Table of Contents

Report of Independent Auditors 2
Management’s Discussion and Analysis (Unaudited) 4
Statements of Net Position 13
Statements of Revenues, Expenses, and Changes in Net Position 14
Statements of Cash Flows 15
Component Unit Statements of Net Position 17
Component Unit Statements of Revenues, Expenses, and Changes in Net Position 18
Notes to Financial Statements 19
Required Supplementary Information (Unaudited) 59
The Board of Trustees of The University of Alabama 61
Administration and Financial Staff 62

Requests for Information

These financial statements are designed to provide a general overview of the University and its component unit’s financial activities and to demonstrate the University’s accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of Accounting and Financial Reporting, The University of Alabama in Huntsville, 301 Sparkman Drive, Huntsville, Alabama 35899.

A Space Grant College / An Affirmative Action/Equal Opportunity Institution
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 discretely presented component unit of The University of Alabama in Huntsville (“UAH”), 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 UAH’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 did not audit the financial statements of The University of Alabama in Huntsville Foundation (“UAHF”), UAH’s discretely presented component unit, as of and for the years ended September 30, 2018 and 2017. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for UAHF, is based solely on the report of the other auditors. 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 UAH’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 UAH’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of The University of Alabama in Huntsville 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.

**Emphasis of Matter**

As discussed in Note 1, the financial statements of UAH 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 UAH. 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**

The accompanying management’s discussion and analysis on pages 4 through 12 and the required supplementary information on pages 59 and 60 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.

January 22, 2019
The University of Alabama in Huntsville
Management’s Discussion and Analysis (Unaudited)

The following discussion and analysis provides an overview of the financial performance and activities of The University of Alabama in Huntsville (the “University” or “UAH”) for the fiscal years ended September 30, 2018 and 2017. This discussion and analysis has been prepared by University management along with the financial statements and related note disclosures, and should be read in conjunction with the financial statements and related note disclosures. The financial statements, notes and this discussion are the responsibly of management.

Introduction

The University of Alabama in Huntsville is a public co-educational, state-supported research university and is classified by the Carnegie Foundation for the Advancement of Teaching as a “High Activity” research university, placing it among a select group of public universities in America. UAH has five research programs ranked in the top 20 in the nation, according to the National Science Foundation, including 5th in the United States in aeronautical and astronautical engineering. UAH is 13th in the nation in NASA-sponsored research and 25th in the nation in DOD research.

The University offers 87 degree-granting programs that meet the highest standards of excellence, including 41 bachelor’s degree programs, 30 master’s degree programs, and 16 doctoral programs through its nine colleges: Arts, Humanities and Social Sciences; Business; Education; Engineering; Graduate Studies; Honors; Nursing; Professional and Continuing Studies; and Science.

UAH is an autonomous campus within The University of Alabama System (the “System”) and is the anchor tenant for Cummings Research Park, the second largest university research park in the United States and home to approximately 300 high technology and research companies.

UAH was listed as very competitive by Barron’s Profiles in American Colleges and was one of only two public universities in Alabama to earn this designation. U.S. News & World Report consistently ranks UAH among the magazine’s Tier 1 national universities, placing it among the top four percent of public universities in the nation. Numerous sources report that UAH is among the state and national leaders for return on investment for its graduates.

The University received $83 million for externally funded projects for the year ended September 30, 2018. Sponsors of research include federal and state agencies, academic institutions, industry and private foundations. Research is conducted within the nine individual colleges and through the University’s ten independent research centers, laboratories and institutes.

Major interdisciplinary research thrusts include: modeling and simulation; cybersecurity; systems engineering; rotorcraft and aerospace engineering; propulsion; optics; space physics and astrophysics; earth and atmospheric system science; information technology; materials science; biotechnology; nanotechnology; humanities; and lean supply chain, acquisition, and logistics.

Statements of Net Position

The statements of net position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal years ended September 30, 2018, 2017, and 2016. The purpose of the statements of net position is to present a fiscal snapshot of the University to the readers of the financial statements.

