	\$22,170
Percent Increase Over Prior Year	3.9%	3.8%	3.3%	5.8%	6.4%	10.3%	5.7%	9.9%	9.0%	11.4%

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





The University of Alabama  
Statements of Net Position  
September 30, 2017 and 2016

	2017	2016
<b>Current assets</b>		
Unrestricted cash and cash equivalents	\$ 51,380,071	\$ 46,623,061
Restricted cash and cash equivalents	7,485,466	11,885,061
Unrestricted short-term investments	222,361,933	173,661,880
Restricted short-term investments	84,582,493	120,854,988
Accounts receivable, net	100,624,536	86,442,994
Current portion of notes receivable, net	3,511,833	3,090,073
Current portion of student loans receivable	2,070,459	2,017,156
Current portion of pledges receivable	4,344,380	5,980,201
Inventories	7,734,921	8,116,943
Prepaid expenses and unearned scholarships	99,224,430	89,343,468
Other current assets	1,128,541	1,043,890
<b>Total current assets</b>	<u>584,449,063</u>	<u>549,059,715</u>
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	2,753,537	2,605,325
Endowment and life income investments	785,374,066	683,226,537
Investments for capital activities	426,683,893	266,214,793
Other long-term investments	297,559,736	300,014,009
Notes receivable, net	158,718,645	149,602,153
Student loans receivable, net	9,720,308	9,334,314
Pledges receivable, net	13,637,319	14,479,193
Capital assets, net	1,983,596,717	1,904,412,183
Other noncurrent assets	10,131,151	9,654,766
<b>Total noncurrent assets</b>	<u>3,688,175,372</u>	<u>3,339,543,273</u>
<b>Total assets</b>	<u>4,272,624,435</u>	<u>3,888,602,988</u>
<b>Deferred outflows of resources</b>		
Debt refundings	14,024,748	13,657,223
Pension obligations	144,365,221	112,583,201
<b>Total deferred outflows of resources</b>	<u>158,389,969</u>	<u>126,240,424</u>
<b>Total assets and deferred outflows of resources</b>	<u>\$ 4,431,014,404</u>	<u>\$ 4,014,843,412</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 144,556,466	\$ 130,161,415
Current portion of unearned revenue	304,119,075	267,883,095
Deposits	113,330,935	156,694,155
Current portion of long-term debt	32,336,590	24,936,126
<b>Total current liabilities</b>	<u>594,343,066</u>	<u>579,674,791</u>
<b>Noncurrent liabilities</b>		
Federal advances - loan funds	9,691,088	8,927,863
Other liabilities	5,193,510	5,781,756
Unearned revenue	5,927,827	7,675,248
Long-term debt, net	1,041,305,641	926,085,211
Pension liability	623,398,000	572,814,000
<b>Total noncurrent liabilities</b>	<u>1,685,516,066</u>	<u>1,521,284,078</u>
<b>Total liabilities</b>	<u>2,279,859,132</u>	<u>2,100,958,869</u>
<b>Deferred inflows of resources</b>	<u>16,054,000</u>	<u>3,103,000</u>
<b>Net position</b>		
Net investment in capital assets	1,076,735,303	1,002,586,271
Restricted		
Nonexpendable	431,499,195	399,742,094
Expendable	386,414,207	318,828,906
Unrestricted	240,452,567	189,624,272
<b>Total net position</b>	<u>2,135,101,272</u>	<u>1,910,781,543</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u>\$ 4,431,014,404</u>	<u>\$ 4,014,843,412</u>

See accompanying notes to financial statements.

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The University of Alabama  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended September 30, 2017 and 2016

	2017	2016
<b>Operating revenues</b>		
Tuition and fees	\$ 719,840,321	\$ 692,223,046
Less: scholarship allowances	<u>(237,079,280)</u>	<u>(215,490,955)</u>
Tuition and fees, net	482,761,041	476,732,091
Grants and contracts		
Federal	40,416,650	41,906,976
State	31,261,415	31,590,157
Local	1,016,793	759,374
Private	3,836,612	5,174,452
Sales and services of educational activities	12,776,616	12,619,542
Auxiliary sales & services, net of \$6,466,509 in 2017 and \$9,181,123 in 2016 of scholarship allowances	202,333,172	193,964,754
Other operating revenues	<u>59,247,356</u>	<u>55,784,465</u>
<b>Total operating revenues</b>	<u>833,649,655</u>	<u>818,531,811</u>
<b>Operating expenses</b>		
Salaries, wages and benefits	666,320,083	612,470,213
Supplies and services	253,651,612	248,660,589
Depreciation	72,374,750	67,410,991
Scholarships and fellowships	<u>24,573,373</u>	<u>20,371,163</u>
<b>Total operating expenses</b>	<u>1,016,919,818</u>	<u>948,912,956</u>
<b>Operating loss</b>	<u>(183,270,163)</u>	<u>(130,381,145)</u>
<b>Nonoperating revenues (expenses)</b>		
State educational appropriations	154,836,324	148,441,872
Gifts	56,126,778	52,203,061
Grants	31,599,501	31,062,427
Investment income, net	159,687,169	54,741,992
Interest expense	(37,735,938)	(38,625,161)
Other nonoperating expenses, net	<u>(1,636,955)</u>	<u>(9,075,890)</u>
<b>Net nonoperating revenues</b>	<u>362,876,879</u>	<u>238,748,301</u>
<b>Income before other changes in net position</b>	179,606,716	108,367,156
<b>Other changes in net position</b>		
Capital gifts and grants	18,696,113	18,565,461
Additions to permanent endowments	23,675,029	18,894,440
Intragovernmental transfers	<u>2,341,871</u>	<u>(4,422,251)</u>
<b>Net other changes in net position</b>	<u>44,713,013</u>	<u>33,037,650</u>
<b>Increase in net position</b>	<u>224,319,729</u>	<u>141,404,806</u>
<b>Net position, beginning of year</b>	<u>1,910,781,543</u>	<u>1,769,376,737</u>
<b>Net position, end of year</b>	<u>\$ 2,135,101,272</u>	<u>\$ 1,910,781,543</u>

See accompanying notes to financial statements.

The University of Alabama  
Statements of Cash Flows  
For the Years Ended September 30, 2017 and 2016

	2017	2016
<b>Cash flows from operating activities</b>		
Student tuition and fees, net	\$ 521,702,146	\$ 501,479,895
Grants and contracts		
Federal	40,825,048	43,441,960
State	29,167,170	31,077,163
Local	1,099,961	1,024,858
Private	4,480,097	5,135,787
Sales and services of educational activities	12,738,611	13,702,297
Other receipts	59,335,624	55,531,434
Auxiliary enterprises	195,084,006	190,251,268
Payments to suppliers	(241,396,471)	(253,946,773)
Payments to employees and related benefits	(632,784,072)	(603,556,300)
Payments for scholarships and fellowships	(39,502,047)	(27,034,033)
Payments for student loans	(439,296)	(261,910)
Other disbursements	(1,897,487)	-
<b>Net cash used in operating activities</b>	<u>(51,586,710)</u>	<u>(43,154,354)</u>
<b>Cash flows from noncapital financing activities</b>		
State educational appropriations	154,836,324	148,441,872
Private gifts for other than capital purposes	82,279,502	74,799,821
Grants	31,599,501	31,062,427
Student direct lending receipts	207,562,707	196,798,645
Student direct lending disbursements	(207,745,641)	(197,235,067)
Deposits from affiliates	182,934	436,422
Other (disbursements) receipts, net	(37,677,453)	45,512,702
Intragovernmental transfers	(20,913,965)	(185,510)
<b>Net cash provided by noncapital financing activities</b>	<u>210,123,909</u>	<u>299,631,312</u>
<b>Cash flows from investing activities</b>		
Interest and dividends on investments	55,813,223	50,945,777
Purchases of investments	(373,688,186)	(233,563,164)
Proceeds from sales and maturities of investments	196,157,600	167,112,377
Payments received on notes receivable	9,438,006	8,599,988
Disbursements from issuance of notes receivable	(26,561,996)	(42,759,949)
<b>Net cash used in investing activities</b>	<u>(138,841,353)</u>	<u>(49,664,971)</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of notes and bonds payable	208,311,002	2,925,000
Capital gifts, grants and contracts	17,335,495	12,965,521
Purchases of capital assets	(126,044,665)	(165,745,139)
Principal payments on capital debt	(22,569,826)	(23,944,469)
Defeasance of debt	(61,772,075)	-
Interest payments on capital debt	(40,017,775)	(40,702,926)
Intragovernmental transfers	5,567,625	(4,236,742)
<b>Net cash used in capital and related financing activities</b>	<u>(19,190,219)</u>	<u>(218,738,755)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>505,627</u>	<u>(11,926,768)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>61,113,447</u>	<u>73,040,215</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 61,619,074</u>	<u>\$ 61,113,447</u>

See accompanying notes to financial statements.



	2017	2016
Reconciliation of cash and cash equivalents to the statements of net position		
Unrestricted cash and cash equivalents-current	\$ 51,380,071	\$ 46,623,061
Restricted cash and cash equivalents-current and noncurrent	10,239,003	14,490,386
Total cash and cash equivalents	<u>\$ 61,619,074</u>	<u>\$ 61,113,447</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (183,270,163)	\$ (130,381,145)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	72,374,750	67,410,991
Impairment expense	-	612,150
Pension expense	76,777,201	51,199,939
Bad debt expense	1,482,708	542,353
Changes in assets and liabilities		
Accounts and other receivables	(2,465,406)	18,266,802
Inventories and other assets	(14,723,212)	(6,777,473)
Pension obligations	(45,024,221)	(43,303,201)
Accounts payable and accrued liabilities	8,773,073	(5,069,869)
Unearned revenue	34,488,560	4,345,099
<b>Net cash used in operating activities</b>	<u>\$ (51,586,710)</u>	<u>\$ (43,154,354)</u>
<b>Supplemental noncash activities information</b>		
Gift of capital assets	\$ 5,984,061	\$ 1,782,996
Change in accrued capital asset purchases	7,148,721	(4,193,330)
Loss on the disposal of capital assets	(940,920)	(1,389,039)
Capital appropriations	-	1,365
Crimson Tide Foundation	2,722,854	2,689,696

*See accompanying notes to financial statements.*



The University of Alabama  
Discretely Presented Component Units  
Statements of Net Position  
2017 and 2016

