The background of the cover is a photograph of a tall, red brick tower with a white, tiered top section. The tower is partially obscured by lush green trees in the foreground. The sky is a clear, bright blue. The text is overlaid on the right side of the image.

2017-2018

# ANNUAL FINANCIAL REPORT

THE UNIVERSITY OF  
**ALABAMA**<sup>®</sup>





# 2017-2018 Financial Report

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January 10, 2019

The management of The University of Alabama (the "University") is responsible for the preparation, integrity, and fair presentation of the financial statements. The financial statements, presented on pages 22 through 28, 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 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 4 and 5.

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 position, 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,



Matthew M. Fajack  
Vice President for Finance and Operations and Treasurer

W H E R E   L E G E N D S   A R E   M A D E

271 Rose Administration Building | Box 870142 | Tuscaloosa, AL 35487-0142 | 205-348-4530 | Fax 205-348-9633



## **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, 2018 and 2017, 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, 2018 and 2017 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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PricewaterhouseCoopers LLP, 569 Brookwood Village, Suite 851, Birmingham, AL 35209  
T: (205) 414-4000, F: (205) 414-4001, [www.pwc.com/us](http://www.pwc.com/us)



### ***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, 2018 and 2017, its changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

As discussed in Notes 1 and 10 to the basic financial statements, in the year ended September 30, 2018, the University adopted new accounting guidance related to the manner in which it accounts for other post-employment benefits. As described within the notes to the financial statements, the University adopted Governmental Accounting Standards Board ("GASB") Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective October 1, 2017. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

The accompanying management's discussion and analysis on pages 6 through 21 and the accompanying supplementary information on pages 80 through 81 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 20 and 21 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 21, 2019



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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, 2018 and 2017. 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, required supplementary information, 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 1,300 acre residential campus located in Tuscaloosa, Alabama, features exceptional facilities and technology. UA emphasizes quality programs of teaching, research and service with scholarship opportunities that offer a global perspective, close to 600 student organizations, leading-edge research initiatives, and an academic community united in its commitment to enhancing quality of life.

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, 2018 and 2017.

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.

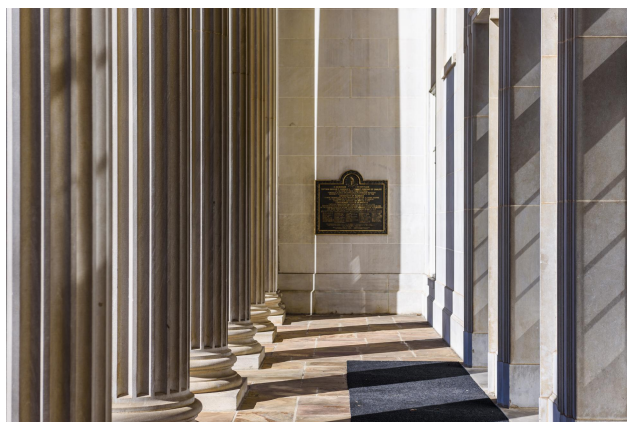
The second category is restricted net position, which is divided into two categories, non-expendable and expendable. The corpus of non-expendable restricted resources, as it pertains to endowments, is only available for investment purposes. The earnings on these funds support the programs and activities 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, 2018, the University's assets and deferred outflows of resources were \$4.6 billion, liabilities and deferred inflows of resources were \$2.5 billion, leaving a net position of \$2.1 billion. During fiscal year 2018 the University implemented GASB 75, which resulted in a decrease to beginning net position of \$222.8 million. However, this is offset in part by tuition growth, an increase in capital gifts, and an increase in contracts and grants revenue.

### Condensed Statements of Net Position

	September 30,		
	2018	2017	2016
<b>Assets</b>			
Current assets	\$ 553,887,777	\$ 586,593,318	\$ 549,059,715
Capital assets, net	2,100,055,575	1,983,596,717	1,904,412,183
Other noncurrent assets	1,745,944,241	1,702,434,400	1,435,131,090
Total assets	4,399,887,593	4,272,624,435	3,888,602,988
Deferred outflows of resources	175,548,131	158,389,969	126,240,424
<b>Liabilities</b>			
Current liabilities	534,275,339	594,343,066	579,674,791
Noncurrent liabilities	1,850,454,892	1,685,516,066	1,521,284,078
Total liabilities	2,384,730,231	2,279,859,132	2,100,958,869
Deferred Inflows of Resources	89,599,673	16,054,000	3,103,000
<b>Net Position</b>			
Net investment in capital assets	1,151,792,864	1,076,735,303	1,002,586,271
Restricted	891,372,760	817,913,402	718,571,000
Unrestricted	57,940,196	240,452,567	189,624,272
Total net position	\$ 2,101,105,820	\$ 2,135,101,272	\$ 1,910,781,543





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## 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 \$75.4 million at September 30, 2018, an increase of \$16.5 million from the prior year. At September 30, 2017, current cash and cash equivalents totaled \$58.9 million, a slight increase of \$357,000 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 \$233.2 million, \$222.4 million, and \$173.7 million at September 30, 2018, 2017, and 2016, respectively. These investments are available for operating purposes. Restricted short-term investments were \$27.5 million, \$84.6 million, and \$120.9 million at September 30, 2018, 2017, and 2016, 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 by the DCNR. The University did not receive additional funds for the Gulf State Park Project in fiscal years 2018 or 2017. This led to a decrease in total short-term investments of \$46.3 million in fiscal year 2018 as funds were expended. Total short-term investments increased in fiscal year 2017 by \$12.4 million.

Accounts receivable decreased approximately \$4.5 million in fiscal year 2018 mostly as a result of a \$16.1 million decrease in the CTF accounts receivable and a \$9.4 million increase in student accounts receivable. In fiscal year 2017, accounts receivable increased \$14.2 million 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.

Prepaid expenses and unearned scholarships decreased slightly by \$237,000 in 2018 due to a decrease in prepaid expenses. 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. In the prior year, prepaid expenses and unearned

scholarships increased \$9.9 million due in large part to unearned scholarships. 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.

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 decreased \$8.7 million at September 30, 2018, primarily resulting from a decrease in investments for capital activities as bond proceeds were expended throughout the year. This follows an increase of \$260.2 million in noncurrent investments 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.



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Noncurrent notes receivable increased \$44.0 million due to the issuance of additional student organization housing loans, which follows an increase of \$9.1 million in fiscal year 2017, also due to the issuance of an additional student organization housing loan.

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 \$116.5 million in fiscal year 2018 and \$79.2 million during 2017. 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. 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."

Significant capital asset expenditures in 2018 include Freshman Residential Housing (\$36.2 million), Student Organizations (refer to note 5) (\$28.8 million), Tutwiler Parking Deck (\$21.0 million), H. M. Comer Hall renovations (\$17.1 million), Mal Moore Dining Facility (\$10.7 million), University Hall renovations (\$8.3 million), and Lakeside Dining renovations (\$6.4 million).

Significant capital asset 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).

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 consists of bond deferred refunding amounts (note 7), pension obligations (note 9), and OPEB obligations (note 10). At September 30, 2018, deferred outflows of resources from debt refundings decreased \$883,000 related to the annual amortization of the refundings. Deferred outflows of resources from pension and OPEB obligations increased \$18.0 million. The University implemented GASB 75 during fiscal year 2018, which resulted in deferred outflows of resources from OPEB obligations of \$47.8 million. Deferred outflows of resources from pension obligations decreased \$29.8 million. At September 30, 2017, deferred outflows of resources from debt refundings increased \$368,000 as the University defeased certain indebtedness during

fiscal year 2017. Deferred outflows of resources from pension obligations increased \$31.8 million in fiscal year 2017.

## 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 decreased \$1.2 million in 2018 from the prior year. This follows an increase of \$14.4 million in 2017. Unearned revenue consists primarily of tuition and housing revenues for the portion of the fall semester that occurs after September 30, and football ticket revenue for the portion of the season which occurs after September 30. Current unearned revenue increased \$2.7 million in fiscal year 2018, an expected increase given the growth in tuition and enrollment. In fiscal year 2017, there was an increase of \$36.2 million. 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 the larger 2017 increase. Deposits consist primarily of agency funds, food service deposits, debit card operation deposits and Capstone Village entrance fees. Deposits decreased \$61.9 million and \$43.4 million at September 30, 2018 and 2017, respectively, due to expenditures for the Gulf State Park Project.

The University's long-term debt, pension liability, and OPEB liability comprise the majority of its noncurrent liabilities. Long-term debt (current and noncurrent combined) decreased \$35.3 million in fiscal year 2018 as debt repayments were made throughout the year. This follows an increase of \$122.6 million in 2017 due to the 2017A, 2017B and 2017C bond issuances, offset by payments and defeasances. In 2018, the University's proportionate share of the net pension liability in the Teachers' Retirement System Plan (the "Plan") decreased by \$58.2 million to \$565.2 million, following a \$50.6 million increase from 2016. The overall Plan net pension liability decreased by 9.3% in 2018 due to an increase in the Plan's fiduciary net position. In fiscal year 2018, the University implemented GASB 75, requiring the recognition of \$257.7 million for its proportionate share of the net OPEB liability in the Alabama Retired Education Employee's Health Care Trust.

GASB Statements No. 68 and 75 require governmental employers participating in multi-employer cost-sharing pension and healthcare benefit plans to recognize liabilities for their proportionate share of the unfunded liability for plans whose actuarial liabilities exceed the plan's net assets. As required by Alabama statute, all eligible employees of a qualifying public educational employer must be a member of the Teacher's Retirement System of Alabama ("TRS"). As a qualifying employer, the University is required to make certain employer contributions on behalf of its employees participating in TRS's defined benefit pension plan. Additionally, Alabama statutes permitted the University to opt-in to provide its eligible retirees with healthcare

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benefits through the Public Education Employees' Health Insurance Plan ("PEEHIP").

The employer contribution rates for both plans are established annually by TRS and PEEHIP, and adopted by the Alabama Legislature. Both the TRS employer contribution rate and the employer's PEEHIP cost for retiree coverage are based upon the actuarial valuations performed by TRS and PEEHIP, respectively. Although the liabilities recognized under GASB 68 and 75 meet GASB's definition of a liability within GASB's framework for accounting standards, University of Alabama management does not believe that the associated recorded liabilities constitute legal liability for the University, nor do they open the University to other claims on its resources.

A deferred inflow of resources is the acquisition of net position in future periods. The University's deferred inflows of resources result from pension obligations (note 9), OPEB obligations (note 10), and the University's remainder interest in its irrevocable split interest agreements (note 1). At September 30, 2018, deferred inflows of resources from pension and OPEB obligations increased \$70.7 million. The University implemented GASB 75 during fiscal year 2018, which resulted in deferred inflows of resources from OPEB obligations of \$28.1 million. Deferred inflows of resources from pension obligations increased \$42.6 million. GASB 81 was also implemented during fiscal year 2018, resulting in the recognition of deferred inflows of resources from the remainder interest in split interest agreements of \$2.8 million. At September 30, 2017, deferred inflows of resources from pension obligations increased \$13.0 million from the prior year.

## 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 \$188.8 million during fiscal 2018, totaling \$2.1 billion. The adoption of GASB 75 caused a decrease in beginning net position of \$222.8 million when the initial OPEB liability was recorded. In fiscal year 2017, net position increased \$224.3 million, or 11.7%, totaling \$2.1 billion.

Net investment in capital assets increased \$75.1 million from \$1.1 billion in 2017. The previous year increase of \$74.1 million rose from \$1.0 billion reported in 2016. 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 \$27.5 million primarily due to gifts and earnings on true endowment corpus funds. This net position type encompasses true endowments that are required to be held in perpetuity. In the prior year, restricted nonexpendable net position experienced growth of \$31.8 million.