The statements of net position provide a summary of assets available to continue the operations of the University. The statements also show how much the University owes vendors and lending institutions. Finally, the statements of net position provide a picture of the net position and the availability of resources for expenditure by 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. The second asset category is restricted net position, which is further divided into two sub-categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources, as it pertains to endowments, is only available for investment purposes, with the income earned thereon available primarily to fund scholarships and fellowships. Expendable restricted net position is available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed a time or purpose restriction on the use of the assets. The final category is unrestricted net position, which is available to the University as needed.
A summarized comparison of the University's assets, liabilities, deferred inflows of resources, deferred outflows of resources and net position as of September 30 is as follows:

### Condensed Statements of Net Position

<table>
<thead>
<tr>
<th></th>
<th>September 30</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>Current assets</td>
<td>$120,009,299</td>
<td>$120,081,297</td>
<td>$127,947,579</td>
</tr>
<tr>
<td>Noncurrent assets:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment, life income</td>
<td>64,671,314</td>
<td>56,158,757</td>
<td>52,947,408</td>
</tr>
<tr>
<td>and other investments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>295,483,325</td>
<td>272,008,654</td>
<td>256,999,556</td>
</tr>
<tr>
<td>Other</td>
<td>2,677,672</td>
<td>2,786,707</td>
<td>3,193,812</td>
</tr>
<tr>
<td>Total assets</td>
<td>482,841,610</td>
<td>451,035,415</td>
<td>441,088,355</td>
</tr>
<tr>
<td>Deferred outflows of resources</td>
<td>32,894,090</td>
<td>29,180,939</td>
<td>26,849,143</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>71,564,101</td>
<td>71,997,883</td>
<td>61,682,340</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>324,923,772</td>
<td>255,732,726</td>
<td>255,958,429</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>396,487,873</td>
<td>327,730,609</td>
<td>317,640,769</td>
</tr>
<tr>
<td>Deferred inflows of resources</td>
<td>26,728,420</td>
<td>9,472,000</td>
<td>6,963,000</td>
</tr>
<tr>
<td>Net position</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>168,455,369</td>
<td>171,194,003</td>
<td>155,607,523</td>
</tr>
<tr>
<td>Restricted</td>
<td>28,294,108</td>
<td>26,059,266</td>
<td>26,004,706</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>(104,230,070)</td>
<td>(54,239,524)</td>
<td>(38,278,500)</td>
</tr>
<tr>
<td>Total net position</td>
<td>$ 92,519,407</td>
<td>$143,013,745</td>
<td>$143,333,729</td>
</tr>
</tbody>
</table>

For the year ended September 30, 2018, the University’s current assets decreased $72 thousand primarily due to a decrease in operating investments. Endowment, life income and other investments increased $8.5 million due to increases in restricted cash and investments for capital activities. Capital assets, net of depreciation, increased $23.5 million primarily due to the completion of Charger Village II Residence Hall. Other assets decreased $109 thousand. Current liabilities decreased $434 thousand. The majority of this decrease is due to a $4.5 million decrease in accounts payable and accrued liabilities, along with an increase in deferred revenues due to higher enrollment. Noncurrent liabilities increased by approximately $69.2 million, primarily the result of a $32.9 million increase to long-term debt related to a new debt issuance and an additional liability for the Other Post Employee Benefits (OPEB) as required by GASB Statement No. 75 of $53.8 million. The University recorded deferred outflows of resources of $3.7 million primarily due to differences between projected and actual earnings of the pension and OPEB plans.

Deferred inflows of resources increased $17.3 million due to the net differences between projected and actual earnings of the pension and OPEB plans.

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 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, UAH 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. See Note 9 and Note 10 to the financial statements for additional information.