	2017	2016
<b>Assets</b>		
Current assets		
Unrestricted cash and cash equivalents	\$ 2,975,405	\$ 3,267,679
Restricted cash and cash equivalents	20,561,006	16,351,120
Short-term investments	29,130,205	27,211,266
Accounts receivable, net	3,191,442	3,057,293
Current portion of notes receivable, net	931,715	768,654
Current portion of pledges receivable, net	162,898	373,828
Inventories	698,958	735,987
Prepaid expenses and unearned scholarships	117,810	106,616
Other current assets	-	36,824
Due from The University of Alabama	326,070	355,107
Total current assets	<u>58,095,509</u>	<u>52,264,374</u>
Noncurrent assets		
Restricted cash and cash equivalents	6,230,169	8,057,200
Endowment investments	90,945,688	82,278,366
Other long-term investments	33,348,222	24,495,747
Pledges receivable, net	268,712	165,557
Capital assets, net	73,713,699	76,135,124
Other noncurrent assets	192,395	161,697
Total noncurrent assets	<u>204,698,885</u>	<u>191,293,691</u>
<b>Total assets</b>	<u>262,794,394</u>	<u>243,558,065</u>
<b>Deferred outflows of resources</b>	11,728,486	-
<b>Total assets and deferred outflows of resources</b>	<u>\$ 274,522,880</u>	<u>\$ 243,558,065</u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,157,821	\$ 4,280,792
Unearned revenue	4,433,415	4,100,291
Current portion of long-term debt	3,701,670	2,115,000
Due to The University of Alabama	1,295,734	832,990
Total current liabilities	<u>12,588,640</u>	<u>11,329,073</u>
Noncurrent liabilities		
Other liabilities	6,054,548	6,548,938
Long-term debt, net	94,197,179	86,501,335
Due to The University of Alabama	8,960,261	8,504,614
Total noncurrent liabilities	<u>109,211,988</u>	<u>101,554,887</u>
<b>Total liabilities</b>	<u>121,800,628</u>	<u>112,883,960</u>
<b>Deferred inflows of resources</b>	4,400,000	-
<b>Net position</b>		
Net investment in capital assets	(1,382,427)	(1,112,745)
Restricted		
Nonexpendable	56,621,799	53,465,645
Expendable	30,704,686	27,599,607
Unrestricted	62,378,194	50,721,598
<b>Total net position</b>	<u>148,322,252</u>	<u>130,674,105</u>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<u>\$ 274,522,880</u>	<u>\$ 243,558,065</u>

*See accompanying notes to financial statements.*

The University of Alabama  
Discretely Presented Component Units  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended 2017 and 2016

	2017	2016
<b>Operating revenues</b>		
Gifts	\$ 11,354,981	\$ 11,971,589
Other operating revenues	36,267,943	34,671,914
<b>Total operating revenues</b>	<u>47,622,924</u>	<u>46,643,503</u>
<b>Operating expenses</b>		
Salaries, wages and benefits	13,731,958	13,165,189
Supplies and services	13,386,962	12,915,684
Depreciation	2,462,601	2,423,760
Scholarships and fellowships	3,546,438	3,510,763
Contributed services from affiliate	2,717,710	2,763,689
<b>Total operating expenses</b>	<u>35,845,669</u>	<u>34,779,085</u>
<b>Operating income</b>	<u>11,777,255</u>	<u>11,864,418</u>
<b>Nonoperating revenues (expenses)</b>		
Investment income, net	10,966,282	2,507,089
Interest expense	(3,423,896)	(6,178,751)
Contributions to The University of Alabama	(2,527,238)	(3,561,745)
Change in value of split-interest agreements	(276,557)	(419,858)
Contributed services from affiliate	2,717,710	2,763,689
Other nonoperating expenses	(1,585,409)	-
<b>Net nonoperating revenues (expenses)</b>	<u>5,870,892</u>	<u>(4,889,576)</u>
<b>Increase in net position</b>	17,648,147	6,974,842
<b>Net position, beginning of year</b>	130,674,105	123,699,263
<b>Net position, end of year</b>	<u>\$ 148,322,252</u>	<u>\$ 130,674,105</u>

*See accompanying notes to financial statements.*



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# The University of Alabama

## Notes to Financial Statements

### Years Ended September 30, 2017 and 2016

#### 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, the changes in financial position, and the cash flows of only that portion of the business-type activities of the financial reporting entity of the 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 System, its changes in financial position, or its cash flows. 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*, establishes 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 UA 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, telecommunications, etc.) have been eliminated in the accompanying financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

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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 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. 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 investments is reported at fair value based upon appraisals, entry price at the date of donation, and other valuations typically based on management assumptions or expectations. 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. 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 are largely comprised 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 estimated acquisition value at date of donation in the case of gifts, less accumulated depreciation. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Training costs and data conversion costs are expensed as incurred.

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 collections (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.



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**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 \$6.4 million and \$6.2 million at September 30, 2017 and 2016, respectively. Any change in value related to these trusts is recorded as investment income in the statements of revenues, expenses and changes in net position.

The liability associated with these agreements is recorded at the present value based on IRS mortality tables and prevailing interest rates. The liability is reduced for distributions made to the beneficiaries and is adjusted annually for revaluations of expected future payments to the beneficiaries based on changes in life expectancy. The present value of the liability associated with these agreements is approximately \$4.0 million and \$4.6 million at September 30, 2017 and 2016, 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, 2017 and 2016 of 5.0%, which is based on a moving three-year average of the market (unit) value. However; effective October 1, 2017, the Board adopted a spending rate of 4.5%, based on a moving five-year average of the market (unit) value, and return of gains for underwater endowments.

**Prepaid Expenses and Unearned Scholarships:** Prepaid expenses are composed predominantly of 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, changes in proportion and differences between employer contributions and proportionate share of contributions, net difference between projected and actual earnings on pension plan investments, and changes in actuarial and other assumptions.

**Deferred Inflows of Resources:** Deferred inflows of resources is composed of the proportionate share of the net difference between expected and actual experience.

**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. Federal 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 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 Crimson Tide Foundation ("CTF"), which has 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, 2017 and 2016 is included in the University's financial statements and presented as follows:

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**The Crimson Tide Foundation**  
**Statements of Net Position**  
**June 30, 2017 and 2016**

	2017	2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 182,452	\$ 111,363
Short-term investments	9,915,627	40,484,181
Current portion of pledges receivable, net	608,524	968,583
Other current assets	10,000	21,915
Other receivables	17,765,727	1,168,794
Total current assets	<u>28,482,330</u>	<u>42,754,836</u>
Noncurrent assets		
Restricted cash and cash equivalents	92,050	20,293
Endowment investments	39,116,076	29,176,613
Pledges receivable, net	8,545,903	9,510,642
Other long-term investments	107,498,299	77,872,397
Capital assets, net	5,262,199	6,599,070
Total noncurrent assets	<u>160,514,527</u>	<u>123,179,015</u>
<b>Total assets</b>	<u><u>\$ 188,996,857</u></u>	<u><u>\$ 165,933,851</u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 621,116	\$ 255,078
Unearned revenue	9,864,738	9,035,539
Note payable, current portion	575,066	562,452
Other current liabilities	188,093	3,610,692
Total current liabilities	<u>11,249,013</u>	<u>13,463,761</u>
Noncurrent liabilities		
Note payable, long-term portion	1,648,807	2,223,873
Total noncurrent liabilities	<u>1,648,807</u>	<u>2,223,873</u>
<b>Total liabilities</b>	<u>12,897,820</u>	<u>15,687,634</u>
<b>Net position</b>		
Net investment in capital assets	3,038,325	3,812,744
Restricted		
Nonexpendable	38,388,310	28,763,755
Expendable	24,086,059	18,026,688
Unrestricted	110,586,343	99,643,030
<b>Total net position</b>	<u>176,099,037</u>	<u>150,246,217</u>
<b>Total liabilities and net position</b>	<u><u>\$ 188,996,857</u></u>	<u><u>\$ 165,933,851</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, 2017 and 2016

	2017	2016
<b>Operating revenues</b>		
Private gifts	\$ 31,335,469	\$ 26,300,209
Other operating revenues	30,551,601	28,515,040
<b>Total operating revenues</b>	<u>61,887,070</u>	<u>54,815,249</u>
<b>Operating expenses</b>		
Benefits	1,039,769	947,023
Scholarships	1,291,414	1,022,666
Professional fees	1,752,640	967,371
Travel	1,748,269	2,209,124
Supplies	1,894,428	1,819,932
Conference and entertainment	1,281,540	1,183,977
Communication and information	97,622	63,805
Rentals	385,627	380,276
Repairs and maintenance	291,148	213,693
Depreciation	341,871	447,438
Impairment expense	-	612,150
Other	562,224	436,829
<b>Total operating expenses</b>	<u>10,686,552</u>	<u>10,304,284</u>
<b>Operating income</b>	<u>51,200,518</u>	<u>44,510,965</u>
<b>Nonoperating revenues (expenses)</b>		
Investment income (loss), net	12,960,980	(1,424,143)
Other non-operating expense	(545,000)	-
Interest expense	(56,156)	(16,855)
<b>Net nonoperating revenues (expenses)</b>	<u>12,359,824</u>	<u>(1,440,998)</u>
<b>Income before other changes in net position</b>	<u>63,560,342</u>	<u>43,069,967</u>
<b>Other changes in net position</b>		
Additions to permanent endowments	7,702,616	7,690,261
Intergovernmental transfers	(45,410,138)	(47,883,660)
<b>Increase in net position</b>	<u>25,852,820</u>	<u>2,876,568</u>
<b>Net position, beginning of period</b>	<u>150,246,217</u>	<u>147,369,649</u>
<b>Net position, end of period</b>	<u>\$ 176,099,037</u>	<u>\$ 150,246,217</u>



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The Crimson Tide Foundation  
Statements of Cash Flows  
For the Years Ended June 30, 2017 and 2016

	2017	2016
<b>Cash flows from operating activities</b>		
Private gifts	\$ 32,660,266	\$ 30,312,757
Other operating revenues	28,658,539	26,155,559
Transfers to the University of Alabama	(64,995,836)	(44,525,918)
Payments to suppliers	(7,243,875)	(6,460,601)
<b>Net cash (used in) provided by operating activities</b>	<u>(10,920,906)</u>	<u>5,481,797</u>
<b>Cash flows from noncapital financing activities</b>		
Additions to permanent endowments	<u>7,702,616</u>	<u>7,690,261</u>
<b>Net cash provided by noncapital financing activities</b>	<u>7,702,616</u>	<u>7,690,261</u>
<b>Cash flows from capital and related financing activities</b>		
Principal payments on note payable	(562,452)	(138,675)
Interest payments on note payable	(56,156)	(16,855)
Sale of capital assets	450,000	-
Purchase of capital assets	-	(3,022,035)
Proceeds from note payable	-	2,925,000
<b>Net cash used in capital and related financing activities</b>	<u>(168,608)</u>	<u>(252,565)</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(65,347,579)	(39,302,816)
Proceeds from the sales and maturities of investments	63,301,887	21,822,350
Interest and dividends on investments	5,575,436	4,529,947
<b>Net cash provided by (used in) investing activities</b>	<u>3,529,744</u>	<u>(12,950,519)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>142,846</u>	<u>(31,026)</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>131,656</u>	<u>162,682</u>
<b>Cash and cash equivalents, end of year</b>	<u>\$ 274,502</u>	<u>\$ 131,656</u>