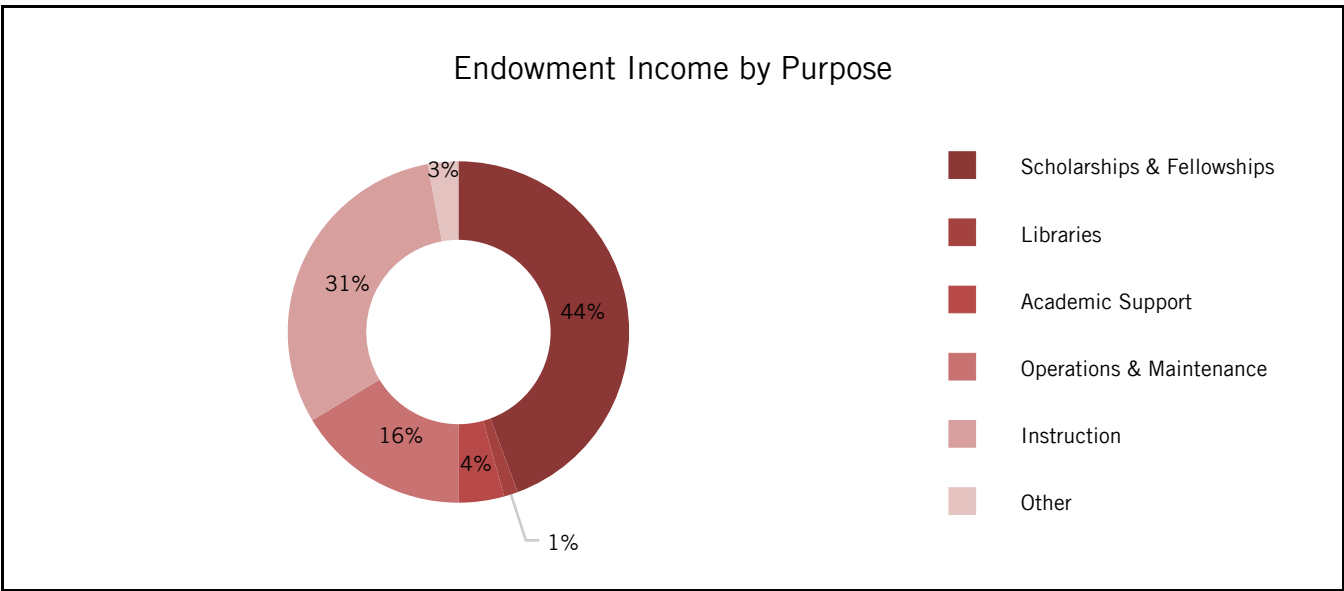
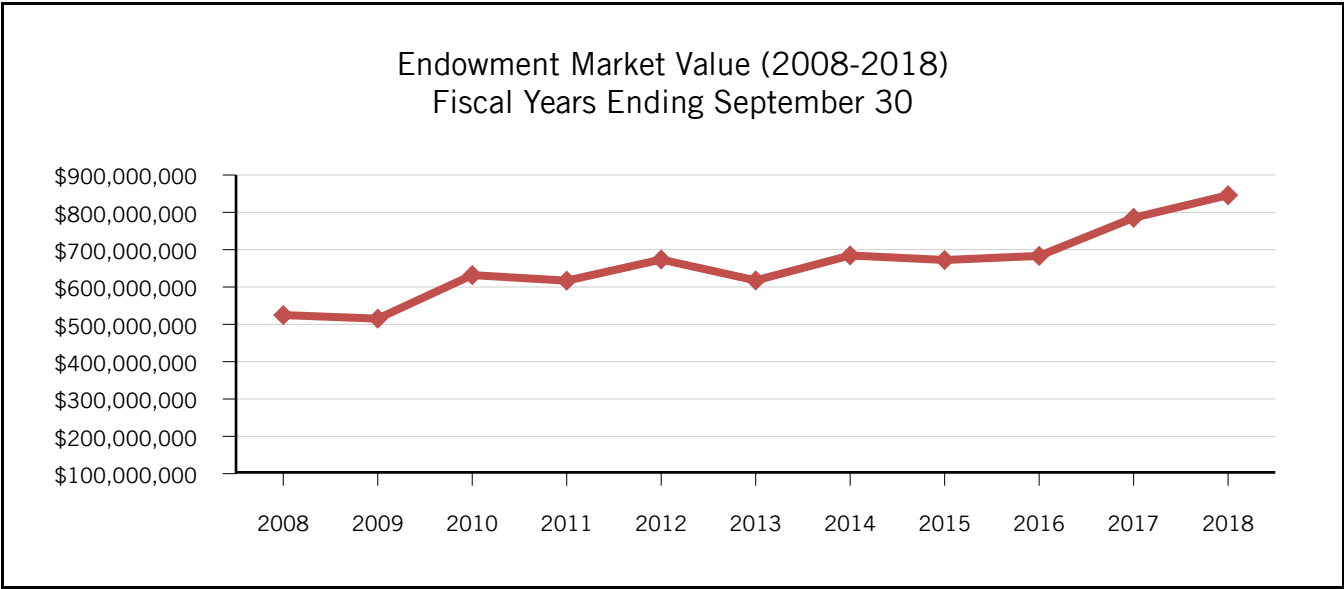
Restricted expendable net position increased \$46.0 million in 2018 resulting from an increase in true endowment gains and gifts. This follows an increase of \$67.6 million in 2017 largely due to higher mineral rights and timber land valuations, true endowment gains, and an increase in restricted quasi endowments. This net position category includes restricted gifts, institutional loan funds, sponsored programs, restricted quasi endowments, term endowments, endowment income and unrealized appreciation, and restricted plant funds. Restricted expendable net position is restricted by externally-imposed constraints.

Unrestricted net position decreased \$182.5 million in fiscal year 2018 primarily due to the aforementioned implementation of GASB 75. In the prior year, unrestricted net position increased \$50.8 million due to unrealized gains, unrestricted quasi endowments, and an increase in CTF unrestricted net position.

# 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 2018, the University's endowments grew \$60.6 million to reach \$845.9 million. The growth results from additions to the endowment of \$24.9 million and unrealized gains. This follows an increase of \$102.1 million in 2017 resulting from additions to the endowment of \$23.7 million and unrealized gains. This endowment total does not include the endowment values of discretely presented component units.



# 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,		
	2018	2017	2016
Operating revenues			
Tuition and fees, net	\$ 516,765,773	\$ 482,761,041	\$ 476,732,091
Auxiliary sales and services, net	200,256,134	202,333,172	193,964,754
All other operating revenues	158,063,231	148,555,442	147,834,966
Total operating revenues	875,085,138	833,649,655	818,531,811
Operating expenses	1,061,866,729	1,016,919,818	948,912,956
Operating loss	(186,781,591)	(183,270,163)	(130,381,145)
Nonoperating revenues (expenses)			
State educational appropriations	156,742,802	154,836,324	148,441,872
Gifts	48,858,002	56,126,778	52,203,061
Investment income, net	90,064,841	159,687,169	54,741,992
All other nonoperating expenses	(9,530,658)	(7,773,392)	(16,638,624)
Net nonoperating revenues	286,134,987	362,876,879	238,748,301
Income before other changes in net position	99,353,396	179,606,716	108,367,156
Other changes in net position	89,428,192	44,713,013	33,037,650
Increase in net position	188,781,588	224,319,729	141,404,806
Net position, beginning of year, as previously reported	2,135,101,272	1,910,781,543	1,769,376,737
Adoption of GASB 75 adjustment (note 1)	(222,777,040)	—	—
Net position, beginning of year, as restated, as of October 1, 2017	1,912,324,232	1,910,781,543	1,769,376,737
Net position, end of year	\$ 2,101,105,820	\$ 2,135,101,272	\$ 1,910,781,543



The University's net position increased \$188.8 million in 2018 primarily due to tuition growth, an increase in capital gifts, and an increase in contracts and grants revenue. Net position grew by \$224.3 million and \$141.4 million in fiscal years 2017 and 2016, respectively, as improved market performance resulted in large investment gains in those years. As noted in the SRECNP, the University experienced operating losses in all fiscal years presented of \$186.8 million, \$183.3 million, and \$130.4 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 2018 was \$516.8 million, a \$34.0 million increase over 2017's \$482.8 million, which increased \$6.0 million over \$476.7 million in 2016. 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 Grants and Contracts Revenue

	Years ended September 30,		
	2018	2017	2016
Department of Health & Human Services	\$ 8,199,573	\$ 10,200,232	\$ 9,464,247
National Science Foundation	11,075,042	7,859,398	7,770,332
U.S. Department of Education	5,125,178	4,553,825	4,899,962
U.S. Department of Energy	3,040,526	2,437,981	2,876,795
U.S. Department of Transportation	5,258,887	5,020,545	5,911,511
Department of Defense	2,940,474	3,010,674	3,326,892
Other Federal Sources	8,909,444	7,333,995	7,657,237
Total Federal Contracts and Grants Revenue	<u>\$ 44,549,124</u>	<u>\$ 40,416,650</u>	<u>\$ 41,906,976</u>

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Federal grants and contracts increased by \$4.1 million in 2018. The University experienced a sharp increase in awards during the fiscal year, including a significant increase in federally funded research. Some of this increase is reflected in federally funded research expenditures during the year. In fiscal year 2017, federal grants and contracts decreased \$1.5 million, which reflects a decrease in federal funding for instruction and research in that year. State and local grants and contracts (combined) decreased slightly by approximately \$71,000 in both 2018 and 2017. Private grants and contracts increased \$1.8 million in 2018, following a \$1.3 million decrease in the prior year.

The University's auxiliary activities are comprised of Intercollegiate Athletics, food service, housing, the UA Supply Store, and other miscellaneous auxiliary enterprises. Auxiliary income decreased \$2.1 million in 2018 due to the accrual of an extra licensing payment in the prior year. This follows an \$8.4 million increase in 2017 due to athletic income and the aforementioned extra licensing payment accrual.

Other operating revenue for the University totaled \$29.3 million, while CTF revenue of \$33.8 million contributed to the combined total of \$63.1 million as reported in 2018, an increase of \$3.8 million from the prior year, largely due to an increase in CTF revenues. In 2017, other operating revenue increased by \$3.5 million also due to an increase in CTF revenues.



## Non-Operating Revenues and Expenses

Due to the required classification of key revenue sources such as State educational 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 2018, the University received \$156.7 million in State educational appropriations for operating purposes, an increase of \$1.9 million. In 2017, the University received \$154.8 million, which was an increase of \$6.4 million from 2016.

Gift revenue for the University totaled \$48.9 million at September 30, 2018, of which \$26.9 million was recorded by the Crimson Tide Foundation. This was a decrease of \$7.3 million from the prior year primarily due to a decrease in CTF operating gifts as CTF focused on raising capital gifts. Gift revenues increased \$3.9 million in 2017 to \$56.1 million due to an increase 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 2018, nonoperating grant revenue increased to \$33.2 million, following a small increase to \$31.6 million in 2017 from \$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 \$90.1 million at September 30, 2018, a decrease of \$69.6 million largely due to a decrease in unrealized gains. In fiscal year 2017, the University posted net investment income of \$159.7 million, an increase of \$105.0 million from fiscal year 2016 as the University posted substantial unrealized gains following a positive market performance, coupled with an increase in the mineral rights and timber land valuations.



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## Operating Expenses

The University reports natural classifications of expenditures in the SRECNP. Salaries, wages and benefits increased \$33.4 million to \$699.8 million in 2018 from \$666.3 million in 2017, which was a \$53.8 million increase over \$612.5 million in 2016. The University is committed to recruiting and retaining outstanding faculty, staff and graduate students. Compensation packages and benefit offerings provide leverage for the University to successfully compete with peer institutions and employers outside of the academic sector. In fiscal year 2018, the University implemented GASB 75, resulting in an adjustment that increased OPEB expense by \$15.2 million. 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 \$9.3 million during fiscal year 2018. Factors contributing to the increase

include a rise in network maintenance and upgrades, contract and grant expenditures, travel expenses, and higher fuel prices. This follows an increase of \$5.0 million from 2016 due to a rise in advertising, program development and marketing expenditures, as well as an increase in the Capstone Village future services obligation.

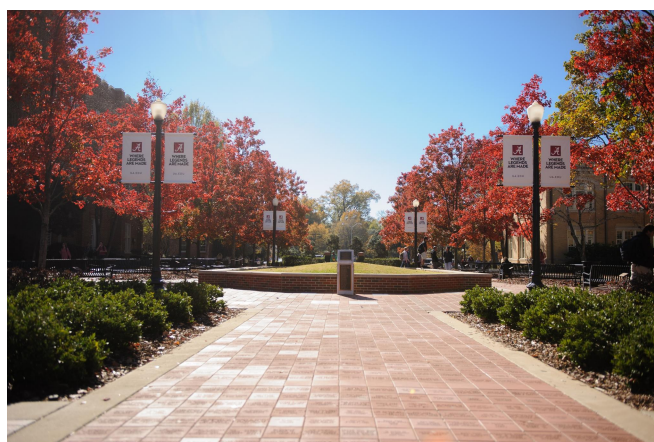
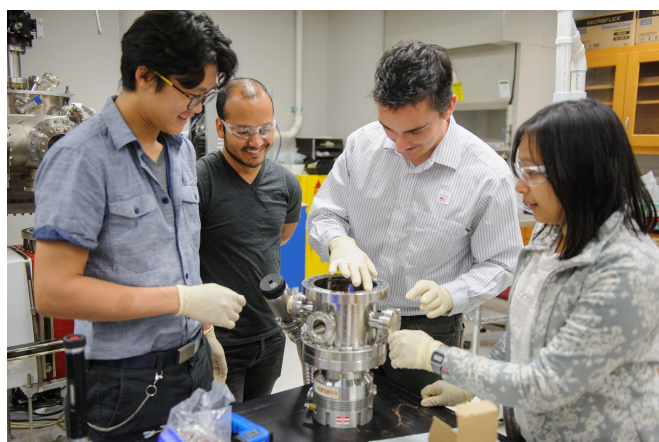
Scholarships and fellowships expense is reported net of scholarship allowances. The net expenses of \$23.7 million, \$24.6 million, and \$20.4 million for fiscal years 2018, 2017, and 2016, respectively, represent payments made directly to students after awards have been applied against tuition and fees and auxiliary housing charged to student accounts. Gross scholarship expenses totaled \$299.6 million, \$268.1 million, and \$245.0 million for the years ended September 30, 2018, 2017, and 2016, respectively.

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### Operating Expenses (by natural classification)

	Years ended September 30,		
	2018	2017	2016
Salaries, wages and benefits	\$ 699,755,982	\$ 666,320,083	\$ 612,470,213
Supplies and services	262,939,882	253,651,612	248,660,589
Depreciation	75,485,224	72,374,750	67,410,991
Scholarships and fellowships	23,685,641	24,573,373	20,371,163
Total operating expenses	<u>\$ 1,061,866,729</u>	<u>\$ 1,016,919,818</u>	<u>\$ 948,912,956</u>

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In addition to natural classifications, operating expenses are reported by functional classifications as defined by the National Association of College and University Business Officers ("NACUBO"). The functional classification of an operating expense (Instruction, Research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. This method reflects, by function of the University, amounts expended in areas such as instruction, research, and operations and maintenance and is used most commonly for comparative reporting purposes among colleges and universities. Scholarships and fellowships related to auxiliary enterprises are broken out separately below and are comprised primarily of Intercollegiate Athletics and housing scholarships.



### 2018 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Supplies and services	Depreciation	Scholarships and fellowships	Total 2018
Instruction	\$ 287,672,478	\$ 46,300,146	\$ 16,835,770	\$ —	\$ 350,808,394
Research	33,910,512	26,424,365	5,806,828	—	66,141,705
Public service	37,170,423	11,551,010	1,741,996	—	50,463,429
Academic support	65,078,438	15,602,723	13,559,390	—	94,240,551
Student services	39,848,939	16,828,916	5,274,468	—	61,952,323
Institutional support	82,329,678	23,115,679	6,959,020	—	112,404,377
Operations and maintenance	70,697,129	23,612,378	—	—	94,309,507
Scholarships and fellowships	—	—	—	13,430,050	13,430,050
Auxiliary enterprises	83,048,385	99,504,665	25,307,752	10,255,591	218,116,393
Total operating expenses	<u>\$ 699,755,982</u>	<u>\$ 262,939,882</u>	<u>\$ 75,485,224</u>	<u>\$ 23,685,641</u>	<u>\$ 1,061,866,729</u>

### 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>

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## Other Changes in Net Position

Capital gifts and grants experienced an increase of \$47.0 million in fiscal year 2018. \$35.3 million of the increase is attributable to UA. This follows a slight increase of \$131,000 in fiscal year 2017.