For the year ended September 30, 2017, the University’s current assets decreased $7.9 million primarily due to a decrease in cash and cash equivalents. Endowment, life income and other investments increased $3.2 million due favorable market activity in endowment investments. Capital assets, net of depreciation, increased $15 million primarily due to the purchase of Executive Plaza and construction of Charger Village II Residence Hall. Other assets decreased $407 thousand. Current liabilities increased $10.3 million. The majority of this increase is due to a $6.1 million increase in accounts payable and accrued liabilities, along with an increase in deferred revenues due to higher enrollment. Noncurrent liabilities decreased by approximately $226 thousand, primarily the result of a $5.1 million decrease to long-term debt due to principal payments made, offset by an increase in the pension liability of $4.7 million. The University recorded deferred outflows of resources of $2.3 million primarily due to differences between projected and actual earnings of the pension plan. See Note 9 to the financial statements for additional information.

For the year ended September 30, 2018, the University’s total net position decreased $50.5 million. The University’s net investment in capital assets decreased approximately $2.7 million. Restricted net position increased $2.2 million. Unrestricted net position decreased approximately $50 million, primarily due to the implementation of GASB 75.

For the year ended September 30, 2017, the University’s total net position decreased $320 thousand. The University’s net investment in capital assets increased approximately $15.6 million primarily due to capital expenditures. Restricted net position decreased $55 thousand. Unrestricted net position decreased approximately $16.0 million primarily due to the construction of a building, paid for with institutional funds.

**Capital Assets**

For the years ended September 30, 2018, 2017, and 2016, the University had approximately $561.1 million, $523.3 million, and $493.8 million invested in capital assets and accumulated depreciation of $265.7 million, $251.3 million, and $236.8 million, respectively. Depreciation charges for the years ended September 30, 2018, 2017, and 2016, were $17.1 million, $16 million, and $15.4 million, respectively. The following table summarizes the University’s capital assets, net of accumulated depreciation, as of September 30:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$ 14,050,899</td>
<td>$ 14,050,899</td>
<td>$ 8,046,641</td>
</tr>
<tr>
<td>Land improvements and infrastructure, net</td>
<td>6,868,834</td>
<td>7,091,963</td>
<td>8,096,560</td>
</tr>
<tr>
<td>Buildings and building improvements, net</td>
<td>255,951,402</td>
<td>233,190,163</td>
<td>222,358,952</td>
</tr>
<tr>
<td>Equipment, net</td>
<td>15,903,359</td>
<td>15,089,126</td>
<td>15,765,993</td>
</tr>
<tr>
<td>Library books, net</td>
<td>1,317,725</td>
<td>1,380,570</td>
<td>1,466,083</td>
</tr>
<tr>
<td>Computer software, net</td>
<td>266,704</td>
<td>81,531</td>
<td>140,925</td>
</tr>
<tr>
<td>Collections</td>
<td>1,124,402</td>
<td>1,124,402</td>
<td>1,124,402</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$ 295,483,325</td>
<td>$ 272,008,654</td>
<td>$ 256,999,556</td>
</tr>
</tbody>
</table>
Major capital additions for the year ended September 30, 2018 included completion of the Charger Village addition, a new sorority house, and construction of the Invention to Innovation Center. Major capital additions for 2017 included the purchase of Executive plaza and construction of the Charger Village addition, the Invention to Innovation Center, and a new sorority house. Major capital additions in 2016 included the completion of the Student Services Building.

Additional information about the University’s capital assets is presented in Note 6 to the financial statements.

**Debt**

This table summarizes outstanding debt by type, as of September 30. Principle and interest on these revenue bonds are collateralized by a pledge of revenues produced by student housing and student tuition and fees.