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**The Crimson Tide Foundation**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Reconciliation of cash and cash equivalents to the statements of net position</b>		
Cash and cash equivalents in current assets	\$ 182,452	\$ 111,363
Restricted cash and cash equivalents	92,050	20,293
<b>Total cash and cash equivalents</b>	<u>\$ 274,502</u>	<u>\$ 131,656</u>
 <b>Reconciliation of operating income to net cash (used in) provided by operating activities</b>		
Operating income	\$ 51,200,518	\$ 44,510,965
Intergovernmental transfers	(45,410,138)	(47,883,660)
Adjustments to reconcile operating income net of intergovernmental transfers to net cash (used in) provided by operating activities		
Depreciation expense	341,871	447,438
Impairment expense	-	612,150
Provision for uncollectible pledges	1,148,760	1,230,236
Changes in assets and liabilities		
Pledges receivable	176,037	2,782,312
Other receivables	(16,162,507)	(1,246)
Other assets	11,915	(16,735)
Accounts payable	366,038	111,134
Other current liabilities	(3,422,599)	3,357,742
Unearned revenue	829,199	331,461
<b>Net cash (used in) provided by operating activities</b>	<u>\$ (10,920,906)</u>	<u>\$ 5,481,797</u>
 <b>Supplemental noncash activities information</b>		
Dealer cars provided to Athletics	\$ 800,834	\$ 815,060
Supplies provided by contractual agreement	1,600,000	1,550,000
Complimentary club memberships provided to Athletics	142,020	144,636
Complimentary housing provided to Athletics staff	180,000	180,000

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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, these 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. In order to comply with GASB presentation features, unrestricted net assets for the FASB foundations are presented as unrestricted net position within the University's discrete presentation of these component units.

**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. In order to comply with GASB presentation features, temporarily restricted net assets for the FASB foundations are presented as restricted expendable net position within the University's discrete presentation of these component units.

**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. In order to comply with GASB presentation features, permanently restricted net assets for the FASB foundations are presented as restricted nonexpendable net position within the University's discrete presentation of these component units.

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.

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 activities and changes in net assets.

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**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.

**Eminent Scholars Program** – The University records a receivable in other noncurrent assets from The Capstone Foundation related 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. At September 30, 2017 and 2016, the receivable totaled \$8,960,261 and \$8,504,614, respectively. The Capstone Foundation records a corresponding payable for the Eminent Scholars Program.



The University of Alabama  
Discretely Presented Component Units  
Statements of Net Position  
2017

	National Alumni Association June 30, 2017	Law School Foundation June 30, 2017	Donor Advised Fund June 30, 2017
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 350,397	\$ 205,533	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	3,351,459	2,077,970	950,051
Accounts receivable, net	676,987	450,684	4,484
Current portion of notes receivable, net	-	-	-
Current portion of pledges receivable, net	-	104,684	-
Inventories	195,108	-	-
Prepaid expenses and unearned scholarships	25,071	-	-
Other current assets	-	-	-
Due from The University of Alabama	-	148,014	-
Total current assets	<u>4,599,022</u>	<u>2,986,885</u>	<u>954,535</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	-	-
Endowment investments	44,385,273	35,340,698	-
Other long-term investments	7,246,865	108,521	2,748,152
Pledges receivable, net	-	242,173	-
Capital assets, net	-	-	-
Other noncurrent assets	14,998	-	-
Total noncurrent assets	<u>51,647,136</u>	<u>35,691,392</u>	<u>2,748,152</u>
<b>Total assets</b>	<u>56,246,158</u>	<u>38,678,277</u>	<u>3,702,687</u>
<b>Deferred outflows of resources</b>	-	-	-
<b>Total assets and deferred outflows of resources</b>	<u>\$ 56,246,158</u>	<u>\$ 38,678,277</u>	<u>\$ 3,702,687</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 58,379	\$ 36,475	\$ -
Unearned revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	198,455	-	-
Total current liabilities	<u>256,834</u>	<u>36,475</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>
<b>Total liabilities</b>	<u>256,834</u>	<u>36,475</u>	<u>-</u>
<b>Deferred inflows of resources</b>	-	-	-
<b>Net Position</b>			
Net investment in capital assets	-	-	-
Restricted			
Nonexpendable	27,519,711	29,084,023	-
Expendable	6,568,967	7,087,830	3,671,564
Unrestricted	21,900,646	2,469,949	31,123
<b>Total net position</b>	<u>55,989,324</u>	<u>38,641,802</u>	<u>3,702,687</u>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<u>\$ 56,246,158</u>	<u>\$ 38,678,277</u>	<u>\$ 3,702,687</u>

The University of Alabama  
Discretely Presented Component Units  
Statements of Net Position, Continued  
2017

	Capstone Foundation Sept. 30, 2017	1831 Foundation Sept. 30, 2017	Capstone Health Services Foundation Sept. 30, 2017
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 263,939	\$ 493,027	\$ 1,662,509
Restricted cash and cash equivalents	-	20,561,006	-
Short-term investments	4,124,320	1,869,923	16,756,482
Accounts receivable, net	174,422	3,688	1,881,177
Current portion of notes receivable, net	-	-	931,715
Current portion of pledges receivable, net	58,214	-	-
Inventories	131,976	-	371,874
Prepaid expenses and unearned scholarships	92,739	-	-
Other current assets	-	-	-
Due from The University of Alabama	-	-	178,056
Total current assets	<u>4,845,610</u>	<u>22,927,644</u>	<u>21,781,813</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	6,230,169	-
Endowment investments	11,219,717	-	-
Other long-term investments	12,643,684	10,601,000	-
Pledges receivable, net	26,539	-	-
Capital assets, net	127,911	72,980,022	605,766
Other noncurrent assets	96,400	-	80,997
Total noncurrent assets	<u>24,114,251</u>	<u>89,811,191</u>	<u>686,763</u>
<b>Total assets</b>	<u>28,959,861</u>	<u>112,738,835</u>	<u>22,468,576</u>
<b>Deferred outflows of resources</b>	-	11,728,486	-
<b>Total assets and deferred outflows of resources</b>	<u>\$ 28,959,861</u>	<u>\$ 124,467,321</u>	<u>\$ 22,468,576</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 126,826	\$ 704,493	\$ 2,231,648
Unearned revenue	-	4,433,415	-
Current portion of long-term debt	-	3,701,670	-
Due to The University of Alabama	911,896	185,383	-
Total current liabilities	<u>1,038,722</u>	<u>9,024,961</u>	<u>2,231,648</u>
Noncurrent liabilities			
Other liabilities	6,054,548	-	-
Long-term debt, net	-	94,197,179	-
Due to The University of Alabama	8,960,261	-	-
Total noncurrent liabilities	<u>15,014,809</u>	<u>94,197,179</u>	<u>-</u>
<b>Total liabilities</b>	<u>16,053,531</u>	<u>103,222,140</u>	<u>2,231,648</u>
<b>Deferred inflows of resources</b>	-	4,400,000	-
<b>Net Position</b>			
Net investment in capital assets	-	(1,988,193)	605,766
Restricted			
Nonexpendable	18,065	-	-
Expendable	11,675,117	1,701,208	-
Unrestricted	1,213,148	17,132,166	19,631,162
<b>Total net position</b>	<u>12,906,330</u>	<u>16,845,181</u>	<u>20,236,928</u>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<u>\$ 28,959,861</u>	<u>\$ 124,467,321</u>	<u>\$ 22,468,576</u>

The University of Alabama  
Discretely Presented Component Units  
Statements of Net Position  
2016

	National Alumni Association June 30, 2016	Law School Foundation June 30, 2016	Donor Advised Fund June 30, 2016
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 443,966	\$ 172,314	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	2,726,863	1,644,766	910,862
Accounts receivable, net	531,351	361,021	3,990
Current portion of notes receivable, net	-	-	-
Current portion of pledges receivable, net	-	206,346	-
Inventories	194,227	-	-
Prepaid expenses and unearned scholarships	22,801	-	-
Other current assets	32,935	3,889	-
Due from The University of Alabama	159,830	-	-
Total current assets	<u>4,111,973</u>	<u>2,388,336</u>	<u>914,852</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	-	-
Endowment investments	39,841,154	31,788,041	-
Other long-term investments	6,607,033	109,575	2,576,910
Pledges receivable, net	-	120,383	-
Capital assets, net	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	<u>46,448,187</u>	<u>32,017,999</u>	<u>2,576,910</u>
<b>Total assets</b>	<u>\$ 50,560,160</u>	<u>\$ 34,406,335</u>	<u>\$ 3,491,762</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 215,941	\$ 11,568	\$ -
Unearned revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	-	2,940	-
Total current liabilities	<u>215,941</u>	<u>14,508</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>
<b>Total liabilities</b>	<u>215,941</u>	<u>14,508</u>	<u>-</u>
<b>Net Position</b>			
Net investment in capital assets	-	-	-
Restricted			
Nonexpendable	26,351,319	27,096,284	-
Expendable	5,201,103	5,417,583	3,454,736
Unrestricted	18,791,797	1,877,960	37,026
<b>Total net position</b>	<u>50,344,219</u>	<u>34,391,827</u>	<u>3,491,762</u>
<b>Total liabilities and net position</b>	<u>\$ 50,560,160</u>	<u>\$ 34,406,335</u>	<u>\$ 3,491,762</u>

The University of Alabama  
Discretely Presented Component Units  
Statements of Net Position, Continued  
2016