Additions to permanent endowments grew by \$1.2 million and \$4.8 million in fiscal years 2018 and 2017, respectively, due to restricted endowment gifts made throughout the year.

Intragovernmental transfers are typically limited to transactions with the Crimson Tide Foundation, a blended component unit of the University. At September 30, 2018, intragovernmental transfers had decreased \$3.5 million from the prior year. At September 30, 2017 intragovernmental transfers had increased \$6.8 million from the prior year.

## Capital Assets and Debt Administration

At September 30, 2018, the University had \$3.0 billion invested in gross capital assets and accumulated depreciation of \$853.8 million, a net of \$2.1 billion. 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. Depreciation expense for fiscal years 2018, 2017, and 2016 totaled \$75.5 million, \$72.4 million, and \$67.4 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:

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### Capital Assets, Net of Accumulated Depreciation

	2018	2017	2016
Land	\$ 81,247,943	\$ 75,713,043	\$ 75,713,043
Land improvements	56,369,068	55,161,468	48,901,013
Infrastructure	93,297,868	79,028,793	73,543,953
Buildings and fixed equipment	1,574,928,188	1,506,097,751	1,517,948,614
Construction in progress	110,448,650	105,047,275	34,141,931
Equipment	75,443,501	74,593,221	67,522,512
Library materials and collections	45,012,792	45,388,385	45,721,427
Intangible assets	63,307,565	42,566,781	40,919,690
Total capital assets, net of accumulated depreciation	<u>\$ 2,100,055,575</u>	<u>\$ 1,983,596,717</u>	<u>\$ 1,904,412,183</u>

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#### Significant capital asset expenditures for fiscal year 2018 included (in millions):

Freshman Residential Housing	\$36.2
Student Organizations (refer to note 5)	\$28.8
Tutwiler Parking Deck	\$21.0
H. M. Comer Hall renovation	\$17.1
Mal Moore Dining Facility	\$10.7
University Hall renovation	\$8.3
Lakeside Dining renovation	\$6.4

#### Significant capital asset expenditures for fiscal year 2017 included (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



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

At September 30, 2018, the University had \$1.0 billion of debt outstanding, of which \$32.7 million was classified as current. 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. The University had \$951.0 million of debt outstanding at September 30, 2016, of which \$24.9 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, 2018, 2017, and 2016, exclusive of debt discounts and premiums of \$40.1 million, \$43.1 million, and \$34.7 million, respectively, are summarized below. Further information may also be found in note 7.

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### Schedules of Long Term Debt

	2018	2017	2016
Bonds payable	\$ 962,710,000	\$ 988,495,000	\$ 867,755,000
Notes payable	35,514,577	42,066,167	48,597,293
Total long term debt	<u>\$ 998,224,577</u>	<u>\$ 1,030,561,167</u>	<u>\$ 916,352,293</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, steady 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.

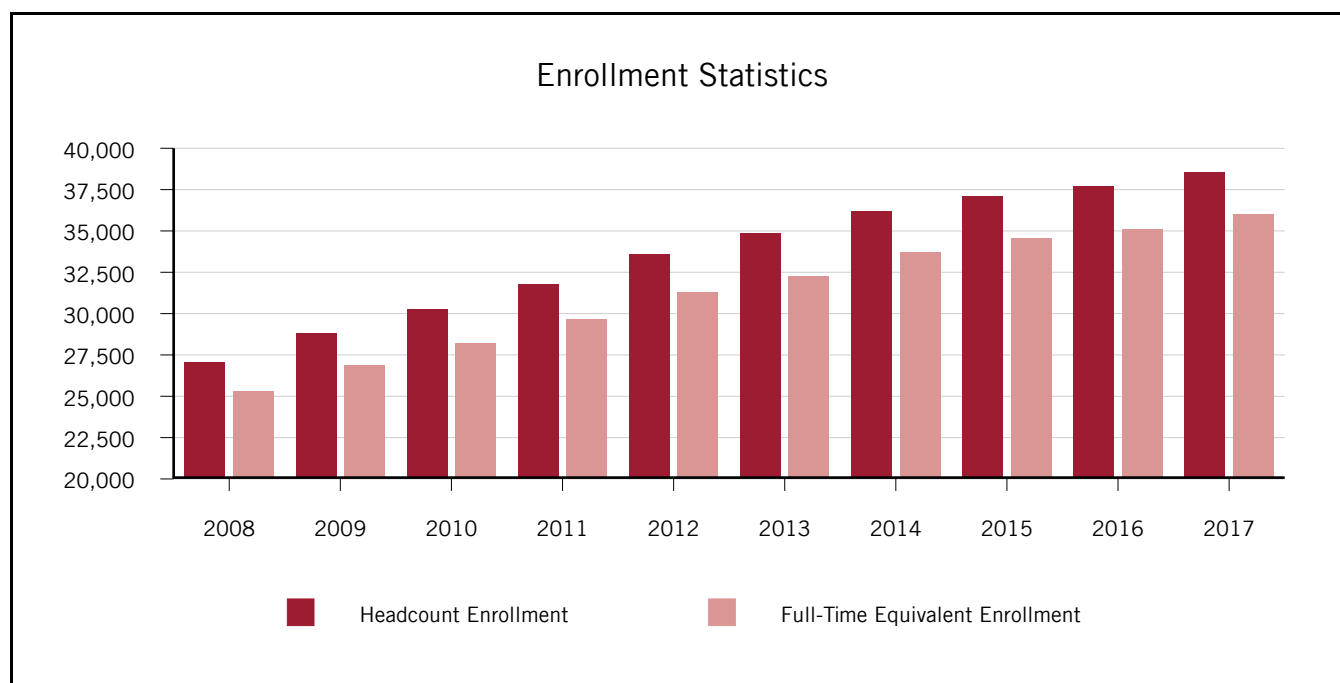
The University must have campus facilities that are competitive to meet student enrollment goals. The University continues to execute its long-term plan to modernize and expand its teaching, research, and student facilities with a balance of new construction and technology. The continuous improvement 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.

## Enrollment and Statistics (Unaudited)\*

The University of Alabama has ranked among the top 75 public universities in the nation in U.S. News and World Report's annual college rankings for more than a decade, standing at 61st in the 2019 rankings. Approximately 40 percent of the Fall 2018 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 600 currently enrolled. University students continue to win prestigious national awards. 53 University of Alabama students have been named Goldwater Scholars, including two in 2018. The University of Alabama has produced a total of 15 Rhodes Scholars, 16 Truman Scholars, 33 Hollings Scholars and 13 Boren Scholars.

Enrollment at the University continues to grow, reaching 38,563 in Fall 2017, an increase of 898 over the prior year. Full-time equivalent ("FTE") enrollment totaled 36,027, an increase of 907. The chart below displays enrollment counts taken for each fall semester; the last of which (2017), demonstrates enrollment figures occurring for the fall semester of the 2018 fiscal year.



# The University of Alabama

## Statistical Highlights

### Fall Semester

Fall Headcount Enrollment	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Undergraduate	33,305	32,564	31,960	30,754	29,443	28,026	26,234	24,884	23,702	22,343
Graduate	4,787	4,629	4,649	4,870	4,851	4,994	4,913	4,726	4,473	3,978
Professional	471	472	491	531	558	582	600	622	632	731
Total Fall Enrollment	38,563	37,665	37,100	36,155	34,852	33,602	31,747	30,232	28,807	27,052

Fall First-Time Freshman Admissions	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Applications	38,783	38,901	36,203	33,736	30,975	26,409	22,136	20,112	19,518	18,500
Admits	20,325	20,109	19,400	17,221	17,515	14,019	9,636	10,790	11,194	11,172
Enrolled	7,407	7,559	7,211	6,856	6,478	6,397	5,772	5,519	5,116	5,116
Percent Admitted	52.4%	51.7%	53.6%	51.0%	56.5%	53.1%	43.5%	53.7%	57.4%	60.4%
Percent Enrolled	36.4%	37.6%	37.2%	39.8%	37.0%	45.6%	59.9%	51.2%	45.7%	45.8%

Degrees Conferred										
Academic Years Ending May	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Baccalaureate	6,749	6,501	6,354	5,662	5,408	5,000	4,482	4,463	4,284	3,713
Master's	1,681	1,578	1,651	1,672	1,645	1,659	1,571	1,513	1,287	1,265
Juris Doctor	138	133	144	144	172	168	175	159	171	172
Educational Specialist	22	48	38	48	28	38	53	44	52	51
Doctoral	290	304	305	379	329	325	252	242	209	192
Total Degrees Conferred	8,880	8,564	8,492	7,905	7,582	7,190	6,533	6,421	6,003	5,393

Academic Years Ending May	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10	2008-09
Undergraduate and Graduate Tuition										
Tuition Per Full-Time In-State Student	\$10,780	\$10,470	\$10,170	\$9,826	\$9,450	\$9,200	\$8,600	\$7,900	\$7,000	\$6,400
Percent Increase Over Prior Year	3.0%	2.9%	3.5%	4.0%	2.7%	7.0%	8.9%	12.9%	9.4%	12.3%
Tuition Per Full-Time Out-of-State Student	\$28,100	\$26,950	\$25,950	\$24,950	\$23,950	\$22,950	\$21,900	\$20,500	\$19,200	\$18,000
Percent Increase Over Prior Year	4.3%	3.9%	4.0%	4.2%	4.4%	4.8%	6.8%	6.8%	6.7%	9.0%
Law School Tuition										
Tuition Per Full-Time In-State Student	\$23,410	\$22,760	\$22,020	\$21,320	\$20,770	\$19,660	\$18,030	\$15,760	\$14,450	\$12,564
Percent Increase Over Prior Year	2.9%	3.4%	3.3%	2.6%	5.6%	9.0%	14.4%	9.1%	15.0%	12.3%
Tuition Per Full-Time Out-of-State Student	\$40,360	\$38,820	\$37,360	\$36,000	\$34,840	\$32,920	\$30,950	\$28,070	\$26,560	\$24,158
Percent Increase Over Prior Year	4.0%	3.9%	3.8%	3.3%	5.8%	6.4%	10.3%	5.7%	9.9%	9.0%

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





# The University of Alabama

## Statements of Net Position

### September 30, 2018 and 2017

	2018	2017
<b>Current assets</b>		
Unrestricted cash and cash equivalents	\$ 71,893,409	\$ 51,380,071
Restricted cash and cash equivalents	3,490,839	7,485,466
Unrestricted short-term investments	233,152,847	222,361,933
Restricted short-term investments	27,524,094	84,582,493
Accounts receivable, net	96,091,544	100,624,536
Current portion of notes receivable, net	4,462,276	3,511,833
Current portion of student loans receivable	2,020,335	2,070,459
Current portion of pledges receivable	8,685,620	6,488,635
Inventories	6,011,790	7,734,921
Prepaid expenses and unearned scholarships	98,987,483	99,224,430
Other current assets	1,567,540	1,128,541
<b>Total current assets</b>	<b>553,887,777</b>	<b>586,593,318</b>
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	3,399,556	2,753,537
Endowment and life income investments	845,934,399	785,374,066
Investments for capital activities	339,549,277	426,683,893
Other long-term investments	315,413,514	297,559,736
Notes receivable, net	202,724,118	158,718,645
Student loans receivable, net	9,962,671	9,720,308
Pledges receivable, net	18,968,308	11,493,064
Capital assets, net	2,100,055,575	1,983,596,717
Other noncurrent assets	9,992,398	10,131,151
<b>Total noncurrent assets</b>	<b>3,845,999,816</b>	<b>3,686,031,117</b>
<b>Total assets</b>	<b>4,399,887,593</b>	<b>4,272,624,435</b>
<b>Deferred outflows of resources</b>		
Debt refundings	13,141,640	14,024,748
Pension and OPEB obligations	162,406,491	144,365,221
<b>Total deferred outflows of resources</b>	<b>175,548,131</b>	<b>158,389,969</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 4,575,435,724</b>	<b>\$ 4,431,014,404</b>

See accompanying notes to financial statements.



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The University of Alabama  
Statements of Net Position, Continued  
September 30, 2018 and 2017

	2018	2017
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 143,398,543	\$ 144,556,466
Current portion of unearned revenue	306,806,133	304,119,075
Deposits	51,389,406	113,330,935
Current portion of long-term debt	32,681,257	32,336,590
<b>Total current liabilities</b>	<u>534,275,339</u>	<u>594,343,066</u>
<b>Noncurrent liabilities</b>		
Federal advances - loan funds	9,894,351	9,691,088
Other liabilities	5,068,723	5,193,510
Unearned revenue	6,884,253	5,927,827
Long-term debt, net	1,005,691,287	1,041,305,641
Pension liability	565,233,000	623,398,000
OPEB liability	257,683,278	—
<b>Total noncurrent liabilities</b>	<u>1,850,454,892</u>	<u>1,685,516,066</u>
<b>Total liabilities</b>	<u>2,384,730,231</u>	<u>2,279,859,132</u>
<b>Deferred inflows of resources</b>		
Pension and OPEB obligations	86,757,158	16,054,000
Split interest - remainder interest	2,842,515	—
<b>Total deferred inflows of resources</b>	<u>89,599,673</u>	<u>16,054,000</u>
<b>Net position</b>		
Net investment in capital assets	1,151,792,864	1,076,735,303
Restricted		
Nonexpendable	458,967,808	431,499,195
Expendable	432,404,952	386,414,207
Unrestricted	57,940,196	240,452,567
<b>Total net position</b>	<u>2,101,105,820</u>	<u>2,135,101,272</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u><u>\$ 4,575,435,724</u></u>	<u><u>\$ 4,431,014,404</u></u>

See accompanying notes to financial statements.