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds - Current</td>
<td>$4,528,000</td>
<td>$3,941,000</td>
<td>$3,839,000</td>
</tr>
<tr>
<td>Bonds - Long Term</td>
<td>117,401,000</td>
<td>89,414,000</td>
<td>93,355,000</td>
</tr>
<tr>
<td>Lease - Current</td>
<td>194,149</td>
<td>1,155,238</td>
<td>1,155,238</td>
</tr>
<tr>
<td>Lease - Long Term</td>
<td>228,005</td>
<td>-</td>
<td>1,155,238</td>
</tr>
<tr>
<td>Premium, net</td>
<td>5,516,435</td>
<td>806,396</td>
<td>848,025</td>
</tr>
<tr>
<td>Total debt outstanding</td>
<td>$127,867,589</td>
<td>$95,316,634</td>
<td>$100,352,501</td>
</tr>
</tbody>
</table>

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

Changes in total net position as presented on the statements of net position are based on the activity presented in the statements of revenues, expenses, and changes in net position, which reflect the University’s results of operations. This presents the revenues and expenses, both operating and nonoperating, along with other changes in net position.

State appropriations are classified as nonoperating, in accordance with GASB accounting standards, because they are provided by the State Legislature to the University without the Legislature directly receiving commensurate goods and services in return for those revenues. Without the nonoperating revenues, in particular the state appropriations, the University would not be able to cover its costs of operations. These sources are critical to the University’s financial stability and directly impact the quality of its programs. A summarized comparison of the University’s revenues, expenses and changes in net position for the years ended September 30 is as follows:
Approximately $48.4 million in state appropriations were received for the year ended September 30, 2018, an increase of 1% or $519 thousand from the prior year.

Gross tuition and fees increased approximately $12.3 million for the year ended September 30, 2018 due to a continued growth in total enrollment. Gross tuition and fees increased approximately $9.5 million for the year ended September 30, 2017.

Significant recurring sources of the University’s revenues, such as state appropriations, are considered nonoperating, as defined by GASB Statement No. 35, Basic Financial Statements-Management’s Discussion and Analysis – for Public Colleges and Universities. In fiscal year 2018, The University received an Intergovernmental transfer at the request of the University of Alabama System Office, for oversight and management of the University of Alabama System-Regional Optical Network (UAS-RON) to all three campuses effective October 2017. It was determined that each campus would record 1/3 ownership in the UAS-RON Asset. The total asset amount is $1,192,646.31, and each campus will record $397,548.77 in assets.

The following is a summary of revenues by source (both operating and nonoperating) for the years ended September 30.
Investments produced income and gains for the year ended September 30, 2018 in the amount of $4.8 million, a $5.4 million decrease over fiscal year 2017. Investments produced income and gains for fiscal year 2017 in the amount of $10.2 million, a $907 thousand increase over fiscal year 2016. Investments produced income and gains for 2016 in the amount of $9.3 million, a $14.9 million increase over the prior year.

For the year ended September 30, 2018, Grants and contracts revenue increased $4.1 million due primarily to increases in federal contracts of $4.8 million. Grants and contracts revenues decreased $1.5 million in 2017 due primarily to decreases in state and private contracts of $450 thousand and $892 thousand, respectively. Grants and contracts revenues increased $5.2 million in 2016 due primarily to increases in federal contracts.

The University received gifts of approximately $3.1 million for fiscal year 2018 and $3.3 million in 2017. This slight decrease was due to a reduction in corporate gifts to the University. In 2016, gifts decreased $2.2 million due to forgiveness of a note payable. In 2016, gifts totaled $5.5 million, primarily from the University of Alabama Huntsville Foundation.

The University’s auxiliary activities are comprised primarily of the Bevill Conference Center and Hotel, food service, housing, and bookstore. Auxiliary activities increased $781 thousand, $1.4 million, and $1.7 million for the years ended September 30, 2018, 2017 and 2016, respectively.
National Aeronautics and Space Administration (NASA) revenues increased $1.3 million for the year ended September 30, 2018. NASA revenues decreased $2.2 million in 2017 and increased $693 thousand in 2016.

For the year ended September 30, 2018, Department of Defense (DOD) revenues increased $1.1 million primarily due to new federal pass-through contracts. DOD revenues decreased $2.6 million in 2017 primarily due to federal pass-through contracts that were not renewed. DOD revenues increased $2.1 million in 2016 primarily due to new federal pass-through contracts.