	Capstone Foundation Sept. 30, 2016	1831 Foundation Sept. 30, 2016	Capstone Health Services Foundation Sept. 30, 2016
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 136,421	\$ 238,683	\$ 2,276,295
Restricted cash and cash equivalents	-	16,351,120	-
Short-term investments	4,863,936	1,481,697	15,583,142
Accounts receivable, net	135,764	2,211	2,022,956
Current portion of notes receivable, net	-	-	768,654
Current portion of pledges receivable, net	167,482	-	-
Inventories	127,906	-	413,854
Prepaid expenses and unearned scholarships	83,815	-	-
Other current assets	-	-	-
Due from The University of Alabama	-	-	195,277
Total current assets	<u>5,515,324</u>	<u>18,073,711</u>	<u>21,260,178</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	8,057,200	-
Endowment investments	10,649,171	-	-
Other long-term investments	10,136,639	5,065,590	-
Pledges receivable, net	45,174	-	-
Capital assets, net	131,511	75,319,899	683,714
Other noncurrent assets	96,400	-	65,297
Total noncurrent assets	<u>21,058,895</u>	<u>88,442,689</u>	<u>749,011</u>
<b>Total assets</b>	<u>\$ 26,574,219</u>	<u>\$ 106,516,400</u>	<u>\$ 22,009,189</u>
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	\$ 82,910	\$ 1,549,146	\$ 2,421,227
Unearned revenue	-	4,100,291	-
Current portion of long-term debt	-	2,115,000	-
Due to The University of Alabama	395,107	434,943	-
Total current liabilities	<u>478,017</u>	<u>8,199,380</u>	<u>2,421,227</u>
Noncurrent liabilities			
Other liabilities	6,548,938	-	-
Long-term debt, net	-	86,501,335	-
Due to The University of Alabama	8,504,614	-	-
Total noncurrent liabilities	<u>15,053,552</u>	<u>86,501,335</u>	<u>-</u>
<b>Total liabilities</b>	<u>15,531,569</u>	<u>94,700,715</u>	<u>2,421,227</u>
<b>Net Position</b>			
Net investment in capital assets	-	(1,796,459)	683,714
Restricted			
Nonexpendable	18,042	-	-
Expendable	10,172,398	3,353,787	-
Unrestricted	852,210	10,258,357	18,904,248
<b>Total net position</b>	<u>11,042,650</u>	<u>11,815,685</u>	<u>19,587,962</u>
<b>Total liabilities and net position</b>	<u>\$ 26,574,219</u>	<u>\$ 106,516,400</u>	<u>\$ 22,009,189</u>



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The University of Alabama  
Discretely Presented Component Units  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended 2017

	National Alumni Association June 30, 2017	Law School Foundation June 30, 2017	Donor Advised Fund June 30, 2017
<b>Operating revenues</b>			
Gifts	\$ 3,559,830	\$ 2,484,828	\$ 220,170
Other operating revenues	1,383,581	386,283	-
<b>Total operating revenues</b>	<u>4,943,411</u>	<u>2,871,111</u>	<u>220,170</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	-	-	-
Supplies and services	1,710,828	637,706	248,343
Depreciation	-	-	-
Scholarships and fellowships	2,062,379	1,259,762	-
Contributed services from affiliate	1,355,554	951,951	-
<b>Total operating expenses</b>	<u>5,128,761</u>	<u>2,849,419</u>	<u>248,343</u>
<b>Operating (loss) income</b>	<u>(185,350)</u>	<u>21,692</u>	<u>(28,173)</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income, net	5,106,778	3,459,764	259,498
Interest expense	-	-	-
Contributions to The University of Alabama	(631,877)	(183,432)	(20,400)
Change in value of split-interest agreements	-	-	-
Contributed services from affiliate	1,355,554	951,951	-
Other nonoperating expense	-	-	-
<b>Net nonoperating revenues</b>	<u>5,830,455</u>	<u>4,228,283</u>	<u>239,098</u>
<b>Increase in net position</b>	5,645,105	4,249,975	210,925
<b>Net position, beginning of year</b>	<u>50,344,219</u>	<u>34,391,827</u>	<u>3,491,762</u>
<b>Net position, end of year</b>	<u>\$ 55,989,324</u>	<u>\$ 38,641,802</u>	<u>\$ 3,702,687</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 2017

	Capstone Foundation Sept. 30, 2017	1831 Foundation Sept. 30, 2017	Capstone Health Services Foundation Sept. 30, 2017
<b>Operating revenues</b>			
Gifts	\$ 4,135,153	\$ 955,000	\$ -
Other operating revenues	844,792	14,580,564	19,072,723
<b>Total operating revenues</b>	<u>4,979,945</u>	<u>15,535,564</u>	<u>19,072,723</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	-	-	13,731,958
Supplies and services	2,562,035	3,756,564	4,471,486
Depreciation	3,600	2,339,877	119,124
Scholarships and fellowships	224,297	-	-
Contributed services from affiliate	410,205	-	-
<b>Total operating expenses</b>	<u>3,200,137</u>	<u>6,096,441</u>	<u>18,322,568</u>
<b>Operating income</b>	<u>1,779,808</u>	<u>9,439,123</u>	<u>750,155</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income, net	1,342,763	599,678	197,801
Interest expense	-	(3,423,896)	-
Contributions to The University of Alabama	(1,392,539)	-	(298,990)
Change in value of split-interest agreements	(276,557)	-	-
Contributed services from affiliate	410,205	-	-
Other nonoperating expense	-	(1,585,409)	-
<b>Net nonoperating revenues (expenses)</b>	<u>83,872</u>	<u>(4,409,627)</u>	<u>(101,189)</u>
<b>Increase in net position</b>	1,863,680	5,029,496	648,966
<b>Net position, beginning of year</b>	11,042,650	11,815,685	19,587,962
<b>Net position, end of year</b>	<u>\$ 12,906,330</u>	<u>\$ 16,845,181</u>	<u>\$ 20,236,928</u>

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The University of Alabama  
Discretely Presented Component Units  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended 2016

	National Alumni Association June 30, 2016	Law School Foundation June 30, 2016	Donor Advised Fund June 30, 2016
<b>Operating revenues</b>			
Gifts	\$ 3,270,826	\$ 3,676,729	\$ 120,892
Other operating revenues	965,501	130,803	-
<b>Total operating revenues</b>	<u>4,236,327</u>	<u>3,807,532</u>	<u>120,892</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	-	-	-
Supplies and other services	1,453,451	533,088	259,922
Depreciation	-	-	-
Scholarships and fellowships	2,158,157	1,106,644	-
Contributed services from affiliate	1,333,644	1,031,059	-
<b>Total operating expenses</b>	<u>4,945,252</u>	<u>2,670,791</u>	<u>259,922</u>
<b>Operating (loss) income</b>	<u>(708,925)</u>	<u>1,136,741</u>	<u>(139,030)</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income, net	574,167	274,583	66,865
Interest expense	-	-	-
Contributions to The University of Alabama	(618,060)	(152,341)	(26,600)
Change in value of split-interest agreements	-	-	-
Contributed services from affiliate	1,333,644	1,031,059	-
<b>Net nonoperating revenues</b>	<u>1,289,751</u>	<u>1,153,301</u>	<u>40,265</u>
<b>Increase (decrease) in net position</b>	<u>580,826</u>	<u>2,290,042</u>	<u>(98,765)</u>
<b>Net position, beginning of year</b>	<u>49,763,393</u>	<u>32,101,785</u>	<u>3,590,527</u>
<b>Net position, end of year</b>	<u>\$ 50,344,219</u>	<u>\$ 34,391,827</u>	<u>\$ 3,491,762</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 2016

	Capstone Foundation Sept. 30, 2016	1831 Foundation Sept. 30, 2016	Capstone Health Services Foundation Sept. 30, 2016
<b>Operating revenues</b>			
Gifts	\$ 4,900,704	\$ 2,438	\$ -
Other operating revenues	431,655	14,496,592	18,647,363
<b>Total operating revenues</b>	<u>5,332,359</u>	<u>14,499,030</u>	<u>18,647,363</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	-	-	13,165,189
Supplies and other services	2,542,533	3,998,944	4,127,746
Depreciation	-	2,339,878	83,882
Scholarships and fellowships	245,962	-	-
Contributed services from affiliate	398,986	-	-
<b>Total operating expenses</b>	<u>3,187,481</u>	<u>6,338,822</u>	<u>17,376,817</u>
<b>Operating income</b>	<u>2,144,878</u>	<u>8,160,208</u>	<u>1,270,546</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income, net	1,180,660	126,358	284,456
Interest expense	-	(6,178,751)	-
Contributions to The University of Alabama	(1,961,730)	(203,014)	(600,000)
Change in value of split-interest agreements	(419,858)	-	-
Contributed services from affiliate	398,986	-	-
<b>Net nonoperating expenses</b>	<u>(801,942)</u>	<u>(6,255,407)</u>	<u>(315,544)</u>
<b>Increase in net position</b>	<u>1,342,936</u>	<u>1,904,801</u>	<u>955,002</u>
<b>Net position, beginning of year</b>	<u>9,699,714</u>	<u>9,910,884</u>	<u>18,632,960</u>
<b>Net position, end of year</b>	<u>\$ 11,042,650</u>	<u>\$ 11,815,685</u>	<u>\$ 19,587,962</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.

## 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 established three distinct investment pools based primarily on the projected investment time-horizons for System funds: the Endowment Fund (“PEF”), the Long Term Reserve Pool Fund (“LTRP”), and the Short Term Liquidity Pool Fund (“STLP”); collectively, the “System Pools”. Pursuant to Board investment policies, each System or related entity may include all or a portion of their investments within the System-sponsored investment pools. These investment funds are considered “internal” investment pools under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with the assets pooled on a market value basis. Separately managed funds that reside with each entity are to be invested consistent with the asset mix of the corresponding System investment pool. The following disclosures relate to both the System Pools, which include the investments of other System entities and other affiliated entities, and the University-specific investment portfolio.

### Endowment Fund

The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over a perpetual time frame. Accordingly, the primary investment objectives of the Endowment Fund are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support to the endowment beneficiaries. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocation targets are established to meet the return objectives, while providing adequate diversification in order to minimize investment volatility.

### 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 three to seven years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid, semi-liquid, and illiquid securities. This fund can invest no more than 10% in illiquid assets.

### 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 one to three 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 STLP has an investment objective of income with preservation of capital and is invested in intermediate-term fixed income securities. The fund holds at least one large mutual fund to provide daily liquidity.

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, timber land located in fifteen counties in north and central Alabama totaling approximately 29,000 acres. In the University’s opinion, timber production and related commercial recreation is the highest and best use for the land 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.

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The fee simple market value of timber and land of \$33.9 million and \$30.2 million at September 30, 2017 and 2016, respectively, was derived through the application of the cost, sales comparison, and income capitalization approaches to value. The value of minerals and mineral exploitation rights contained in fee and mineral rights only and surface mining rights only for approximately 37,000 acres are valued at \$35.3 million and \$10.1 million as of September 30, 2017 and 2016, respectively. The fair value of these rights was 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 the ownership of the surface or land above and differs from the aforementioned timber land acres.

### **Fair Value Measurements**

GASB 72 sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.
- Level 2 – Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the assets or liabilities;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the University’s own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the University’s own data.

GASB 72 allows for the use of net asset value (“NAV”) as a practical expedient for valuation purposes. Investments that use NAV in determining fair value are disclosed separately from the valuation hierarchy as presented herein.

The level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the University’s management. University management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market.

The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to University management’s perceived risk of that investment.

The following is a description of the valuation methods and assumptions used by the University to estimate the fair value of its investments. There have been no changes in the methods and assumptions used at September 30, 2017. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. University management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. The University’s Level 1 investments primarily consist of investments in mutual funds, exchange traded funds, and both domestic and foreign equity funds. When quoted prices in active markets are not available, fair values are based on evaluated prices received from the University’s custodian of investments.