The University of Alabama  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended September 30, 2018 and 2017

	2018	2017
<b>Operating revenues</b>		
Tuition and fees	\$ 786,236,725	\$ 719,840,321
Less: scholarship allowances	(269,470,952)	(237,079,280)
Tuition and fees, net	516,765,773	482,761,041
Grants and contracts		
Federal	44,549,124	40,416,650
State	31,215,296	31,261,415
Local	991,806	1,016,793
Private	5,589,320	3,836,612
Sales and services of educational activities	12,644,047	12,776,616
Auxiliary sales & services, net of \$6,466,887 in 2018 and \$6,466,509 in 2017 of scholarship allowances	200,256,134	202,333,172
Other operating revenues	63,073,638	59,247,356
<b>Total operating revenues</b>	<b>875,085,138</b>	<b>833,649,655</b>
<b>Operating expenses</b>		
Salaries, wages and benefits	699,755,982	666,320,083
Supplies and services	262,939,882	253,651,612
Depreciation	75,485,224	72,374,750
Scholarships and fellowships	23,685,641	24,573,373
<b>Total operating expenses</b>	<b>1,061,866,729</b>	<b>1,016,919,818</b>
<b>Operating loss</b>	<b>(186,781,591)</b>	<b>(183,270,163)</b>
<b>Nonoperating revenues (expenses)</b>		
State educational appropriations	156,742,802	154,836,324
Gifts	48,858,002	56,126,778
Grants	33,197,108	31,599,501
Investment income, net	90,064,841	159,687,169
Interest expense	(41,124,252)	(37,735,938)
Other nonoperating expenses, net	(1,603,514)	(1,636,955)
<b>Net nonoperating revenues</b>	<b>286,134,987</b>	<b>362,876,879</b>
<b>Income before other changes in net position</b>	<b>99,353,396</b>	<b>179,606,716</b>
<b>Other changes in net position</b>		
Capital gifts and grants	65,669,021	18,696,113
Additions to permanent endowments	24,899,225	23,675,029
Intragovernmental transfers	(1,140,054)	2,341,871
<b>Net other changes in net position</b>	<b>89,428,192</b>	<b>44,713,013</b>
<b>Increase in net position</b>	<b>188,781,588</b>	<b>224,319,729</b>
Net position, beginning of year, as previously reported	2,135,101,272	1,910,781,543
Adoption of GASB 75 adjustment (note 1)	(222,777,040)	—
<b>Net position, beginning of year, as restated, as of October 1, 2017</b>	<b>1,912,324,232</b>	<b>1,910,781,543</b>
<b>Net position, end of year</b>	<b>\$ 2,101,105,820</b>	<b>\$ 2,135,101,272</b>

See accompanying notes to financial statements.

The University of Alabama  
Statements of Cash Flows  
For the Years Ended September 30, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities</b>		
Student tuition and fees, net	\$ 509,631,284	\$ 521,702,146
Grants and contracts		
Federal	45,360,194	40,825,048
State	31,294,062	29,167,170
Local	1,099,134	1,099,961
Private	7,980,472	4,480,097
Sales and services of educational activities	12,714,093	12,738,611
Other receipts	62,146,385	59,335,624
Auxiliary enterprises	192,455,962	195,084,006
Payments to suppliers	(256,920,443)	(241,396,471)
Payments to employees and related benefits	(667,601,300)	(632,784,072)
Payments for scholarships and fellowships	(22,710,738)	(39,502,047)
Payments for student loans	(192,239)	(439,296)
Other disbursements	—	(1,897,487)
<b>Net cash used in operating activities</b>	<u>(84,743,134)</u>	<u>(51,586,710)</u>
<b>Cash flows from noncapital financing activities</b>		
State educational appropriations	156,742,802	154,836,324
Private gifts for other than capital purposes	73,339,194	82,279,502
Grants	33,197,108	31,599,501
Student direct lending receipts	212,187,107	207,562,707
Student direct lending disbursements	(213,239,044)	(207,745,641)
Deposits from affiliates	1,051,937	182,934
Other disbursements, net	(64,472,393)	(37,677,453)
Intragovernmental transfers	18,607,485	(20,913,965)
Borrowings from UA System Pools	60,000,000	30,000,000
Repayment to UA System Pools	(60,000,000)	(30,000,000)
Interest payments on UA System Pools borrowings	(123,288)	(72,583)
<b>Net cash provided by noncapital financing activities</b>	<u>217,290,908</u>	<u>210,051,326</u>
<b>Cash flows from investing activities</b>		
Interest and dividends on investments	57,920,858	55,813,223
Purchases of investments	(231,689,720)	(373,688,186)
Proceeds from sales and maturities of investments	313,525,498	196,157,600
Payments received on notes receivable	8,909,243	9,438,006
Disbursements from issuance of notes receivable	(31,755,125)	(26,561,996)
<b>Net cash provided by (used in) investing activities</b>	<u>116,910,754</u>	<u>(138,841,353)</u>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of notes and bonds payable	—	208,311,002
Capital gifts, grants and contracts	30,803,352	17,335,495
Purchases of capital assets	(190,799,629)	(126,044,665)
Principal payments on capital debt	(29,970,290)	(22,569,826)
Defeasance of debt	—	(61,772,075)
Interest payments on capital debt	(42,128,445)	(39,945,192)
Intragovernmental transfers	(198,786)	5,567,625
<b>Net cash used in capital and related financing activities</b>	<u>(232,293,798)</u>	<u>(19,117,636)</u>
<b>Net increase in cash and cash equivalents</b>	<u>17,164,730</u>	<u>505,627</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>61,619,074</u>	<u>61,113,447</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 78,783,804</u></u>	<u><u>\$ 61,619,074</u></u>

See accompanying notes to financial statements.

The University of Alabama  
Statements of Cash Flows, Continued  
For the Years Ended September 30, 2018 and 2017

	2018	2017
Reconciliation of cash and cash equivalents to the statements of net position		
Unrestricted cash and cash equivalents-current	\$ 71,893,409	\$ 51,380,071
Restricted cash and cash equivalents-current and noncurrent	6,890,395	10,239,003
Total cash and cash equivalents	<u>\$ 78,783,804</u>	<u>\$ 61,619,074</u>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (186,781,591)	\$ (183,270,163)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	75,485,224	72,374,750
Pension expense	62,225,221	76,777,201
OPEB expense	23,184,939	—
Bad debt expense	430,220	1,482,708
Changes in assets and liabilities		
Accounts and other receivables	(15,486,951)	(2,465,406)
Inventories and other assets	4,885,059	(14,723,212)
Pension obligations	(48,018,757)	(45,024,221)
OPEB obligations	(7,988,277)	—
Accounts payable and accrued liabilities	6,692,309	8,773,073
Unearned revenue	1,593,482	34,488,560
Deposits	(964,012)	—
<b>Net cash used in operating activities</b>	<u>\$ (84,743,134)</u>	<u>\$ (51,586,710)</u>
<b>Supplemental noncash activities information</b>		
Gift of capital assets	\$ 29,323,327	\$ 5,984,061
Change in accrued capital asset purchases	(8,695,462)	7,148,721
Loss on the disposal of capital assets	(218,712)	(940,920)
Gain on land exchange	2,404,900	—
Crimson Tide Foundation	2,848,889	2,722,854

See accompanying notes to financial statements.



The University of Alabama  
Discretely Presented Component Units  
Statements of Net Position  
2018 and 2017

	2018	2017
<b>Current assets</b>		
Unrestricted cash and cash equivalents	\$ 3,647,285	\$ 2,975,405
Restricted cash and cash equivalents	22,473,898	20,561,006
Short-term investments	28,638,285	29,130,205
Accounts receivable, net	2,915,815	3,191,442
Current portion of notes receivable, net	965,951	931,715
Current portion of pledges receivable, net	373,514	162,898
Inventories	689,809	698,958
Prepaid expenses and unearned scholarships	150,389	117,810
Other current assets	1,503	—
Due from The University of Alabama	244,123	326,070
<b>Total current assets</b>	<u>60,100,572</u>	<u>58,095,509</u>
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	6,230,169	6,230,169
Endowment investments	100,011,872	90,945,688
Other long-term investments	29,991,897	33,348,222
Pledges receivable, net	407,517	268,712
Capital assets, net	73,450,939	73,713,699
Other noncurrent assets	161,698	192,395
<b>Total noncurrent assets</b>	<u>210,254,092</u>	<u>204,698,885</u>
<b>Total assets</b>	<u>270,354,664</u>	<u>262,794,394</u>
<b>Deferred outflows of resources</b>	<u>10,865,687</u>	<u>11,728,486</u>
<b>Total assets and deferred outflows of resources</b>	<u><u>\$ 281,220,351</u></u>	<u><u>\$ 274,522,880</u></u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,115,863	\$ 3,157,821
Unearned revenue	4,109,071	4,433,415
Current portion of long-term debt	3,754,622	3,701,670
Due to The University of Alabama	1,948,485	1,295,734
<b>Total current liabilities</b>	<u>12,928,041</u>	<u>12,588,640</u>
<b>Noncurrent liabilities</b>		
Other liabilities	5,388,899	6,054,548
Long-term debt, net	90,442,557	94,197,179
Due to The University of Alabama	9,141,536	8,960,261
<b>Total noncurrent liabilities</b>	<u>104,972,992</u>	<u>109,211,988</u>
<b>Total liabilities</b>	<u>117,901,033</u>	<u>121,800,628</u>
<b>Deferred inflows of resources</b>	<u>4,400,000</u>	<u>4,400,000</u>
<b>Net position</b>		
Net investment in capital assets	828,230	(1,382,427)
Restricted		
Nonexpendable	61,254,669	56,621,799
Expendable	35,175,259	30,704,686
Unrestricted	61,661,160	62,378,194
<b>Total net position</b>	<u>158,919,318</u>	<u>148,322,252</u>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<u><u>\$ 281,220,351</u></u>	<u><u>\$ 274,522,880</u></u>

See accompanying notes to financial statements.

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The University of Alabama  
Discretely Presented Component Units  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended 2018 and 2017

	2018	2017
<b>Operating revenues</b>		
Gifts	\$ 11,695,462	\$ 11,354,981
Other operating revenues	34,339,248	36,267,943
<b>Total operating revenues</b>	<u>46,034,710</u>	<u>47,622,924</u>
<b>Operating expenses</b>		
Salaries, wages and benefits	13,109,304	13,731,958
Supplies and services	15,285,886	13,386,962
Depreciation	2,528,173	2,462,601
Scholarships and fellowships	3,709,686	3,546,438
Contributed services from affiliate	2,561,840	2,717,710
<b>Total operating expenses</b>	<u>37,194,889</u>	<u>35,845,669</u>
<b>Operating income</b>	<u>8,839,821</u>	<u>11,777,255</u>
<b>Nonoperating revenues (expenses)</b>		
Investment income, net	9,389,679	10,966,282
Interest expense	(3,377,111)	(3,423,896)
Contributions to The University of Alabama	(6,772,358)	(2,527,238)
Change in value of split-interest agreements	(28,174)	(276,557)
Contributed services from affiliate	2,561,840	2,717,710
Other nonoperating expenses	(16,631)	(1,585,409)
<b>Net nonoperating revenues</b>	<u>1,757,245</u>	<u>5,870,892</u>
<b>Increase in net position</b>	10,597,066	17,648,147
<b>Net position, beginning of year</b>	<u>148,322,252</u>	<u>130,674,105</u>
<b>Net position, end of year</b>	<u><u>\$ 158,919,318</u></u>	<u><u>\$ 148,322,252</u></u>

See accompanying notes to financial statements.

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# The University of Alabama

## Notes to Financial Statements

### Years Ended September 30, 2018 and 2017

#### 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 requires 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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**Implementation of new standards:** During 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*. This statement revises existing standards for measuring and reporting retiree health benefits provided by the University to its employees. The University is required to recognize a liability equal to the net retiree health benefit liability. The implementation of GASB 75 resulted in an adjustment to net position of approximately \$222.8 million (refer to note 10) as of October 1, 2017. The standard was not applied retroactively to the 2017 financial statements because the state pension plan did not provide the necessary information.

The University also adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, during fiscal year 2018. 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. The implementation of GASB 81 resulted in an adjustment to gifts of \$2.0 million and an adjustment to additions to permanent endowments of \$744,000. The standard was not applied retroactively to the 2017 financial statements as the prior year impact was immaterial.

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. 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 UA 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.

Prior to fiscal year 2018, interest costs for certain qualifying assets acquired with the proceeds of tax-exempt borrowings were capitalized and amortized over the life of the related asset. In 2018, the University early adopted GASB Statement No. 89, *Accounting for Interest Cost Incurred before the end of a Construction Period*. This statement simplifies accounting for interest cost incurred before the end of a construction period by requiring it to be expensed instead of capitalized.

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



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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.

**Charitable Remainder Trusts:** The University is the beneficiary of various charitable remainder trust funds. 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 fair value at the date of gift. These assets are held by the University. The fair value of charitable remainder trust assets is approximately \$6.4 million at both September 30, 2018 and 2017, respectively. Any change in value related to these trusts is recorded as an increase or decrease in the related deferred inflows of resources in the statements of 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 \$3.5 million and \$4.0 million at September 30, 2018 and 2017, 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 year ending September 30, 2017 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 of future expenses that have been paid in advance and include prepaid postage, travel, and other miscellaneous expenses. 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. The Federal Perkins Loan Program expired June 30, 2018. The University will continue operating the program and remit any excess cash annually for the pro rata federal and institutional capital contributions. As of September 30, 2018, approximately \$519,000 is payable to the Department of Education for its portion of the excess cash available at June 30, 2018.

**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.

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

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**Postemployment Benefits other than Pensions (OPEB):** The Alabama Retired Education Employees' Health Care Trust (the "Trust") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. For purposes of measuring the net OPEB liability, this includes deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan.

**Deferred Outflows of Resources:** Deferred outflows of resources consist of bond deferred refunding amounts, pension obligations, and OPEB obligations. Pension obligations include 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. OPEB obligations include employer contributions to the Alabama Retired Education Employees' Health Care Trust subsequent to the Trust's measurement date, changes in proportion and differences between employer contributions and proportionate share of contributions, net difference between projected and actual earnings on OPEB plan investments, and changes in actuarial and other assumptions.