National Science Foundation (NSF) revenues increased $3.2 million, $73 thousand, and $567 thousand for the years ended September 30, 2018, 2017 and 2016, respectively. The NSF increase in 2018 is from receiving the EPSCoR CPU2AL: Connecting the Plasma Universe to Plasma Technology in Alabama federal grant. For the year ended September 30, 2018, the Department of Education revenues decreased $260 thousand in 2018 primarily due to federal pass-through contracts that were not renewed.

The following is a comparison of the University's operating expenses for the years ended September 30:

<table>
<thead>
<tr>
<th>Years ended September 30,</th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Aeronautics and Space Administration</td>
<td>$24,322,285</td>
<td>$23,018,332</td>
<td>$20,842,244</td>
</tr>
<tr>
<td>Department of Defense</td>
<td>40,866,195</td>
<td>39,727,624</td>
<td>42,320,727</td>
</tr>
<tr>
<td>National Science Foundation</td>
<td>7,427,626</td>
<td>4,242,082</td>
<td>4,169,421</td>
</tr>
<tr>
<td>Department of Education</td>
<td>313,449</td>
<td>573,339</td>
<td>625,761</td>
</tr>
<tr>
<td>Other</td>
<td>4,388,378</td>
<td>4,905,845</td>
<td>4,650,881</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$77,317,933</strong></td>
<td><strong>$72,467,222</strong></td>
<td><strong>$72,609,034</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating expenses (by functional classification)</th>
<th>Years ended September 30</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
</tr>
<tr>
<td>Instruction</td>
<td>$62,356,254</td>
</tr>
<tr>
<td>Research</td>
<td>73,077,887</td>
</tr>
<tr>
<td>Public service</td>
<td>6,566,199</td>
</tr>
<tr>
<td>Academic support</td>
<td>12,175,608</td>
</tr>
<tr>
<td>Student services</td>
<td>17,535,813</td>
</tr>
<tr>
<td>Institutional support</td>
<td>21,799,636</td>
</tr>
<tr>
<td>Operations and maintenance of plant</td>
<td>13,532,266</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>3,332,226</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>7,875,393</td>
</tr>
<tr>
<td>Depreciation</td>
<td>17,143,814</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>$235,395,096</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating expenses (by natural classification)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, wages, and benefits</td>
<td>$164,700,313</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>50,218,743</td>
</tr>
<tr>
<td>Depreciation</td>
<td>17,143,814</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>3,332,226</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>$235,395,096</strong></td>
</tr>
</tbody>
</table>
In the year ended September 30, 2018, instruction expenses increased $2.3 million due to an increase in compensation and benefits. For fiscal year 2017, instruction expenses increased $1.9 million due to an increase in compensation and benefits. In 2016, instruction expenses increased $4.3 million due to a $2.9 million increase in compensation and benefits and a $1.3 million increase in supplies and services.

Research expenses increased $6.2 million in fiscal year 2018 due to an increase in contracts and grants. Research expenses decreased $525 thousand in 2017 due to a decrease in contracts and grants. Research expenses increased $2.8 million in 2016 due to an increase in contracts and grants.

For the year ended September 30, 2018, public service expenses decreased $423 thousand due to decreases in federal public service contracts and grants. Public service expenses increased $2.9 million in 2017 due to increases in federal public service contracts and grants. Public service expenses decreased $1.7 million in 2016 due to decreases in federal public service contracts and grants.

Academic support increased during for the year ended September 30, 2018 by $359 thousand. Academic support saw an increase of $723 thousand during 2017. Academic support decreased slightly during 2016 by $168 thousand.


Compensation and benefits increased $4.5 million in fiscal year 2018, primarily due to a combination of increases in grants and contracts and health insurance and other benefit costs. Compensation and benefits increased $6.3 million in 2017 due to a $4.3 million increase in pension expense. Fiscal year 2016 saw a $3.5 million increase, primarily due to a combination of increases in grants and contracts and health insurance and other benefit costs.