The University’s Level 2 investments consist of mutual funds that are priced or traded at the end of the day.

The University’s Level 3 investments primarily consist of two very illiquid securities. Changes in valuation techniques may result in transfers into or out of an assigned level within the disclosure hierarchy. Valuation techniques utilized by the University are appraisals, entry price at the date of donation, and other valuations typically based on management assumptions or expectations.

At September 30, 2017 and 2016, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

2017				
	Level 1	Level 2	Level 3	Total
Cash & Receivables:				
Regions Cash Trust	\$ 157,021,019	\$ -	\$ -	\$ 157,021,019
South African Gold Coins	39,810	-	-	39,810
Equities:				
Common Stock	5,567,358	-	-	5,567,358
Fixed Income Securities:				
U.S. Government Obligations	177,508	-	-	177,508
Commingled Funds:				
U.S. Equity Funds	3,226,126	66,082	-	3,292,208
Non-U.S. Equity Funds	666,981	-	-	666,981
U.S. Bond Funds	2,327,309	122,210	-	2,449,519
Private Equity Funds	-	-	2,442,387	2,442,387
Real Estate	-	-	86,726,445	86,726,445
	<u>\$ 169,026,111</u>	<u>\$ 188,292</u>	<u>\$ 89,168,832</u>	<u>\$ 258,383,235</u>
UA Portion of System Pool Investments:				
Endowment Fund				708,505,976
Long Term Reserve Pool Fund				542,739,479
Short Term Liquidity Pool Fund				306,933,431
Total Reported Value with System Pooled Investments				<u>\$ 1,816,562,121</u>

2016				
	Level 1	Level 2	Level 3	Total
Cash & Receivables:				
Regions Cash Trust	\$ 37,786,080	\$ -	\$ -	\$ 37,786,080
South African Gold Coins	40,710	-	-	40,710
Equities:				
Common Stock	4,537,286	-	-	4,537,286
Fixed Income Securities:				
U.S. Government Obligations	194,213	-	-	194,213
Commingled Funds:				
U.S. Equity Funds	3,409,896	57,057	-	3,466,953
Non-U.S. Equity Funds	607,922	-	-	607,922
U.S. Bond Funds	2,526,026	119,762	-	2,645,788
Private Equity Funds	-	-	2,440,046	2,440,046
Real Estate	-	-	40,909,636	40,909,636
	<u>\$ 49,102,133</u>	<u>\$ 176,819</u>	<u>\$ 43,349,682</u>	<u>\$ 92,628,634</u>
UA Portion of System Pool Investments:				
Endowment Fund				637,645,668
Long Term Reserve Pool Fund				519,181,036
Short Term Liquidity Pool Fund				294,516,869
Total Reported Value with System Pooled Investments				<u>\$ 1,543,972,207</u>

At September 30, 2017 and 2016, the fair value of the investments for the System Pools based on the inputs used to value them is summarized as follows:

Endowment Fund					
	2017				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 737,344
Total Receivables	-	-	-	-	737,344
Cash Equivalents:					
Money Market Funds	79,594,084	-	-	-	79,594,084
Total Cash Equivalents	79,594,084	-	-	-	79,594,084
Equities:					
U.S. Common Stock	94,939,223	-	-	-	94,939,223
Foreign Stock	34,902,583	-	-	-	34,902,583
Total Equities	129,841,806	-	-	-	129,841,806
Fixed Income Securities:					
U.S. Government Obligations	-	8,498,567	-	-	8,498,567
Mortgage Backed Securities	-	6,136,259	-	-	6,136,259
Corporate Bonds	-	21,041,058	-	-	21,041,058
Non-U.S. Bonds	-	3,038,650	-	-	3,038,650
Total Fixed Income Securities	-	38,714,534	-	-	38,714,534
Commingled Funds:					
Non-U.S. Equity Funds	-	224,559,339	-	-	224,559,339
U.S. Bond Funds	-	58,363,636	-	-	58,363,636
Non-U.S. Bond Funds	-	29,063,500	-	-	29,063,500
Hedge Funds	-	-	-	506,943,088	506,943,088
Private Equity Funds	-	-	-	123,786,463	123,786,463
Real Estate Funds	-	-	-	203,564,413	203,564,413
Total Commingled Funds	-	311,986,475	-	834,293,964	1,146,280,439
Total Fund Investments	209,435,890	350,701,009	-	834,293,964	1,394,430,863
Total Fund Assets	209,435,890	350,701,009	-	834,293,964	1,395,168,207
Total Fund Liabilities	-	-	-	-	(223,940)
Affiliated Entity Investments in Funds	-	-	-	-	(222,871,294)
Total Net Asset Value	\$ 209,435,890	\$ 350,701,009	\$ -	\$ 834,293,964	\$ 1,172,072,973



Endowment Fund

	2016				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 754,939
Total Receivables	-	-	-	-	754,939
Cash Equivalents:					
Money Market Funds	37,501,965	-	-	-	37,501,965
Total Cash Equivalents	37,501,965	-	-	-	37,501,965
Equities:					
U.S. Common Stock	86,163,991	-	-	-	86,163,991
Foreign Stock	22,222,905	-	-	-	22,222,905
Total Equities	108,386,896	-	-	-	108,386,896
Fixed Income Securities:					
U.S. Government Obligations	-	11,635,633	-	-	11,635,633
Corporate Bonds	-	22,046,299	-	-	22,046,299
Non-U.S. Bonds	-	4,897,595	-	-	4,897,595
Total Fixed Income Securities	-	38,579,527	-	-	38,579,527
Commingled Funds:					
Non-U.S. Equity Funds	-	248,254,069	-	-	248,254,069
U.S. Bond Funds	-	59,563,636	-	-	59,563,636
Non-U.S. Bond Funds	-	26,423,526	-	-	26,423,526
Hedge Funds	-	-	-	466,576,876	466,576,876
Private Equity Funds	-	-	-	103,746,336	103,746,336
Real Estate Funds	-	-	-	178,180,675	178,180,675
Total Commingled Funds	-	334,241,231	-	748,503,887	1,082,745,118
Total Fund Investments	145,888,861	372,820,758	-	748,503,887	1,267,213,506
Total Fund Assets	145,888,861	372,820,758	-	748,503,887	1,267,968,445
Total Fund Liabilities	-	-	-	-	(164,929)
Affiliated Entity Investments in Funds	-	-	-	-	(200,896,480)
Total Net Asset Value	\$ 145,888,861	\$ 372,820,758	\$ -	\$ 748,503,887	\$ 1,066,907,036

Long Term Reserve Pool Fund

	2017				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 2,371,886
Total Receivables	-	-	-	-	2,371,886
Cash Equivalents:					
Money Market Funds	58,259,515	-	-	-	58,259,515
Total Cash Equivalents	58,259,515	-	-	-	58,259,515
Equities:					
U.S. Common Stock	176,807,415	-	-	-	176,807,415
Foreign Stock	50,575,577	-	-	-	50,575,577
Total Equities	227,382,992	-	-	-	227,382,992
Fixed Income Securities:					
U.S. Government Obligations	-	14,142,677	-	-	14,142,677
Mortgage Backed Securities	-	11,840,312	-	-	11,840,312
Corporate Bonds	-	35,515,741	-	-	35,515,741
Non-U.S. Bonds	-	5,479,805	-	-	5,479,805
Total Fixed Income Securities	-	66,978,535	-	-	66,978,535
Commingled Funds:					
Non-U.S. Equity Funds	-	425,447,446	-	-	425,447,446
U.S. Bond Funds	-	67,342,316	-	-	67,342,316
Non-U.S. Bond Funds	-	47,096,969	-	-	47,096,969
Hedge Funds	-	-	-	754,979,975	754,979,975
Real Estate Funds	-	-	-	112,894,275	112,894,275
Total Commingled Funds	-	539,886,731	-	867,874,250	1,407,760,981
Total Fund Investments	285,642,507	606,865,266	-	867,874,250	1,760,382,023
Total Fund Assets	285,642,507	606,865,266	-	867,874,250	1,762,753,909
Total Fund Liabilities	-	-	-	-	(378,908)
Affiliated Entity Investments in Funds	-	-	-	-	(119,531,938)
Total Net Asset Value	\$ 285,642,507	\$ 606,865,266	\$ -	\$ 867,874,250	\$ 1,642,843,063

Long Term Reserve Pool Fund

	2016				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 1,005,513
Total Receivables	-	-	-	-	1,005,513
Cash Equivalents:					
Money Market Funds	47,260,189	-	-	-	47,260,189
Total Cash Equivalents	47,260,189	-	-	-	47,260,189
Equities:					
U.S. Common Stock	153,820,643	-	-	-	153,820,643
Foreign Stock	34,992,179	-	-	-	34,992,179
Total Equities	188,812,822	-	-	-	188,812,822
Fixed Income Securities:					
U.S. Government Obligations	-	13,315,542	-	-	13,315,542
Corporate Bonds	-	26,606,940	-	-	26,606,940
Non-U.S. Bonds	-	5,796,426	-	-	5,796,426
Total Fixed Income Securities	-	45,718,908	-	-	45,718,908
Commingled Funds:					
Non-U.S. Equity Funds	-	365,311,576	-	-	365,311,576
U.S. Bond Funds	-	65,616,121	-	-	65,616,121
Non-U.S. Bond Funds	-	42,818,930	-	-	42,818,930
Hedge Funds	-	-	-	630,395,465	630,395,465
Real Estate Funds	-	-	-	100,534,353	100,534,353
Total Commingled Funds	-	473,746,627	-	730,929,818	1,204,676,445
Total Fund Investments	236,073,011	519,465,535	-	730,929,818	1,486,468,364
Total Fund Assets	236,073,011	519,465,535	-	730,929,818	1,487,473,877
Total Fund Liabilities	-	-	-	-	(272,799)
Affiliated Entity Investments in Funds	-	-	-	-	(86,586,181)
Total Net Asset Value	\$ 236,073,011	\$ 519,465,535	\$ -	\$ 730,929,818	\$ 1,400,614,897

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Short Term Liquidity Pool Fund