**Deferred Inflows of Resources:** Deferred inflows of resources are composed of both pension and OPEB obligations, as well as the University's remainder interest in its irrevocable split interest agreements. Pension obligations include differences between expected and actual experience, changes in proportion and differences between employer contributions and proportionate share of contributions, and net difference between projected and actual earnings on pension plan investments. OPEB obligations include changes in actuarial and other assumptions and net difference between projected and actual earnings on OPEB plan investments.

**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. Capital gifts, which are also included within operating gifts on CTF's financials, are presented as capital gifts on the statements of revenues, expenses and changes in net position when blended with the University's statements.

CTF financial information for the years ended June 30, 2018 and 2017 is included in the University's financial statements and presented as follows:

## The Crimson Tide Foundation Statements of Net Position June 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 243,777	\$ 182,452
Short-term investments	47,417,428	9,915,627
Current portion of pledges receivable, net	3,830,804	2,752,779
Other current assets	—	10,000
Other receivables	1,662,334	17,765,727
Total current assets	<u>53,154,343</u>	<u>30,626,585</u>
Noncurrent assets		
Restricted cash and cash equivalents	55,492	92,050
Endowment investments	46,836,582	39,116,076
Pledges receivable, net	10,115,312	6,401,648
Other long-term investments	109,643,550	107,498,299
Capital assets, net	4,920,328	5,262,199
Total noncurrent assets	<u>171,571,264</u>	<u>158,370,272</u>
<b>Total assets</b>	<u><u>\$ 224,725,607</u></u>	<u><u>\$ 188,996,857</u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 386,440	\$ 621,116
Unearned revenue, current portion	11,888,513	9,864,738
Note payable, current portion	587,963	575,066
Other current liabilities	5,060,690	188,093
Total current liabilities	<u>17,923,606</u>	<u>11,249,013</u>
Noncurrent liabilities		
Unearned revenue, noncurrent portion	2,050,000	—
Note payable, noncurrent portion	1,060,844	1,648,807
Total noncurrent liabilities	<u>3,110,844</u>	<u>1,648,807</u>
<b>Total liabilities</b>	<u>21,034,450</u>	<u>12,897,820</u>
<b>Net position</b>		
Net investment in capital assets	3,271,520	3,038,325
Restricted		
Nonexpendable	44,595,161	38,388,310
Expendable	34,317,073	24,086,059
Unrestricted	121,507,403	110,586,343
<b>Total net position</b>	<u>203,691,157</u>	<u>176,099,037</u>
<b>Total liabilities and net position</b>	<u><u>\$ 224,725,607</u></u>	<u><u>\$ 188,996,857</u></u>

The Crimson Tide Foundation  
Statements of Revenues, Expenses and Changes in Net Position  
For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>Operating revenues</b>		
Private gifts	\$ 38,556,421	\$ 31,335,469
Other operating revenues	33,768,538	30,551,601
<b>Total operating revenues</b>	<u>72,324,959</u>	<u>61,887,070</u>
<b>Operating expenses</b>		
Benefits	1,284,669	1,039,769
Scholarships	1,262,193	1,291,414
Legal and professional fees	1,813,979	1,752,640
Travel	1,457,392	1,748,269
Supplies	2,037,217	1,894,428
Conference and entertainment	1,067,579	1,281,540
Communication and information	29,003	97,622
Rentals	194,132	385,627
Repairs and maintenance	334,867	291,148
Depreciation	341,871	341,871
Other	513,765	562,224
<b>Total operating expenses</b>	<u>10,336,667</u>	<u>10,686,552</u>
<b>Operating income</b>	<u>61,988,292</u>	<u>51,200,518</u>
<b>Nonoperating revenues (expenses)</b>		
Investment income, net	9,550,012	12,960,980
Other non-operating expense	—	(545,000)
Interest expense	(43,542)	(56,156)
<b>Net nonoperating revenues</b>	<u>9,506,470</u>	<u>12,359,824</u>
<b>Income before other changes in net position</b>	<u>71,494,762</u>	<u>63,560,342</u>
<b>Other changes in net position</b>		
Additions to permanent endowments	5,771,023	7,702,616
Intergovernmental transfers	(49,673,665)	(45,410,138)
<b>Increase in net position</b>	<u>27,592,120</u>	<u>25,852,820</u>
<b>Net position, beginning of period</b>	<u>176,099,037</u>	<u>150,246,217</u>
<b>Net position, end of period</b>	<u><u>\$ 203,691,157</u></u>	<u><u>\$ 176,099,037</u></u>



The Crimson Tide Foundation  
Statements of Cash Flows  
For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>Cash flows from operating activities</b>		
Private gifts	\$ 35,814,733	\$ 32,660,266
Other operating revenues	32,946,814	28,658,539
Transfers to The University of Alabama	(28,637,968)	(64,995,836)
Payments to suppliers	(7,370,583)	(7,243,875)
<b>Net cash provided by (used in) operating activities</b>	<b>32,752,996</b>	<b>(10,920,906)</b>
<b>Cash flows from noncapital financing activities</b>		
Additions to permanent endowments	5,771,023	7,702,616
<b>Net cash provided by noncapital financing activities</b>	<b>5,771,023</b>	<b>7,702,616</b>
<b>Cash flows from capital and related financing activities</b>		
Principal payments on note payable	(575,066)	(562,452)
Interest payments on note payable	(43,542)	(56,156)
Sale of capital assets	—	450,000
<b>Net cash used in capital and related financing activities</b>	<b>(618,608)</b>	<b>(168,608)</b>
<b>Cash flows from investing activities</b>		
Purchases of investments	(90,490,887)	(65,347,579)
Proceeds from the sales and maturities of investments	45,971,303	63,301,887
Interest and dividends on investments	6,638,940	5,575,436
<b>Net cash (used in) provided by investing activities</b>	<b>(37,880,644)</b>	<b>3,529,744</b>
<b>Net increase in cash and cash equivalents</b>	<b>24,767</b>	<b>142,846</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>274,502</b>	<b>131,656</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 299,269</b>	<b>\$ 274,502</b>

The Crimson Tide Foundation  
Statements of Cash Flows, Continued  
For the Years Ended June 30, 2018 and 2017

	2018	2017
<b>Reconciliation of cash and cash equivalents to the statements of net position</b>		
Cash and cash equivalents in current assets	\$ 243,777	\$ 182,452
Restricted cash and cash equivalents in noncurrent assets	55,492	92,050
<b>Total cash and cash equivalents</b>	<u>\$ 299,269</u>	<u>\$ 274,502</u>
<b>Reconciliation of operating income to net cash provided by (used in) operating activities</b>		
Net operating income	\$ 61,988,292	\$ 51,200,518
Intergovernmental transfers	(49,673,665)	(45,410,138)
Adjustments to reconcile operating income net of intergovernmental transfers to net cash provided by (used in) operating activities		
Depreciation expense	341,871	341,871
Provision for uncollectible pledges	1,247,593	1,148,760
Changes in assets and liabilities		
Pledges receivable	(6,039,282)	176,037
Other receivables	16,166,491	(16,162,507)
Other assets	10,000	11,915
Accounts payable	(234,676)	366,038
Other current liabilities	4,872,597	(3,422,599)
Unearned revenue	4,073,775	829,199
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 32,752,996</u>	<u>\$ (10,920,906)</u>
<b>Supplemental noncash activities information</b>		
Dealer cars provided to Athletics	\$ 854,981	\$ 800,834
Supplies provided by contractual agreement	1,650,000	1,600,000
Complimentary club memberships provided to Athletics	163,908	142,020
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, 2018 and 2017, the receivable totaled \$9,141,536 and \$8,960,261, 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  
2018

	National Alumni Association June 30, 2018	Law School Foundation June 30, 2018	Donor Advised Fund June 30, 2018
<b>Current assets</b>			
Cash and cash equivalents	\$ 521,868	\$ 192,930	\$ 6,464
Restricted cash and cash equivalents	—	—	—
Short-term investments	3,129,150	2,311,215	1,028,192
Accounts receivable, net	639,305	423,815	4,227
Current portion of notes receivable, net	—	—	—
Current portion of pledges receivable, net	—	316,766	—
Inventories	195,879	—	—
Prepaid expenses and unearned scholarships	37,774	—	—
Other current assets	—	1,503	—
Due from The University of Alabama	—	—	—
<b>Total current assets</b>	<b>4,523,976</b>	<b>3,246,229</b>	<b>1,038,883</b>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	—	—	—
Endowment investments	49,688,911	38,876,259	—
Other long-term investments	7,736,708	113,247	2,783,095
Pledges receivable, net	—	377,442	—
Capital assets, net	—	—	—
Other noncurrent assets	—	—	—
<b>Total noncurrent assets</b>	<b>57,425,619</b>	<b>39,366,948</b>	<b>2,783,095</b>
<b>Total assets</b>	<b>61,949,595</b>	<b>42,613,177</b>	<b>3,821,978</b>
<b>Deferred outflows of resources</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 61,949,595</b>	<b>\$ 42,613,177</b>	<b>\$ 3,821,978</b>
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 201,679	\$ 27,883	\$ —
Unearned revenue	—	—	—
Current portion of long-term debt	—	—	—
Due to The University of Alabama	566,593	107,059	—
<b>Total current liabilities</b>	<b>768,272</b>	<b>134,942</b>	<b>—</b>
<b>Noncurrent liabilities</b>			
Other liabilities	—	—	—
Long-term debt, net	—	—	—
Due to The University of Alabama	—	—	—
<b>Total noncurrent liabilities</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total liabilities</b>	<b>768,272</b>	<b>134,942</b>	<b>—</b>
<b>Deferred inflows of resources</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Net Position</b>			
Net investment in capital assets	—	—	—
Restricted			
Nonexpendable	29,899,562	31,337,010	—
Expendable	7,393,125	8,657,843	3,794,836
Unrestricted	23,888,636	2,483,382	27,142
<b>Total net position</b>	<b>61,181,323</b>	<b>42,478,235</b>	<b>3,821,978</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 61,949,595</b>	<b>\$ 42,613,177</b>	<b>\$ 3,821,978</b>



The University of Alabama  
Discretely Presented Component Units  
Statements of Net Position, Continued  
2018

	Capstone Foundation Sept. 30, 2018	1831 Foundation Sept. 30, 2018	Capstone Health Services Foundation Sept. 30, 2018
<b>Current assets</b>			
Cash and cash equivalents	\$ 271,576	\$ 1,004,767	\$ 1,649,680
Restricted cash and cash equivalents	—	22,473,898	—
Short-term investments	3,762,506	1,041,544	17,365,678
Accounts receivable, net	172,498	2,082	1,673,888
Current portion of notes receivable, net	—	—	965,951
Current portion of pledges receivable, net	56,748	—	—
Inventories	1,407	—	492,523
Prepaid expenses and unearned scholarships	112,615	—	—
Other current assets	—	—	—
Due from The University of Alabama	—	—	244,123
<b>Total current assets</b>	<b>4,377,350</b>	<b>24,522,291</b>	<b>22,391,843</b>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	—	6,230,169	—
Endowment investments	11,446,702	—	—
Other long-term investments	13,391,847	5,967,000	—
Pledges receivable, net	30,075	—	—
Capital assets, net	124,311	72,679,997	646,631
Other noncurrent assets	96,400	—	65,298
<b>Total noncurrent assets</b>	<b>25,089,335</b>	<b>84,877,166</b>	<b>711,929</b>
<b>Total assets</b>	<b>29,466,685</b>	<b>109,399,457</b>	<b>23,103,772</b>
<b>Deferred outflows of resources</b>	<b>—</b>	<b>10,865,687</b>	<b>—</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 29,466,685</b>	<b>\$ 120,265,144</b>	<b>\$ 23,103,772</b>
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 139,574	\$ 631,226	\$ 2,115,501
Unearned revenue	—	4,109,071	—
Current portion of long-term debt	—	3,754,622	—
Due to The University of Alabama	171,942	1,102,891	—
<b>Total current liabilities</b>	<b>311,516</b>	<b>9,597,810</b>	<b>2,115,501</b>
<b>Noncurrent liabilities</b>			
Other liabilities	5,388,899	—	—
Long-term debt, net	—	90,442,557	—
Due to The University of Alabama	9,141,536	—	—
<b>Total noncurrent liabilities</b>	<b>14,530,435</b>	<b>90,442,557</b>	<b>—</b>
<b>Total liabilities</b>	<b>14,841,951</b>	<b>100,040,367</b>	<b>2,115,501</b>
<b>Deferred inflows of resources</b>	<b>—</b>	<b>4,400,000</b>	<b>—</b>
<b>Net Position</b>			
Net investment in capital assets	—	181,599	646,631
Restricted			
Nonexpendable	18,097	—	—
Expendable	13,037,357	2,292,098	—
Unrestricted	1,569,280	13,351,080	20,341,640
<b>Total net position</b>	<b>14,624,734</b>	<b>15,824,777</b>	<b>20,988,271</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 29,466,685</b>	<b>\$ 120,265,144</b>	<b>\$ 23,103,772</b>

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>Current assets</b>			
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	—
<b>Total current assets</b>	<b>4,599,022</b>	<b>2,986,885</b>	<b>954,535</b>
<b>Noncurrent assets</b>			
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	—	—
<b>Total noncurrent assets</b>	<b>51,647,136</b>	<b>35,691,392</b>	<b>2,748,152</b>
<b>Total assets</b>	<b>56,246,158</b>	<b>38,678,277</b>	<b>3,702,687</b>
<b>Deferred outflows of resources</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 56,246,158</b>	<b>\$ 38,678,277</b>	<b>\$ 3,702,687</b>
<b>Current liabilities</b>			
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	—	—
<b>Total current liabilities</b>	<b>256,834</b>	<b>36,475</b>	<b>—</b>
<b>Noncurrent liabilities</b>			
Other liabilities	—	—	—
Long-term debt, net	—	—	—
Due to The University of Alabama	—	—	—
<b>Total noncurrent liabilities</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total liabilities</b>	<b>256,834</b>	<b>36,475</b>	<b>—</b>
<b>Deferred inflows of resources</b>	<b>—</b>	<b>—</b>	<b>—</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>	<b>55,989,324</b>	<b>38,641,802</b>	<b>3,702,687</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 56,246,158</b>	<b>\$ 38,678,277</b>	<b>\$ 3,702,687</b>

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>Current assets</b>			
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
<b>Total current assets</b>	<b>4,845,610</b>	<b>22,927,644</b>	<b>21,781,813</b>
<b>Noncurrent assets</b>			
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
<b>Total noncurrent assets</b>	<b>24,114,251</b>	<b>89,811,191</b>	<b>686,763</b>
<b>Total assets</b>	<b>28,959,861</b>	<b>112,738,835</b>	<b>22,468,576</b>
<b>Deferred outflows of resources</b>	<b>—</b>	<b>11,728,486</b>	<b>—</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 28,959,861</b>	<b>\$ 124,467,321</b>	<b>\$ 22,468,576</b>
<b>Current liabilities</b>			
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	—
<b>Total current liabilities</b>	<b>1,038,722</b>	<b>9,024,961</b>	<b>2,231,648</b>
<b>Noncurrent liabilities</b>			
Other liabilities	6,054,548	—	—
Long-term debt, net	—	94,197,179	—
Due to The University of Alabama	8,960,261	—	—
<b>Total noncurrent liabilities</b>	<b>15,014,809</b>	<b>94,197,179</b>	<b>—</b>
<b>Total liabilities</b>	<b>16,053,531</b>	<b>103,222,140</b>	<b>2,231,648</b>
<b>Deferred inflows of resources</b>	<b>—</b>	<b>4,400,000</b>	<b>—</b>
<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>	<b>12,906,330</b>	<b>16,845,181</b>	<b>20,236,928</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 28,959,861</b>	<b>\$ 124,467,321</b>	<b>\$ 22,468,576</b>

The University of Alabama  
Discretely Presented Component Units  
Statements of Revenues, Expenses and Changes in Net Position  
Years Ended 2018

	National Alumni Association June 30, 2018	Law School Foundation June 30, 2018	Donor Advised Fund June 30, 2018
<b>Operating revenues</b>			
Gifts	\$ 4,506,294	\$ 3,016,083	\$ 223,072
Other operating revenues	931,060	55,773	—
<b>Total operating revenues</b>	<u>5,437,354</u>	<u>3,071,856</u>	<u>223,072</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	—	—	—
Supplies and services	1,736,192	598,964	242,238
Depreciation	—	—	—
Scholarships and fellowships	2,148,497	1,334,622	—
Contributed services from affiliate	1,368,788	953,281	—
<b>Total operating expenses</b>	<u>5,253,477</u>	<u>2,886,867</u>	<u>242,238</u>
<b>Operating income (loss)</b>	<u>183,877</u>	<u>184,989</u>	<u>(19,166)</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income, net	4,334,234	2,912,115	177,657
Interest expense	—	—	—
Contributions to The University of Alabama	(694,900)	(213,952)	(39,200)
Change in value of split-interest agreements	—	—	—
Contributed services from affiliate	1,368,788	953,281	—
Other nonoperating expense	—	—	—
<b>Net nonoperating revenues</b>	<u>5,008,122</u>	<u>3,651,444</u>	<u>138,457</u>
<b>Increase in net position</b>	<u>5,191,999</u>	<u>3,836,433</u>	<u>119,291</u>
<b>Net position, beginning of year</b>	<u>55,989,324</u>	<u>38,641,802</u>	<u>3,702,687</u>
<b>Net position, end of year</b>	<u>\$ 61,181,323</u>	<u>\$ 42,478,235</u>	<u>\$ 3,821,978</u>

The University of Alabama  
Discretely Presented Component Units  
Statements of Revenues, Expenses and Changes in Net Position, Continued  
Years Ended 2018

	Capstone Foundation Sept. 30, 2018	1831 Foundation Sept. 30, 2018	Capstone Health Services Foundation Sept. 30, 2018
<b>Operating revenues</b>			
Gifts	\$ 3,950,013	\$ —	\$ —
Other operating revenues	920,855	14,168,760	18,262,800
<b>Total operating revenues</b>	<u>4,870,868</u>	<u>14,168,760</u>	<u>18,262,800</u>
<b>Operating expenses</b>			
Salaries, wages and benefits	—	—	13,109,304
Supplies and services	2,682,976	5,772,535	4,252,981
Depreciation	3,600	2,374,451	150,122
Scholarships and fellowships	226,567	—	—
Contributed services from affiliate	239,771	—	—
<b>Total operating expenses</b>	<u>3,152,914</u>	<u>8,146,986</u>	<u>17,512,407</u>
<b>Operating income</b>	<u>1,717,954</u>	<u>6,021,774</u>	<u>750,393</u>
<b>Nonoperating revenues (expenses)</b>			
Investment income, net	1,014,947	809,049	141,677
Interest expense	—	(3,377,111)	—
Contributions to The University of Alabama	(1,226,094)	(4,457,485)	(140,727)
Change in value of split-interest agreements	(28,174)	—	—
Contributed services from affiliate	239,771	—	—
Other nonoperating expense	—	(16,631)	—
<b>Net nonoperating revenues (expenses)</b>	<u>450</u>	<u>(7,042,178)</u>	<u>950</u>
<b>Increase (decrease) in net position</b>	<u>1,718,404</u>	<u>(1,020,404)</u>	<u>751,343</u>
<b>Net position, beginning of year</b>	<u>12,906,330</u>	<u>16,845,181</u>	<u>20,236,928</u>
<b>Net position, end of year</b>	<u>\$ 14,624,734</u>	<u>\$ 15,824,777</u>	<u>\$ 20,988,271</u>



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>	<u>5,645,105</u>	<u>4,249,975</u>	<u>210,925</u>
<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>

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>	<u>1,863,680</u>	<u>5,029,496</u>	<u>648,966</u>
<b>Net position, beginning of year</b>	<u>11,042,650</u>	<u>11,815,685</u>	<u>19,587,962</u>
<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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## 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 Pooled 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. During fiscal years 2018 and 2017, the University borrowed \$60.0 million and \$30.0 million, respectively, from the UA System pools on a short-term basis. The amounts were paid back before year-end in both fiscal years. 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.

### **Pooled Endowment Fund**

The purpose of the PEF 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 PEF 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 PEF 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 LTRP 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 STLP 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.

### **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 sixteen counties in north and central Alabama totaling approximately 30,000 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.

The fee simple market value of timber and land of \$34.0 million and \$33.9 million at September 30, 2018 and 2017, 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 \$43.6 million and \$35.3 million as of September 30, 2018 and 2017, 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.

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## 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, 2018. 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, 2018 and 2017, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

	2018			
	Level 1	Level 2	Level 3	Total
Cash & Receivables:				
Regions Cash Trust	\$ 81,893,220	\$ —	\$ —	\$ 81,893,220
South African Gold Coins	36,870	—	—	36,870
Equities:				
Common Stock	6,053,378	—	—	6,053,378
Fixed Income Securities:				
U.S. Government Obligations	163,734	—	—	163,734
Commingled Funds:				
U.S. Equity Funds	3,419,570	76,683	—	3,496,253
Non-U.S. Equity Funds	614,699	—	—	614,699
U.S. Bond Funds	2,253,221	117,722	—	2,370,943
Private Equity Funds	—	—	2,442,387	2,442,387
Real Estate	—	—	96,025,936	96,025,936
	<u>\$ 94,434,692</u>	<u>\$ 194,405</u>	<u>\$ 98,468,323</u>	<u>\$ 193,097,420</u>

UA Portion of System Pool Investments:

Pooled Endowment Fund	761,212,425
Long Term Reserve Pool Fund	546,646,524
Short Term Liquidity Pool Fund	260,617,762
Total Reported Value with System Pooled Investments	<u>\$ 1,761,574,131</u>

	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:

Pooled 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>



At September 30, 2018 and 2017, the fair value of the investments for the System Pools based on the inputs used to value them is summarized as follows:

Pooled Endowment Fund					
	2018				Total Fair Value
	Level 1	Level 2	Level 3	NAV	
Receivables:					
Accrued Income Receivables	\$ —	\$ —	\$ —	\$ —	\$ 941,965
Total Receivables	—	—	—	—	941,965
Cash Equivalents:					
Money Market Funds	48,621,460	—	—	—	48,621,460
Total Cash Equivalents	48,621,460	—	—	—	48,621,460
Equities:					
U.S. Common Stock	134,722,061	—	—	—	134,722,061
U.S. Preferred Stock	271,458	—	—	—	271,458
Foreign Stock	38,697,223	—	—	—	38,697,223
Total Equities	173,690,742	—	—	—	173,690,742
Fixed Income Securities:					
U.S. Government Obligations	—	8,197,916	—	—	8,197,916
Mortgage Backed Securities	—	14,232,582	—	—	14,232,582
Corporate Bonds	—	28,446,907	—	—	28,446,907
Non-U.S. Bonds	—	3,257,623	—	—	3,257,623
Total Fixed Income Securities	—	54,135,028	—	—	54,135,028
Commingled Funds:					
Non-U.S. Equity Funds	—	227,695,748	—	—	227,695,748
U.S. Bond Funds	—	56,400,000	—	—	56,400,000
Non-U.S. Bond Funds	—	27,184,600	—	—	27,184,600
Hedge Funds	—	—	—	526,940,220	526,940,220
Private Equity Funds	—	—	—	165,640,386	165,640,386
Real Estate Funds	—	—	—	203,754,855	203,754,855
Total Commingled Funds	—	311,280,348	—	896,335,461	1,207,615,809
Total Fund Investments	222,312,202	365,415,376	—	896,335,461	1,484,063,039
Total Fund Assets	222,312,202	365,415,376	—	896,335,461	1,485,005,004
Total Fund Liabilities	—	—	—	—	(281,027)
Affiliated Entity Investments in Funds	—	—	—	—	(238,893,599)
Total Net Asset Value	\$ 222,312,202	\$ 365,415,376	\$ —	\$ 896,335,461	\$1,245,830,378

Pooled 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

Long Term Reserve Pool Fund

	2018				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ —	\$ —	\$ —	\$ —	\$ 1,525,275
Total Receivables	—	—	—	—	1,525,275
Cash Equivalents:					
Money Market Funds	100,476,683	—	—	—	100,476,683
Total Cash Equivalents	100,476,683	—	—	—	100,476,683
Equities:					
U.S. Common Stock	242,196,226	—	—	—	242,196,226
U.S. Preferred Stock	407,187	—	—	—	407,187
Foreign Stock	55,465,296	—	—	—	55,465,296
Total Equities	298,068,709	—	—	—	298,068,709
Fixed Income Securities:					
U.S. Government Obligations	—	12,738,159	—	—	12,738,159
Mortgage Backed Securities	—	21,717,846	—	—	21,717,846
Corporate Bonds	—	42,659,327	—	—	42,659,327
Non-U.S. Bonds	—	5,164,476	—	—	5,164,476
Total Fixed Income Securities	—	82,279,808	—	—	82,279,808
Commingled Funds:					
U.S. Equity Funds	—	67,935,522	—	—	67,935,522
Non-U.S. Equity Funds	—	404,044,223	—	—	404,044,223
U.S. Bond Funds	—	79,990,055	—	—	79,990,055
Non-U.S. Bond Funds	—	44,052,238	—	—	44,052,238
Hedge Funds	—	—	—	766,700,890	766,700,890
Real Estate Funds	—	—	—	52,963,510	52,963,510
Total Commingled Funds	—	596,022,038	—	819,664,400	1,415,686,438
Total Fund Investments	398,545,392	678,301,846	—	819,664,400	1,896,511,638
Total Fund Assets	398,545,392	678,301,846	—	819,664,400	1,898,036,913
Total Fund Liabilities	—	—	—	—	(460,596)
Affiliated Entity Investments in Funds	—	—	—	—	(134,087,788)
Total Net Asset Value	\$ 398,545,392	\$ 678,301,846	\$ —	\$ 819,664,400	\$ 1,763,488,529

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

Short Term Liquidity Pool Fund

	2018				Total Fair Value
	Level 1	Level 2	Level 3	NAV	
Receivables:					
Accrued Income Receivables	\$ —	\$ —	\$ —	\$ —	\$ 3,378,475
Total Receivables	—	—	—	—	3,378,475
Cash Equivalents:					
Money Market Funds	127,128,864	—	—	—	127,128,864
Total Cash Equivalents	127,128,864	—	—	—	127,128,864
Fixed Income Securities:					
U.S. Government Obligations	—	179,984,745	—	—	179,984,745
Mortgage Backed Securities	—	175,661,110	—	—	175,661,110
Collateralized Mortgage Obligations	—	14,788,045	—	—	14,788,045
Corporate Bonds	—	141,942,756	—	—	141,942,756
Non-U.S. Bonds	—	54,274,651	—	—	54,274,651
Total Fixed Income Securities	—	566,651,307	—	—	566,651,307
Commingled Funds:					
U.S. Bond Funds	—	134,060,134	—	—	134,060,134
Total Commingled Funds	—	134,060,134	—	—	134,060,134
Total Fund Investments	127,128,864	700,711,441	—	—	827,840,305
Total Fund Assets	127,128,864	700,711,441	—	—	831,218,780
Total Fund Liabilities	—	—	—	—	(277,839)
Affiliated Entity Investments in Funds	—	—	—	—	(80,413,846)
Total Net Asset Value	\$ 127,128,864	\$ 700,711,441	\$ —	\$ —	\$ 750,527,095



Short Term Liquidity Pool Fund

	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

Additional information on fair values, unfunded commitments, remaining life, and redemption for investments measured at the NAV for the System Pools at September 30, 2018 is as follows:

Pooled Endowment Fund					
	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Hedge funds - absolute return, credit, long/short equities	\$ 526,940,220	\$ —	No limit	Monthly, quarterly, and annually	Lock-up provisions ranging from none to 2 years
Private equity - private credit, buyouts, venture, secondary	165,640,386	130,997,015	1 - 10 years	Partnerships ineligible for redemption	Not redeemable
Real estate - public natural resources	54,975,744	—	No limit	Monthly	None
Real estate - natural resources, real estate, infrastructure	148,779,111	49,461,242	1 - 15 years	Partnerships ineligible for redemption	Not redeemable
	<u>\$ 896,335,461</u>	<u>\$ 180,458,257</u>			

Long Term Reserve Pool Fund					
	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Hedge funds - absolute return, credit, long/short equities	\$ 766,700,890	\$ —	No limit	Monthly, quarterly, and annually	Lock-up provisions ranging from none to 2 years
Real estate - public natural resources	52,954,569	—	No limit	Monthly	None
Real estate - private real estate	8,941	—	1 - 10 years	Partnerships ineligible for redemption	Not redeemable
	<u>\$ 819,664,400</u>	<u>\$ —</u>			

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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 PEF and LTRP, 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 PEF and LTRP include corporate and U.S. treasury and/or agency bonds. In addition, approximately \$35.2 million and \$18.0 million in the PEF and LTRP (collectively), at September 30, 2018 and 2017, respectively, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds and money market funds were approximately \$356.7 million and \$339.7 million in the PEF and LTRP (collectively), at September 30, 2018 and 2017, respectively.