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	2017				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 3,222,354
Total Receivables	-	-	-	-	3,222,354
Cash Equivalents:					
Money Market Funds	100,227,735	-	-	-	100,227,735
Total Cash Equivalents	100,227,735	-	-	-	100,227,735
Fixed Income Securities:					
U.S. Government Obligations	-	244,194,221	-	-	244,194,221
Mortgage Backed Securities	-	149,207,687	-	-	149,207,687
Collateralized Mortgage Obligations	-	11,990,320	-	-	11,990,320
Corporate Bonds	-	165,646,257	-	-	165,646,257
Non-U.S. Bonds	-	61,129,470	-	-	61,129,470
Total Fixed Income Securities	-	632,167,955	-	-	632,167,955
Commingled Funds:					
U.S. Bond Funds	-	205,630,016	-	-	205,630,016
Total Commingled Funds	-	205,630,016	-	-	205,630,016
Total Fund Investments	100,227,735	837,797,971	-	-	938,025,706
Total Fund Assets	100,227,735	837,797,971	-	-	941,248,060
Total Fund Liabilities	-	-	-	-	(243,098)
Affiliated Entity Investments in Funds	-	-	-	-	(62,963,316)
Total Net Asset Value	\$ 100,227,735	\$ 837,797,971	\$ -	\$ -	\$ 878,041,646

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Short Term Liquidity Pool Fund

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	2016				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 2,902,429
Total Receivables	-	-	-	-	2,902,429
Cash Equivalents:					
Money Market Funds	111,156,636	-	-	-	111,156,636
Total Cash Equivalents	111,156,636	-	-	-	111,156,636
Fixed Income Securities:					
U.S. Government Obligations	-	206,021,290	-	-	206,021,290
Mortgage Backed Securities	-	166,643,153	-	-	166,643,153
Collateralized Mortgage Obligations	-	12,035,018	-	-	12,035,018
Corporate Bonds	-	176,571,588	-	-	176,571,588
Non-U.S. Bonds	-	64,904,675	-	-	64,904,675
Total Fixed Income Securities	-	626,175,724	-	-	626,175,724
Commingled Funds:					
U.S. Bond Funds	-	199,067,054	-	-	199,067,054
Total Commingled Funds	-	199,067,054	-	-	199,067,054
Total Fund Investments	111,156,636	825,242,778	-	-	936,399,414
Total Fund Assets	111,156,636	825,242,778	-	-	939,301,843
Total Fund Liabilities	-	-	-	-	(309,260)
Affiliated Entity Investments in Funds	-	-	-	-	(75,561,002)
Total Net Asset Value	\$ 111,156,636	\$ 825,242,778	\$ -	\$ -	\$ 863,431,581

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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.

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 U.S. High Yield Index for U.S. investments and the J.P. Morgan Non-U.S. GBI 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. In addition, approximately \$18.0 million and \$1.2 million in the Endowment and Long Term Reserve Pool Funds (collectively), at September 30, 2017 and 2016, respectively, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$339.7 million and \$279.2 million in the Endowment and Long Term Reserve Pool Funds (collectively), at September 30, 2017 and 2016, 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. As of September 30, 2017 and 2016, approximately \$79.4 million and \$78.1 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 money market funds totaled approximately \$305.9 million and \$310.2 million at September 30, 2017 and 2016, respectively.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2017 and 2016 is as follows:

	2017		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Fixed or Variable Income Securities			
U.S. Government Obligations	\$ 8,498,567	\$ 14,142,677	\$ 244,194,221
Other U.S. Denominated:			
AAA	-	-	57,770,342
AA	2,827,897	4,895,316	45,669,400
A	8,297,086	14,267,929	98,995,277
BBB	9,469,093	15,722,458	94,842,218
BB	2,472,128	4,358,741	3,200,172
B	1,013,505	1,751,103	5,216,578
C and < C	-	-	2,868,608
Unrated	6,136,259	11,840,312	79,411,138
Commingled Funds:			
U.S. Bond Funds: Unrated	58,363,636	67,342,316	205,630,016
Non-U.S. Bond Funds: Unrated	29,063,500	47,096,969	-
Money Market Funds: Unrated	79,594,084	58,259,515	100,227,735
Total	<u>\$ 205,735,755</u>	<u>\$ 239,677,336</u>	<u>\$ 938,025,705</u>

	2016		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Fixed or Variable Income Securities			
U.S. Government Obligations	\$ 11,635,633	\$ 13,315,542	\$ 206,021,290
Other U.S. Denominated:			
AAA	-	-	66,722,557
AA	4,935,622	5,902,771	62,277,161
A	11,351,391	13,602,107	94,456,013
BBB	9,710,555	11,642,153	96,922,375
BB	396,562	581,625	12,178,203
B	-	-	6,109,639
C and < C	-	-	3,388,143
Unrated	549,764	674,710	78,100,343
Commingled Funds:			
U.S. Bond Funds: Unrated	59,563,636	65,616,121	199,067,054
Non-U.S. Bond Funds: Unrated	26,423,526	42,818,930	-
Money Market Funds: Unrated	37,501,965	47,260,189	111,156,636
Total	<u>\$ 162,068,654</u>	<u>\$ 201,414,148</u>	<u>\$ 936,399,414</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 investments, at September 30, 2017 and 2016 is as follows:

	2017	2016
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$ 177,508	\$ 194,213
Other U.S. Dollar, Money Market Funds, and Commingled Bonds		
AAA	839,423	950,773
AA	-	261,837
A	743,016	396,092
BBB	582,413	651,464
BB	228,329	331,969
B	46,073	44,312
Below B	10,021	8,862
Unrated	244	479
Total	\$ 2,627,027	\$ 2,840,001

#### 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, 2017 and 2016, 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, 2017 and 2016 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	
	2017	2016	2017	2016	2017	2016
U.S. Government Obligations	8.7	8.1	8.4	8.4	1.9	1.9
Corporate Bonds	4.8	4.7	5.0	4.6	1.9	2.1
Non-U.S. Bonds	4.8	4.7	5.0	4.6	1.9	2.1
Commingled Bond Funds	2.4	1.8	2.1	1.5	2.8	2.8

The effective durations for fixed or variable income securities, for the University's separately held investments, at September 30, 2017 and 2016 are as follows:

	2017	2016
U.S. Government Obligations	12.4	12.8
Commingled Bond Funds	4.9	3.4

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, 2017 and 2016 the fair market value of these investments, for the System Pools, are as follows:

	2017		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	\$ 6,136,259	\$ 11,840,312	\$ 149,207,687
Collateralized Mortgage Obligations	-	-	11,990,320
Total Fixed	<u>\$ 6,136,259</u>	<u>\$ 11,840,312</u>	<u>\$ 161,198,007</u>

	2016		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	\$ -	\$ -	\$ 166,643,153
Collateralized Mortgage Obligations	-	-	12,035,018
Total Fixed	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 178,678,171</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, 2017 and 2016, the effective durations for these securities held in the System Pools are listed below. At September 30, 2017 and 2016, the University did not hold any investments in these security types outside of the System Pools.

	2017		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	3.5	3.3	1.0
Collateralized Mortgage Obligations	-	-	2.2
	2016		
	Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	-	-	0.9
Collateralized Mortgage Obligations	-	-	1.7

### 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. Currency hedging of foreign bonds and stocks is allowed under System policy. As of September 30, 2017 and 2016, 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 \$61.1 million and \$64.9 million of foreign bonds denominated in U.S. dollars and held by the Short Term Liquidity Pool Fund at September 30, 2017 and 2016 respectively. At September 30, 2017 and 2016, the University did not hold any foreign securities in its separately held investment portfolio.

### Securities Lending

The System permits 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, 2017 and 2016, no securities were on loan from the investment pools.

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## Note 5 – Receivables

### Accounts receivable

Accounts receivable consist of amounts for student tuition and fees, contract and grant reimbursements due from third parties, and interest due on investments. Other receivables increased significantly in fiscal year 2017 due to a \$16.2 million receivable to the Crimson Tide Foundation from the University at June 30, 2017.

Due to the timing of the payment after CTF's June 30 year end, it was a receivable for CTF at June 30, 2017, but not a payable for UA at September 30, 2017. The composition of accounts receivable at September 30, 2017 and 2016 is summarized below:

	2017	2016
Student accounts	\$ 43,849,861	\$ 46,890,277
Receivables from sponsoring agencies	19,737,152	18,639,879
Accrued interest receivable	13,104,244	11,879,483
Other	27,830,075	12,956,384
Total accounts receivable	104,521,332	90,366,023
Less provision for doubtful accounts	(3,896,796)	(3,923,029)
Accounts receivable, net	<u>\$ 100,624,536</u>	<u>\$ 86,442,994</u>

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### Notes receivable

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 notes receivable at September 30, 2017 and 2016 is summarized as follows:

	2017	2016
Notes receivable from student organizations	\$ 162,230,478	\$ 152,692,226
Less current portion	(3,511,833)	(3,090,073)
Notes receivable, noncurrent	<u>\$ 158,718,645</u>	<u>\$ 149,602,153</u>

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**Student loans receivable**

Student 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. The composition of student loans receivable at September 30, 2017 and 2016, is summarized as follows:

	2017	2016
Federal loan program	\$ 13,726,334	\$ 13,329,245
University loan funds	1,761,150	1,718,942
Less allowance for doubtful loans	<u>(3,696,717)</u>	<u>(3,696,717)</u>
Total student loans outstanding, net	11,790,767	11,351,470
Less current portion	<u>(2,070,459)</u>	<u>(2,017,156)</u>
Total student loans outstanding, noncurrent	<u>\$ 9,720,308</u>	<u>\$ 9,334,314</u>

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**Pledges receivable**

Pledges receivable represent unconditional promises to give from third party donors and are presented at their gross, undiscounted

amount. The composition of pledges receivable at September 30, 2017 and 2016, is summarized as follows:

	2017	2016
Operations	\$ 12,820,177	\$ 15,964,880
Capital	6,161,825	5,645,248
Less allowance for doubtful pledges	<u>(1,000,303)</u>	<u>(1,150,734)</u>
Total pledges, net	17,981,699	20,459,394
Less current portion	<u>(4,344,380)</u>	<u>(5,980,201)</u>
Total pledges, noncurrent	<u>\$ 13,637,319</u>	<u>\$ 14,479,193</u>

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## Note 6 – Capital Assets

Capital assets are capitalized and recorded at cost at the date of acquisition or at estimated acquisition value at the date received if gifted to the University. Capital assets as of September 30, 2017 and 2016 are summarized as follows:

	Balance October 1, 2016	Additions	Retirements/ Transfers	Balance September 30, 2017
Nondepreciable capital assets:				
Land	\$ 75,713,043	\$ -	\$ -	\$ 75,713,043
Collections	25,225,200	758,960	(293)	25,983,867
Construction in progress	34,141,931	114,954,434	(44,049,090)	105,047,275
Total nondepreciable capital assets	135,080,174	115,713,394	(44,049,383)	206,744,185
Depreciable capital assets:				
Land improvements	68,275,391	9,652,760	-	77,928,151
Infrastructure	94,063,146	10,300,990	-	104,364,136
Buildings and fixed equipment	1,943,588,059	46,522,590	(15,155,348)	1,974,955,301
Equipment	173,305,269	22,487,160	(10,113,498)	185,678,931
Library materials	123,199,325	1,734,135	-	124,933,460
Intangible assets	90,486,339	5,180,046	-	95,666,385
Total depreciable capital assets	2,492,917,529	95,877,681	(25,268,846)	2,563,526,364
Less accumulated depreciation:				
Land improvements	19,374,378	3,392,305	-	22,766,683
Infrastructure	20,519,193	4,816,150	-	25,335,343
Buildings and fixed equipment	425,639,445	43,750,325	(532,220)	468,857,550
Equipment	105,782,757	14,057,171	(8,754,218)	111,085,710
Library materials	102,703,098	2,825,844	-	105,528,942
Intangible assets	49,566,649	3,532,955	-	53,099,604
Total accumulated depreciation	723,585,520	72,374,750	(9,286,438)	786,673,832
Total depreciable capital assets, net	1,769,332,009	23,502,931	(15,982,408)	1,776,852,532
Total capital assets, net	\$ 1,904,412,183	\$ 139,216,325	\$ (60,031,791)	\$ 1,983,596,717

	Balance October 1, 2015	Additions	Retirements/ Transfers	Balance September 30, 2016
Nondepreciable capital assets:				
Land	\$ 75,579,820	\$ 133,224	\$ (1)	\$ 75,713,043
Collections	24,768,476	456,724	-	25,225,200
Construction in progress	71,169,177	150,145,712	(187,172,958)	34,141,931
Total nondepreciable capital assets	171,517,473	150,735,660	(187,172,959)	135,080,174
Depreciable capital assets:				
Land improvements	66,019,749	10,047,147	(7,791,505)	68,275,391
Infrastructure	78,509,379	28,426,265	(12,872,498)	94,063,146
Buildings and fixed equipment	1,818,679,400	176,380,188	(51,471,529)	1,943,588,059
Equipment	157,519,377	22,406,271	(6,620,379)	173,305,269
Library materials	121,171,042	2,028,283	-	123,199,325
Intangible assets	86,271,037	4,215,302	-	90,486,339
Total depreciable capital assets	2,328,169,984	243,503,456	(78,755,911)	2,492,917,529
Less accumulated depreciation:				
Land improvements	24,086,858	2,908,468	(7,620,948)	19,374,378
Infrastructure	30,071,925	3,319,765	(12,872,497)	20,519,193
Buildings and fixed equipment	390,143,496	41,570,526	(6,074,577)	425,639,445
Equipment	98,261,744	13,150,649	(5,629,636)	105,782,757
Library materials	99,870,829	2,832,269	-	102,703,098
Intangible assets	45,937,335	3,629,314	-	49,566,649
Total accumulated depreciation	688,372,187	67,410,991	(32,197,658)	723,585,520
Total depreciable capital assets, net	1,639,797,797	176,092,465	(46,558,253)	1,769,332,009
Total capital assets, net	\$ 1,811,315,270	\$ 326,828,125	\$ (233,731,212)	\$ 1,904,412,183



## Note 7 – Long-term Debt

Standard & Poor's Ratings Services rates the University's outstanding general revenue bonds at AA. The outlook on all ratings is stable.

Long-term debt activity for the years ended September 30, 2017 and 2016 is summarized as follows:

Type/Supported by	Balance October 1, 2016	New Debt	Principal Repayment	Reclass	Balance September 30, 2017
Notes payable					
Crimson Tide Foundation airplane	\$ 2,786,325	\$ -	\$ 562,452	\$ -	\$ 2,223,873
Rental income	737,468	-	130,824	-	606,644
Bryce/Partlow Property	44,530,400	-	5,566,300	-	38,964,100
General fee	543,100	-	271,550	-	271,550
Bonds					
Student housing revenue	194,126,796	17,495,202	20,212,487	-	191,409,511
Fraternities and Sororities	26,883,160	4,909,254	11,763,790	-	20,028,624
Intercollegiate athletics	203,543,170	41,246,753	19,271,885	-	225,518,038
Auxiliaries	40,384,118	33,114,723	9,411,516	-	64,087,325
General fee	402,817,756	102,549,068	17,915,322	-	487,451,502
	<u>\$ 916,352,293</u>	<u>\$ 199,315,000</u>	<u>\$ 85,106,126</u>	<u>\$ -</u>	<u>\$ 1,030,561,167</u>
Plus net unamortized bond premium/discount	34,669,044				43,081,064
Less current portion	(24,936,126)				(32,336,590)
	<u>\$ 926,085,211</u>				<u>\$ 1,041,305,641</u>

Type/Supported by	Balance October 1, 2015	New Debt	Principal Repayment	Reclass	Balance September 30, 2016
Notes payable					
Crimson Tide Foundation airplane	\$ -	\$ 2,925,000	\$ 138,675	\$ -	\$ 2,786,325
Student housing revenue	2,315,823	-	2,315,823	-	-
Rental income	860,887	-	123,419	-	737,468
Bryce/Partlow Property	50,096,700	-	5,566,300	-	44,530,400
General fee	814,650	-	271,550	-	543,100
Bonds					
Student housing revenue	195,262,964	-	1,142,270	6,102	194,126,796
Fraternities and Sororities	33,771,372	-	6,750,303	(137,909)	26,883,160
Intercollegiate athletics	207,556,008	-	4,033,432	20,594	203,543,170
Auxiliaries	42,316,958	-	2,067,816	134,976	40,384,118
General fee	406,742,700	-	3,901,181	(23,763)	402,817,756
	<u>\$ 939,738,062</u>	<u>\$ 2,925,000</u>	<u>\$ 26,310,769</u>	<u>\$ -</u>	<u>\$ 916,352,293</u>
Plus net unamortized bond premium/discount	36,556,199				34,669,044
Less current portion	(24,085,947)				(24,936,126)
	<u>\$ 952,208,314</u>				<u>\$ 926,085,211</u>

Debt obligations generally bear interest at fixed rates ranging from 0% to 6.3% and mature at various dates through fiscal year 2047.

Maturities and interest on notes, leases and bonds payable, using rates in effect at September 30, 2017, 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
2018	\$ 6,551,590	\$ 25,785,000	\$ 32,336,590	\$ 79,941	\$ 42,048,505	\$ 42,128,446	\$ 74,465,036
2019	6,301,257	26,380,000	32,681,257	58,723	42,296,945	42,355,668	75,036,925
2020	6,323,264	30,050,000	36,373,264	36,717	41,319,329	41,356,046	77,729,310
2021	6,191,156	31,890,000	38,081,156	14,172	40,002,808	40,016,980	78,098,136
2022	5,566,300	33,735,000	39,301,300	-	38,566,018	38,566,018	77,867,318
2023-2027	11,132,600	193,860,000	204,992,600	-	166,784,688	166,784,688	371,777,288
2028-2032	-	236,935,000	236,935,000	-	119,396,846	119,396,846	356,331,846
2033-2037	-	216,375,000	216,375,000	-	67,357,787	67,357,787	283,732,787
2038-2042	-	143,750,000	143,750,000	-	24,842,236	24,842,236	168,592,236
2043-2047	-	49,735,000	49,735,000	-	4,638,300	4,638,300	54,373,300
	<u>\$ 42,066,167</u>	<u>\$ 988,495,000</u>	<u>\$ 1,030,561,167</u>	<u>\$ 189,553</u>	<u>\$ 587,253,462</u>	<u>\$ 587,443,015</u>	<u>\$ 1,618,004,182</u>

Pledged revenues for the years ended September 30, 2017 and 2016 as defined by outstanding bond covenants are as follows:

	2017	2016
Tuition and fees	\$ 719,840,321	\$ 692,223,046
Sales and services of educational activities	12,776,616	12,619,542
Auxiliary sales and services	208,799,681	203,145,877
Investment income	55,813,223	50,945,777
Other operating revenue	59,247,356	55,784,465
Total pledged revenues	<u>\$ 1,056,477,197</u>	<u>\$ 1,014,718,707</u>

The University defeased certain indebtedness during fiscal year 2017 with the 2017 bond issuance. For this defeasance, 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 2017 defeased indebtedness at September 30, 2017 is approximately \$34.4 million.

The undiscounted cash flows required to service principal and interest under the old bonds as of September 30, 2017, would have been \$91.9 million compared to undiscounted cash flow requirements of \$91.5 million under the new bonds. The economic gain to the University of the bond refinancing in fiscal year 2017 was calculated to be approximately \$7.9 million using an effective interest rate of 3.20% 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 2017 of \$1.1 billion, the projected maximum annual debt service

requirement of \$78.1 million in 2021 is covered approximately 13.5 times by pledged revenues. The University is in compliance with all financial covenants as of September 30, 2017.

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 following is a detailed schedule of long-term debt as of September 30, 2017:

Description	Date Issued	Final Maturity	Interest Rate-%	Original Debt	Outstanding Debt
Bonds payable:					
General Fee Revenue Bond Series 2008A	8/1/2008	7/1/2034	3.0-5.0	\$ 45,425,000	\$ 1,410,000
General Fee Revenue Bond Series 2009A	10/30/2009	7/1/2039	5.14-6.28	135,425,000	135,425,000
General Fee Revenue Bond Series 2009B	10/30/2009	7/1/2021	1.25-5.14	48,060,000	18,335,000
General Fee Revenue Bond Series 2010A	7/1/2010	7/1/2040	2.0-5.875	16,495,000	13,915,000
General Fee Revenue Bond Series 2010B	11/18/2010	7/1/2040	5.7-5.85	18,000,000	18,000,000
General Fee Revenue Bond Series 2010C	11/18/2010	7/1/2038	3.8-6.1	100,420,000	100,420,000
General Fee Revenue Bond Series 2010D	11/18/2010	7/1/2019	1.0-4.0	31,040,000	5,835,000
General Fee Revenue Bond Series 2012A	10/16/2012	7/1/2042	3.0-5.0	265,655,000	260,440,000
General Fee Revenue Bond Series 2012B	10/16/2012	7/1/2019	1.4-3.0	20,290,000	6,155,000
General Fee Revenue Bond Series 2014A	8/28/2014	7/1/2021	5.0	25,780,000	17,140,000
General Fee Revenue Bond Series 2014B	8/28/2014	7/1/2044	3.0-5.0	212,105,000	212,105,000
General Fee Revenue Bond Series 2017A	8/30/2017	7/1/2024	4.0-5.0	15,855,000	15,855,000
General Fee Revenue Bond Series 2017B	8/30/2017	7/1/2047	3.0-5.0	158,400,000	158,400,000
General Fee Revenue Bond Series 2017C	8/30/2017	7/1/2023	1.32-2.32	25,060,000	25,060,000
Total bonds payable				<u>1,118,010,000</u>	<u>988,495,000</u>
Notes payable:					
Geist LLC Promissory Note	1/24/2007	2/1/2021	6.0	1,800,000	606,644
Key Government Finance	6/15/2014	7/15/2018	0.0	1,357,750	271,550
Department of Mental Health (Partlow I)	11/14/2014	11/14/2023	0.0	32,000,000	22,400,000
Department of Mental Health (Partlow II)	2/27/2015	2/27/2024	0.0	23,663,000	16,564,100
PNC Aviation Finance (CTF airplane)	2/17/2016	3/1/2021	2.22	2,925,000	2,223,873
Total notes payable				<u>61,745,750</u>	<u>42,066,167</u>
Total bonds and notes payable				<u>\$ 1,179,755,750</u>	<u>\$ 1,030,561,167</u>

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## Note 8 – 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. Other liabilities in the accompanying statements includes a reserve of approximately \$1.6 million and \$1.7 million for general liability at September 30, 2017 and 2016, respectively.