The STLP 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, 2018 and 2017, approximately \$105.6 million and \$79.4 million, respectively, was invested by the STLP in unrated fixed income securities; excluding commingled bond funds and money market funds. Fixed income commingled funds and money market funds totaled approximately \$261.2 million and \$305.9 million at September 30, 2018 and 2017, respectively.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2018 and 2017 is as follows:

				2018		
				Pooled	Long Term	Short Term
				Endowment	Reserve Pool	Liquidity Pool
				Fund	Fund	Fund
Fixed or Variable Income Securities						
U.S. Government Obligations	\$	8,197,916	\$	12,738,159	\$	179,984,745
Other U.S. Denominated:						
AAA		779,600		968,280		70,741,960
AA		3,796,225		5,708,359		30,793,835
A		9,462,969		14,112,658		87,893,696
BBB		13,268,623		20,151,133		82,640,685
BB		4,245,245		6,381,065		6,436,205
B		548,625		807,975		1,955,776
C and < C		—		—		641,329
Unrated		13,835,825		21,412,180		105,563,075
Commingled Funds:						
U.S. Bond Funds: Unrated		56,400,000		79,990,055		134,060,134
Non-U.S. Bond Funds: Unrated		27,184,600		44,052,238		—
Money Market Funds: Unrated		48,621,460		100,476,683		127,128,864
Total	\$	186,341,088	\$	306,798,785	\$	827,840,304
				2017		
				Pooled	Long Term	Short Term
				Endowment	Reserve Pool	Liquidity Pool
				Fund	Fund	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	\$	205,735,755	\$	239,677,336	\$	938,025,705

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, 2018 and 2017 is as follows:

	2018	2017
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$ 163,734	\$ 177,508
Other U.S. Dollar, Money Market Funds, and Commingled Bonds		
AAA	447,630	839,423
AA	350,179	—
A	714,301	743,016
BBB	595,333	582,413
BB	204,993	228,329
B	48,972	46,073
Below B	9,300	10,021
Unrated	235	244
Total	<u>\$ 2,534,677</u>	<u>\$ 2,627,027</u>

#### Custodial Credit Risk

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

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

#### Concentration of Credit Risk

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

As previously mentioned, credit risk in each investment pool and the University's separately held investment portfolio is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2018 and 2017, 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, 2018 and 2017 are as follows (The information presented below does not take into account the relative weighting of the portfolio components to the total portfolio.):

	Pooled Endowment Fund		Long Term Reserve Pool Fund		Short Term Liquidity Pool Fund	
	2018	2017	2018	2017	2018	2017
U.S. Government Obligations	11.3	8.7	11.2	8.4	2.0	1.9
Corporate Bonds	5.2	4.8	5.1	5.0	1.8	1.9
Non-U.S. Bonds	5.2	4.8	5.1	5.0	1.8	1.9
Commingled Bond Funds	2.4	2.4	2.3	2.1	2.7	2.8

The effective durations for fixed or variable income securities, for the University's separately held investments, at September 30, 2018 and 2017 are as follows:

	2018	2017
U.S. Government Obligations	11.9	12.4
Commingled Bond Funds	5.2	4.9

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, 2018 and 2017 the fair market value of these investments, for the System Pools, are as follows:

	2018		
	Pooled Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	\$ 14,232,582	\$ 21,717,846	\$ 175,661,110
Collateralized Mortgage Obligations	—	—	14,788,045
Total Fixed	<u>\$ 14,232,582</u>	<u>\$ 21,717,846</u>	<u>\$ 190,449,155</u>

	2017		
	Pooled 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>



*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, 2018 and 2017, the effective durations for these securities held in the System Pools are listed below. At September 30, 2018 and 2017, the University did not hold any investments in these security types outside of the System Pools.

	2018		
	Pooled Endowment Fund	Long Term Reserve Pool Fund	Short Term Liquidity Pool Fund
Mortgage Backed Securities	5.3	5.3	1.1
Collateralized Mortgage Obligations	—	—	2.6
	2017		
	Pooled 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

### Foreign Currency Risk

The strategic asset allocation policy for the PEF and LTRP 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, 2018 and 2017, 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 foreign stock and non-U.S. bond funds denominated in U.S. dollars and held by each of the three pools disclosed in the previous tables. At September 30, 2018 and 2017, 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, 2018 and 2017, no securities were on loan from the investment pools.

## 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 included 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, 2018 and 2017 is summarized below:

	2018	2017
Student accounts	\$ 53,249,000	\$ 43,849,861
Receivables from sponsoring agencies	17,811,457	19,737,152
Accrued interest receivable	12,240,065	13,104,244
Other	16,671,730	27,830,075
Total accounts receivable	99,972,252	104,521,332
Less provision for doubtful accounts	(3,880,708)	(3,896,796)
Accounts receivable, net	<u>\$ 96,091,544</u>	<u>\$ 100,624,536</u>

### 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, 2018 and 2017 is summarized as follows:

	2018	2017
Notes receivable from student organizations	\$ 207,186,394	\$ 162,230,478
Less current portion	(4,462,276)	(3,511,833)
Notes receivable, noncurrent	<u>\$ 202,724,118</u>	<u>\$ 158,718,645</u>

Future minimum payments to be received for each of the five succeeding fiscal years as of September 30, 2018 are shown below. There are no unguaranteed residual values or contingent payments.

Additionally, the University does not record an allowance for uncollectible receivables due to the collateral of the buildings, which secure the notes receivable.

	Principal	Interest	Total
2019	\$ 4,462,276	\$ 10,062,330	\$ 14,524,606
2020	4,752,697	10,128,486	14,881,183
2021	4,948,375	9,882,958	14,831,333
2022	5,044,364	9,728,273	14,772,637
2023	5,202,982	9,512,805	14,715,787
Total	<u>\$ 24,410,694</u>	<u>\$ 49,314,852</u>	<u>\$ 73,725,546</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, 2018 and 2017, is summarized as follows:

	2018	2017
Federal loan program	\$ 13,796,749	\$ 13,726,334
University loan funds	1,882,974	1,761,150
Less allowance for doubtful loans	<u>(3,696,717)</u>	<u>(3,696,717)</u>
Total student loans outstanding, net	11,983,006	11,790,767
Less current portion	<u>(2,020,335)</u>	<u>(2,070,459)</u>
Total student loans outstanding, noncurrent	<u><u>\$ 9,962,671</u></u>	<u><u>\$ 9,720,308</u></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, 2018 and 2017, is summarized as follows:

	2018	2017
Operations	\$ 11,598,774	\$ 12,820,177
Capital	17,602,037	6,161,825
Less allowance for doubtful pledges	<u>(1,546,883)</u>	<u>(1,000,303)</u>
Total pledges, net	27,653,928	17,981,699
Less current portion	<u>(8,685,620)</u>	<u>(6,488,635)</u>
Total pledges, noncurrent	<u><u>\$ 18,968,308</u></u>	<u><u>\$ 11,493,064</u></u>

## 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, 2018 and 2017 are summarized as follows:

	Balance October 1, 2017	Additions	Retirements/ Transfers	Balance September 30, 2018
Nondepreciable capital assets:				
Land	\$ 75,713,043	\$ 5,730,000	\$ (195,100)	\$ 81,247,943
Collections	25,983,867	1,208,192	(107,000)	27,085,059
Intangible assets	35,961,351	21,203,100	—	57,164,451
Construction in progress	<u>105,047,275</u>	<u>182,420,361</u>	<u>(177,018,986)</u>	<u>110,448,650</u>
Total nondepreciable capital assets	<u>242,705,536</u>	<u>210,561,653</u>	<u>(177,321,086)</u>	<u>275,946,103</u>
Depreciable capital assets:				
Land improvements	77,928,151	5,070,497	—	82,998,648
Infrastructure	104,364,136	19,561,346	—	123,925,482
Buildings and fixed equipment	1,974,955,301	114,096,936	(314,963)	2,088,737,274
Equipment	185,678,931	16,016,356	(6,341,747)	195,353,540
Library materials	124,933,460	1,380,081	—	126,313,541
Intangible assets	<u>59,705,034</u>	<u>3,126,223</u>	<u>(2,240,960)</u>	<u>60,590,297</u>
Total depreciable capital assets	2,527,565,013	159,251,439	(8,897,670)	2,677,918,782
Less accumulated depreciation:				
Land improvements	22,766,683	3,862,897	—	26,629,580
Infrastructure	25,335,343	5,292,271	—	30,627,614
Buildings and fixed equipment	468,857,550	44,995,536	(44,000)	513,809,086
Equipment	111,085,710	14,889,115	(6,064,786)	119,910,039
Library materials	105,528,942	2,856,866	—	108,385,808
Intangible assets	<u>53,099,604</u>	<u>3,588,539</u>	<u>(2,240,960)</u>	<u>54,447,183</u>
Total accumulated depreciation	<u>786,673,832</u>	<u>75,485,224</u>	<u>(8,349,746)</u>	<u>853,809,310</u>
Total depreciable capital assets, net	<u>1,740,891,181</u>	<u>83,766,215</u>	<u>(547,924)</u>	<u>1,824,109,472</u>
Total capital assets, net	<u>\$ 1,983,596,717</u>	<u>\$ 294,327,868</u>	<u>\$ (177,869,010)</u>	<u>\$ 2,100,055,575</u>

	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
Intangible assets	33,132,651	2,828,700	—	35,961,351
Construction in progress	<u>34,141,931</u>	<u>114,954,434</u>	<u>(44,049,090)</u>	<u>105,047,275</u>
Total nondepreciable capital assets	<u>168,212,825</u>	<u>118,542,094</u>	<u>(44,049,383)</u>	<u>242,705,536</u>
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	<u>57,353,688</u>	<u>2,351,346</u>	<u>—</u>	<u>59,705,034</u>
Total depreciable capital assets	2,459,784,878	93,048,981	(25,268,846)	2,527,565,013
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	<u>49,566,649</u>	<u>3,532,955</u>	<u>—</u>	<u>53,099,604</u>
Total accumulated depreciation	<u>723,585,520</u>	<u>72,374,750</u>	<u>(9,286,438)</u>	<u>786,673,832</u>
Total depreciable capital assets, net	<u>1,736,199,358</u>	<u>20,674,231</u>	<u>(15,982,408)</u>	<u>1,740,891,181</u>
Total capital assets, net	<u>\$ 1,904,412,183</u>	<u>\$ 139,216,325</u>	<u>\$ (60,031,791)</u>	<u>\$ 1,983,596,717</u>

## 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, 2018 and 2017 is summarized as follows:

Type/Supported by	Balance October 1, 2017	New Debt	Principal Repayment	Reclass	Balance September 30, 2018
Notes payable					
Crimson Tide Foundation airplane	\$ 2,223,873	\$ —	\$ 575,066	\$ —	\$ 1,648,807
Rental income	606,644	—	138,674	—	467,970
Bryce/Partlow Property	38,964,100	—	5,566,300	—	33,397,800
General fee	271,550	—	271,550	—	—
Bonds					
Student housing revenue	191,409,511	—	2,108,431	527,263	189,828,343
Fraternities and Sororities	20,028,624	—	7,570,748	—	12,457,876
Intercollegiate athletics	225,518,038	—	7,900,239	317,824	217,935,623
Auxiliaries	64,087,325	—	2,720,384	(91,698)	61,275,243
General fee	487,451,502	—	5,485,198	(753,389)	481,212,915
	<u>\$ 1,030,561,167</u>	<u>\$ —</u>	<u>\$ 32,336,590</u>	<u>\$ —</u>	<u>\$ 998,224,577</u>
Plus net unamortized bond premium/discount	43,081,064				40,147,967
Less current portion	<u>(32,336,590)</u>				<u>(32,681,257)</u>
	<u>\$ 1,041,305,641</u>				<u>\$ 1,005,691,287</u>

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	<u>(24,936,126)</u>				<u>(32,336,590)</u>
	<u>\$ 926,085,211</u>				<u>\$ 1,041,305,641</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, 2018, 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
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	5,566,300	35,285,000	40,851,300	—	37,002,426	37,002,426	77,853,726
2024-2028	5,566,300	202,560,000	208,126,300	—	157,584,635	157,584,635	365,710,935
2029-2033	—	245,785,000	245,785,000	—	109,153,507	109,153,507	354,938,507
2034-2038	—	199,780,000	199,780,000	—	57,876,353	57,876,353	257,656,353
2039-2043	—	121,330,000	121,330,000	—	18,580,188	18,580,188	139,910,188
2044-2047	—	35,915,000	35,915,000	—	2,822,750	2,822,750	38,737,750
	<u>\$ 35,514,577</u>	<u>\$ 962,710,000</u>	<u>\$ 998,224,577</u>	<u>\$ 109,612</u>	<u>\$ 545,204,959</u>	<u>\$ 545,314,571</u>	<u>\$ 1,543,539,148</u>

Pledged revenues for the years ended September 30, 2018 and 2017 as defined by outstanding bond covenants are as follows:

	2018	2017
Tuition and fees	\$ 786,236,725	\$ 719,840,321
Sales and services of educational activities	12,644,047	12,776,616
Auxiliary sales and services	206,723,021	208,799,681
Investment income	57,920,858	55,813,223
Other operating revenue	63,073,638	59,247,356
Total pledged revenues	<u>\$ 1,126,598,289</u>	<u>\$ 1,056,477,197</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, 2018 and September 30, 2017 is approximately \$0 and \$34.4 million, respectively.