The University is self-insured for health insurance. The liability for unpaid claims includes an accrual for an estimate of claims incurred but not reported. The changes in the health insurance liabilities for the years ended September 30, 2017 and 2016 are summarized as follows:

	2017	2016
Balance, beginning of year	\$ 2,980,000	\$ 3,137,000
Claims paid	(46,616,897)	(42,840,476)
Contributions	46,503,897	42,683,476
Balance, end of year	<u>\$ 2,867,000</u>	<u>\$ 2,980,000</u>

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## Note 9 – Employee Benefits

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 contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% of annual pay for Tier 2 members. The University's contractually required contribution rate for the year ended September 30, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% 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 2017, 2016, and 2015 is as follows:

	2017	2016	2015
Employer Contributions	\$ 45,024,221	\$ 43,303,201	\$ 39,092,939
Employee Contributions	27,311,165	26,477,729	25,244,339
Total Contributions	<u>\$ 72,335,386</u>	<u>\$ 69,780,930</u>	<u>\$ 64,337,278</u>

Pensionable salaries and wages for covered employees participating in TRS were approximately \$385.9 million during fiscal year 2017 and \$369.6 million during fiscal year 2016.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At September 30, 2017, the University reported a liability of \$623,398,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to

calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. The University's proportion of the collective net pension liability was based on the employer's share of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016 the University's proportion was 5.76%, which was an increase of 0.29% from its proportion measured as of September 30, 2015. The University's proportionate share of the collective net pension liability at September 30, 2016 was \$572,814,000.



For the years ended September 30, 2017 and 2016, the University recognized pension expense of \$76.8 million and \$51.2 million, respectively. At September 30, 2017 and 2016, the University

reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 16,054,000
Changes of assumptions	44,015,000	-
Net difference between projected and actual earnings on pension plan investments	9,010,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	46,316,000	-
Employer contributions subsequent to the measurement date	45,024,221	-
Total	<u>\$ 144,365,221</u>	<u>\$ 16,054,000</u>
	2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 3,103,000
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	37,503,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	31,777,000	-
Employer contributions subsequent to the measurement date	43,303,201	-
Total	<u>\$ 112,583,201</u>	<u>\$ 3,103,000</u>

\$45.0 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions in 2017 will be recognized in pension expense as follows:

**Year ended September 30:**

2018	\$21,459,000
2019	21,459,000
2020	29,160,000
2021	7,500,000
2022	3,709,000
Thereafter	-

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of September 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

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

\*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

Mortality rates for TRS were based on the White Collar Mortality Table projected to 2020 using Scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

Fixed income  
U.S. large stocks  
U.S. mid stocks  
U.S. small stocks  
International developed market stocks  
International emerging market stocks  
Alternatives  
Real estate  
Cash  
Total

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*
17.00%	4.40%
32.00%	8.00%
9.00%	10.00%
4.00%	11.00%
12.00%	9.50%
3.00%	11.00%
10.00%	10.10%
10.00%	7.50%
3.00%	1.50%
100.00%	

\*Includes assumed rate of inflation of 2.50%

*Discount rate.* The discount rate used to measure the total pension liability was 7.75%. 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 7.75%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
University's proportionate share of collective net pension liability	\$ 830,505,000	\$ 623,398,000	\$ 448,060,000

*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, 2016. The supporting actuarial information is

included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2016. The auditor's report dated September 22, 2017 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense

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for the sum of all participating entities as of September 30, 2016 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 2017 and 2016, excluding amounts not eligible for matching, was approximately \$21.3 million and \$20.2 million, which included approximately \$10.7 million and \$10.1 million each from the University and its employees, respectively. Salaries and wages for covered employees participating in TIAA – CREF or VALIC were approximately \$260.2 million and \$239.5 million, respectively, during the fiscal years 2017 and 2016.

### 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 \$28.1 million and \$26.6 million as of September 30, 2017 and 2016, respectively, primarily for accrued vacation and sick leave.

## Note 10 – 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 Plan ("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, 2017:

#### Retired Member Rates:

- Individual Coverage/Non-Medicare Eligible - \$166
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-spousal Dependent(s) - \$421
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) with Non-Medicare Eligible Spouse - \$521
- Family Coverage/Non-Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible - \$280
- Family Coverage/Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible - \$310
- Individual Coverage/Medicare Eligible Retired Member - \$25
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)—No Spouse - \$280
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)—with Non-Medicare eligible Spouse - \$380
- Family Coverage/Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible - \$139
- Family Coverage/Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible - \$169

The required contribution rate of the employer was \$373 per employee per month in the year ended September 30, 2017. The University paid \$8.4 million and \$8.9 million for the years ended September 30, 2017 and 2016 for 1,924 and 1,886 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 11 – Federal Direct Student Loan 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, 2017 and 2016, respectively, the University disbursed approximately \$207.7 million and \$197.2 million, respectively, under the FDSLP.

## Note 12 – Grants and Contracts

At September 30, 2017, the University had been awarded approximately \$45.3 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, 2017.

## Note 13 – 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, 2017 and 2016 are summarized as follows:

### 2017 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Supplies and services	Depreciation	Scholarships and fellowships	Total 2017
Instruction	\$ 272,651,446	\$ 45,010,438	\$ 17,328,353	\$ -	\$ 334,990,237
Research	32,158,790	22,787,845	4,816,825	-	59,763,460
Public service	35,820,319	12,622,036	1,819,980	-	50,262,335
Academic support	63,353,617	13,862,042	13,272,217	-	90,487,876
Student services	37,558,653	16,656,342	5,221,098	-	59,436,093
Institutional support	75,429,790	23,152,462	6,456,673	-	105,038,925
Operations and maintenance	67,329,833	21,726,593	-	-	89,056,426
Scholarships and fellowships	-	-	-	14,594,420	14,594,420
Auxiliary enterprises	82,017,635	97,833,854	23,459,604	9,978,953	213,290,046
Total operating expenses	<u>\$ 666,320,083</u>	<u>\$ 253,651,612</u>	<u>\$ 72,374,750</u>	<u>\$ 24,573,373</u>	<u>\$ 1,016,919,818</u>

### 2016 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Supplies and services	Depreciation	Scholarships and fellowships	Total 2016
Instruction	\$ 253,292,566	\$ 45,779,734	\$ 15,974,686	\$ -	\$ 315,046,986
Research	29,092,346	21,537,358	4,838,154	-	55,467,858
Public service	34,064,403	12,197,975	1,871,552	-	48,133,930
Academic support	58,564,978	14,188,559	12,919,509	-	85,673,046
Student services	34,198,856	15,963,120	4,716,391	-	54,878,367
Institutional support	72,001,227	19,231,793	5,420,555	-	96,653,575
Operations and maintenance	59,510,033	26,382,011	-	-	85,892,044
Scholarships and fellowships	-	-	-	13,853,660	13,853,660
Auxiliary enterprises	71,745,804	93,380,039	21,670,144	6,517,503	193,313,490
Total operating expenses	<u>\$ 612,470,213</u>	<u>\$ 248,660,589</u>	<u>\$ 67,410,991</u>	<u>\$ 20,371,163</u>	<u>\$ 948,912,956</u>

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## Note 14 – 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.

The University has contracted for the construction and renovation of several facilities. At September 30, 2017 and 2016, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$148.3 million and \$39.3 million, respectively, which is expected to be financed from grants, bond proceeds, University funds, and private gifts. The \$109.0 million increase primarily results from the construction of several projects on campus during fiscal year including Freshman Residential Housing, Tutwiler Parking Deck, and HM Comer renovations.

## Note 15 – Recently Issued Pronouncements

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 has determined there was no impact from the 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 currently evaluating the impact that GASB 75 will have on its financial statements, but notes that the adoption of this standard will likely result in the recognition of a material liability and a corresponding material reduction of the University's unrestricted net position.

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

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, in March 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement is effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The University is evaluating whether there will be any material impact from its adoption of GASB 81.



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The GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, in March 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and 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. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The University determined that there was no material impact from its adoption of GASB 82.

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, in November 2016. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement is effective for reporting periods beginning after June 15, 2018. The University is evaluating whether there will be any material impact from its adoption of GASB 83.

The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement is effective for reporting periods beginning after December 15, 2018. The University is evaluating whether there will be any material impact from its adoption of GASB 84.

The GASB issued Statement No. 85, *Omnibus 2017*, in March 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This statement is effective for reporting periods beginning after June 15, 2017. The University is evaluating whether there will be any material impact from its adoption of GASB 85.

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

The GASB issued Statement No. 87, *Leases*, in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement is effective for reporting periods beginning after December 15, 2019. The University is evaluating whether there will be any material impact from its adoption of GASB 87.

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**The University of Alabama**  
**Required Supplementary Information (Unaudited)**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the net pension liability	5.76%	5.47%	5.20%
Employer's proportionate share of the collective net pension liability	\$ 623,398,000	\$ 572,814,000	\$ 472,075,000
Employer's covered payroll during the measurement period	\$ 369,595,295	\$ 347,881,013	\$ 329,612,262
Employer's proportionate share of the collective net pension liability as a percentage of its covered payroll	168.67%	164.66%	143.22%
Plan fiduciary net position as a percentage of the total collective pension liability	67.93%	67.51%	71.01%

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 45,024,221	\$ 43,303,201	\$ 39,092,939
Contributions in relation to the contractually required contribution	\$ 45,024,221	\$ 43,303,201	\$ 39,092,939
Contribution deficiency (excess)	\$ -	\$ -	\$ -
Employer's covered payroll	\$ 385,853,526	\$ 369,595,295	\$ 347,881,013
Contributions as a percentage of covered payroll	11.67%	11.72%	11.24%

**Notes to Schedules**

Employer's covered payroll: The payroll on which contributions to a pension plan are based.

Measurement period:

For fiscal year 2017, the measurement period is October 1, 2015 - September 30, 2016

For fiscal year 2016, the measurement period is October 1, 2014 - September 30, 2015

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

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