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 2018 of \$1.1 billion, the projected maximum annual debt service requirement of \$78.1

million in 2021 is covered approximately 14.4 times by pledged revenues. The University is in compliance with all financial covenants as of September 30, 2018.

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, 2018:

Description	Date Issued	Final Maturity	Interest Rate-%	Original Debt	Outstanding Debt
Bonds payable:					
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	13,885,000
General Fee Revenue Bond Series 2010A	7/1/2010	7/1/2040	2.0-5.875	16,495,000	13,515,000
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	2,135,000
General Fee Revenue Bond Series 2012A	10/16/2012	7/1/2042	3.0-5.0	265,655,000	255,760,000
General Fee Revenue Bond Series 2012B	10/16/2012	7/1/2019	1.4-3.0	20,290,000	3,100,000
General Fee Revenue Bond Series 2014A	8/28/2014	7/1/2021	5.0	25,780,000	14,365,000
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	19,745,000
Total bonds payable				<u>1,072,585,000</u>	<u>962,710,000</u>
Notes payable:					
Geist LLC Promissory Note	1/24/2007	2/1/2021	6.0	1,800,000	467,970
Key Government Finance	6/15/2014	7/15/2018	0.0	1,357,750	—
Department of Mental Health (Partlow I)	11/14/2014	11/14/2023	0.0	32,000,000	19,200,000
Department of Mental Health (Partlow II)	2/27/2015	2/27/2024	0.0	23,663,000	14,197,800
PNC Aviation Finance (CTF airplane)	2/17/2016	3/1/2021	2.22	2,925,000	1,648,807
Total notes payable				<u>61,745,750</u>	<u>35,514,577</u>
Total bonds and notes payable				<u>\$ 1,134,330,750</u>	<u>\$ 998,224,577</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 \$1.3 million and \$1.6 million for general liability at September 30, 2018 and 2017, 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, 2018 and 2017 are summarized as follows:

	2018	2017
Balance, beginning of year	\$ 2,867,000	\$ 2,980,000
Claims paid	(53,556,933)	(46,616,897)
Contributions	54,159,133	46,503,897
Balance, end of year	<u>\$ 3,469,200</u>	<u>\$ 2,867,000</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, 2018 was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members. The University's contractually required 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.

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 2018, 2017, and 2016 is as follows:

	2018	2017	2016
Employer Contributions	\$ 48,018,757	\$ 45,024,221	\$ 43,303,201
Employee Contributions	28,363,970	27,311,165	26,477,729
Total Contributions	<u>\$ 76,382,727</u>	<u>\$ 72,335,386</u>	<u>\$ 69,780,930</u>

Pensionable salaries and wages for covered employees participating in TRS were approximately \$405.7 million during fiscal year 2018 and \$385.9 million during fiscal year 2017.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At September 30, 2018, the University reported a liability of \$565.2 million for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2016. 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, 2017 the University's proportion was 5.75%, which was an increase of (0.01)% from its proportion measured as of September 30, 2016. The University's proportionate share of the collective net pension liability at September 30, 2017 was \$623.4 million.

For the years ended September 30, 2018 and 2017, the University recognized pension expense of \$62.2 million and \$76.8 million, respectively. At September 30, 2018 and 2017, the University

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

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ 24,233,000
Changes of assumptions	33,736,000	—
Net difference between projected and actual earnings on pension plan investments	—	33,795,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	32,815,000	602,000
Employer contributions subsequent to the measurement date	48,018,757	—
Total	<u>\$ 114,569,757</u>	<u>\$ 58,630,000</u>

	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>

\$48.0 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions in 2018 will be recognized in pension expense as follows:

**Year ended September 30:**

2019	\$ 8,133,000
2020	\$ 15,821,000
2021	\$ (5,817,000)
2022	\$ (9,609,000)
2023	\$ (607,000)
Thereafter	\$ —

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of September 30, 2016, using the actuarial assumptions below, applied to all periods included in the measurement. These assumptions are unchanged from the prior year.

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, 2016, 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 long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	17.00%	4.40%
U.S. large stocks	32.00%	8.00%
U.S. mid stocks	9.00%	10.00%
U.S. small stocks	4.00%	11.00%
International developed market stocks	12.00%	9.50%
International emerging market stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	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	\$ 779,637,000	\$ 565,233,000	\$ 383,863,000

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*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, 2017. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2017. The auditor's report dated August 20, 2018 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2017 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 2018 and 2017, excluding amounts not eligible for matching, was approximately \$22.8 million and \$21.3 million, which included approximately \$11.4 million and \$10.7 million each from the University and its employees, respectively. Salaries and wages for covered employees participating in TIAA-CREF or VALIC were approximately \$275.1 million and \$260.2 million, respectively, during the fiscal years 2018 and 2017.

#### **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 \$28.8 million and \$28.1 million as of September 30, 2018 and 2017, respectively, primarily for accrued vacation and sick leave.

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## 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**

*Plan description.* The Alabama Retired Education Employees' Health Care Trust (the "Trust") is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board ("PEEHIP Board") to create an irrevocable trust to fund

postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Plan ("PEEHIP"). In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual Financial Report.

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

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and, consequently, serves as the administrator of the Trust.

*Benefits provided.* PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization ("HMO") in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

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

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The MAPDP plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the United Healthcare plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional

retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

*Contributions.* The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, Section, 16-25A-8.1* provide the PEEHI Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the PEEHI Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the PEEHI Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25 subject to adjustment by the PEEHI Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the PEEHI Board for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the PEEHI Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the PEEHI Board for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the PEEHI Board. This reduction in the employer contribution ceases upon notification to the PEEHI Board of the attainment of Medicare coverage.

*OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.* At September 30, 2018, the University reported a liability of \$257.7 million for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2016. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the University's proportion was 3.47%, which was an increase of 0.59% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the University recognized OPEB expense of \$23.2 million, with no special funding situations.

At September 30, 2018, the University reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	As of September 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ —	\$ —
Changes of assumptions	—	26,755,231
Net difference between projected and actual earnings on OPEB plan investments	—	1,371,927
Changes in proportion and differences between Employer contributions and proportionate share of contributions	39,848,457	—
Employer contributions subsequent to the measurement date	7,988,277	—
Total	<u>\$ 47,836,734</u>	<u>\$ 28,127,158</u>

\$8.0 million reported as deferred outflows of resources related to OPEB resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Year ended September 30:**

2019	\$ 2,160,503
2020	\$ 2,160,503
2021	\$ 2,160,503
2022	\$ 2,160,503
2023	\$ 2,503,485
Thereafter	\$ 575,802

**Actuarial Assumptions.** The total OPEB liability was determined by an actuarial valuation as of September 30, 2016, using the

following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected salary increases*	3.25% - 5.00%
Long-term investment rate of return**	7.25%
Municipal bond index rate at the measurement date	3.57%
Municipal bond index rate at the prior measurement date	2.93%
Projected year for fiduciary net position (FNP) to be depleted	2042
Single equivalent interest rate at the measurement date	4.63%
Single equivalent interest rate at the prior measurement date	4.01%
Healthcare cost trend rate	
Pre-medicare eligible	7.75%
Medicare eligible	5.00%
Ultimate trend rate	
Pre-medicare eligible	5.00%
Medicare eligible	5.00%
Year of ultimate trend rate	2022

\*Includes 3.00% wage inflation.

\*\*Compounded annually, net of investment expense, and includes inflation.



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

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

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

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

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in

conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed income	30.00%	4.40%
U.S. large stocks	38.00%	8.00%
U.S. mid stocks	8.00%	10.00%
U.S. small stocks	4.00%	11.00%
International developed market stocks	15.00%	9.50%
Cash	5.00%	1.50%
Total	100.00%	

\*Geometric mean, includes 2.50% inflation

**Discount rate.** The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2017 was 4.63%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.01%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately 27.08% of the employer contributions were used to assist in funding retiree benefit payments in 2016 and it is assumed that the amount will increase by 3.00% per year and continue into the future.

The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid.

The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2115. The long term rate of return is used until the assets are expected to be depleted in 2042, after which the municipal bond rate is used.

*Sensitivity of the University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.* The following table presents the University's proportionate share of the net OPEB liability of the Trust calculated using the current healthcare trend

rate, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (6.75% decreasing to 4% for pre-Medicare, 4% for Medicare eligible, and 1% for optional plans)	Current Healthcare Trend Rate (7.75% decreasing to 5% for pre-Medicare, 5% for Medicare eligible, and 2% for optional plans)	1% Increase (8.75% decreasing to 6% for pre-Medicare, 6% for Medicare eligible, and 3% for optional plans)
University's proportionate share of the collective net OPEB liability	\$ 208,048,677	\$ 257,683,278	\$ 321,725,516

The following table presents the University's proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 4.63%, as well as what the net OPEB liability would be if

calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (3.63%)	Current Discount Rate (4.63%)	1% Increase (5.63%)
University's proportionate share of the collective net OPEB liability	\$ 311,485,476	\$ 257,683,278	\$ 214,796,208

*OPEB plan fiduciary net position.* Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2017.

The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2017. Additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

## 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, 2018 and 2017, respectively, the University disbursed approximately \$213.2 million and \$207.7 million, respectively, under the FDSLP.

## Note 12 – Grants and Contracts

At September 30, 2018, the University had been awarded approximately \$57.5 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, 2018.

## 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, 2018 and 2017 are summarized as follows:

### 2018 Operating Expenses

(by functional classification)

	Salaries, wages and benefits	Supplies and services	Depreciation	Scholarships and fellowships	Total 2018
Instruction	\$ 287,672,478	\$ 46,300,146	\$ 16,835,770	\$ —	\$ 350,808,394
Research	33,910,512	26,424,365	5,806,828	—	66,141,705
Public service	37,170,423	11,551,010	1,741,996	—	50,463,429
Academic support	65,078,438	15,602,723	13,559,390	—	94,240,551
Student services	39,848,939	16,828,916	5,274,468	—	61,952,323
Institutional support	82,329,678	23,115,679	6,959,020	—	112,404,377
Operations and maintenance	70,697,129	23,612,378	—	—	94,309,507
Scholarships and fellowships	—	—	—	13,430,050	13,430,050
Auxiliary enterprises	83,048,385	99,504,665	25,307,752	10,255,591	218,116,393
Total operating expenses	<u>\$ 699,755,982</u>	<u>\$ 262,939,882</u>	<u>\$ 75,485,224</u>	<u>\$ 23,685,641</u>	<u>\$1,061,866,729</u>

### 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>

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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, 2018 and 2017, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$64.6 million and \$148.3 million, respectively, which is expected to be financed from grants, bond proceeds, University funds, and private gifts.

## Note 15 – Recently Issued Pronouncements

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's adoption of GASB 75 resulted in the recognition of a material liability and a corresponding material reduction of the University's unrestricted net position (note 1 and note 10).

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 has determined there was no material impact from its adoption of GASB 81.

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 has determined 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.

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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 has determined there was no 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 has determined there was no 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.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, in April 2018. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. 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 88.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in June 2018. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement is effective for reporting periods beginning after December 15, 2019. The University implemented GASB 89 during fiscal year 2018. The University has determined there was no material impact from its adoption of GASB 89.

The GASB issued Statement No. 90, *Majority Equity Interest - An Amendment of GASB Statements No. 14 and No. 61*, in August 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. 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 90.

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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

	2018	2017	2016	2015
Employer's proportion of the net pension liability	5.75%	5.76%	5.47%	5.20%
Employer's proportionate share of the collective net pension liability	\$ 565,233,000	\$ 623,398,000	\$ 572,814,000	\$ 472,075,000
Employer's covered payroll during the measurement period	\$ 385,853,526	\$ 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	146.49%	168.67%	164.66%	143.22%
Plan fiduciary net position as a percentage of the total collective pension liability	71.50%	67.93%	67.51%	71.01%

### Schedule of The University of Alabama's Contributions

#### Teachers' Retirement Plan of Alabama

	2018	2017	2016	2015
Contractually required contribution	\$ 48,018,757	\$ 45,024,221	\$ 43,303,201	\$ 39,092,939
Contributions in relation to the contractually required contribution	\$ 48,018,757	\$ 45,024,221	\$ 43,303,201	\$ 39,092,939
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —
Employer's covered payroll	\$ 405,665,755	\$ 385,853,526	\$ 369,595,295	\$ 347,881,013
Contributions as a percentage of covered payroll	11.84%	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 2018, the measurement period is October 1, 2016 - September 30, 2017

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

### **Schedule of The University of Alabama's Proportionate Share of the Net OPEB Liability Alabama Retired Education Employees' Health Care Trust**

	<u>2018</u>
Employer's proportion of the collective net OPEB liability	3.47%
Employer's proportionate share of the collective net OPEB liability	\$ 257,683,278
Employer's covered payroll during the measurement period	\$ 385,853,526
Employer's proportionate share of the collective net OPEB liability as a percentage of its covered payroll	66.78%
Plan fiduciary net position as a percentage of the total collective net OPEB liability	15.37%

### **Schedule of The University of Alabama's Contributions Alabama Retired Education Employees' Health Care Trust**

	<u>2018</u>
Contractually required contribution	\$ 7,988,277
Contributions in relation to the contractually required contribution	\$ 7,988,277
Contribution deficiency (excess)	\$ —
Employer's covered payroll	\$ 405,665,755
Contributions as a percentage of covered payroll	1.97%

#### Notes to Schedules

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

#### Measurement period:

For fiscal year 2018, the measurement period is October 1, 2016 - September 30, 2017



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