Scholarships and fellowships expense increased $788 thousand for the year ended September 30, 2018. Scholarships and fellowships expense increased $405 thousand for 2017 and increased $1.0 million during 2016. Scholarships and fellowships expenses represent the residual expense after applying the scholarship allowance to gross tuition and fees revenue.

The scholarship allowance represents the discount applied to student accounts for internal scholarships and financial aid, including Pell grant assistance that is reported as nonoperating revenue.

Supplies and services expenses increased $5.4 million for the year ended September 30, 2018 due to the University’s continued growth. Supplies and services expenses increased $3.3 million in 2017 and $1.4 million in 2016 due to the University’s growth.
Economic Factors That Will Affect the Future

The University’s state educational appropriations have not kept pace with the funding percentage as recommended by the Alabama Commission on Higher Education (ACHE). In fiscal year 2017, the University was funded at 48.2% of the ACHE recommended funding. The funding percentage increased to 49.2% for fiscal year 2018. State appropriations at the University have been reduced from $58.1 million in 2008 to $48.3 million in 2018. The funding trend at UAH mirrors the trend across the nation and across the state for public institutions. Higher educational institutions are relying more upon tuition and fees revenues as opposed to support from the state appropriation to run their operations. This funding trend is expected to continue in the future.

Total enrollment for fall 2018 was at an all-time high at 9,736, an increase of 635 students over last fall and 7.0% growth. The average ACT for incoming freshmen was 28.5 and was the highest in the school’s history.

Once they graduate, these students typically go on to earn a higher average starting ($54,000) and mid-career ($98,000) salary than most of their peers across Alabama.

UAH is regularly ranked the best return on investment among all schools in Alabama, and has been named by the Brookings Institution as the best university in the state based on the economic outcomes of its graduates.
The University of Alabama in Huntsville
Statements of Net Position
September 30, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$31,943,600</td>
<td>$12,502,465</td>
</tr>
<tr>
<td>Operating investments</td>
<td>39,294,940</td>
<td>65,786,136</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>30,403,827</td>
<td>25,651,203</td>
</tr>
<tr>
<td>Other current assets</td>
<td>18,366,932</td>
<td>16,141,493</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$120,009,299</td>
<td>$120,081,297</td>
</tr>
<tr>
<td>Noncurrent Assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restricted cash and cash equivalents</td>
<td>4,127,889</td>
<td>637,878</td>
</tr>
<tr>
<td>Endowment investments</td>
<td>35,126,425</td>
<td>34,138,879</td>
</tr>
<tr>
<td>Investments for capital activities</td>
<td>25,417,000</td>
<td>21,382,000</td>
</tr>
<tr>
<td>Capital assets, net</td>
<td>295,483,325</td>
<td>272,008,654</td>
</tr>
<tr>
<td>Other noncurrent assets</td>
<td>2,677,672</td>
<td>2,786,707</td>
</tr>
<tr>
<td><strong>Total noncurrent assets</strong></td>
<td>$362,832,311</td>
<td>$330,954,118</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$482,841,610</td>
<td>$451,035,415</td>
</tr>
<tr>
<td><strong>Deferred Outflows of Resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred outflows of resources related to pensions and OPEB</td>
<td>32,894,090</td>
<td>29,180,939</td>
</tr>
<tr>
<td><strong>Total Deferred Outflows of Resources</strong></td>
<td>$32,894,090</td>
<td>$29,180,939</td>
</tr>
<tr>
<td><strong>Total Assets and Deferred Outflows of Resources</strong></td>
<td>$515,735,700</td>
<td>$480,216,354</td>
</tr>
<tr>
<td><strong>Liabilities and Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>$20,020,633</td>
<td>$24,545,606</td>
</tr>
<tr>
<td>Unearned revenues</td>
<td>42,595,428</td>
<td>38,136,944</td>
</tr>
<tr>
<td>Current portion of long-term debt</td>
<td>4,722,149</td>
<td>5,096,238</td>
</tr>
<tr>
<td>Deposits held for others</td>
<td>4,225,891</td>
<td>4,219,095</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>$71,564,101</td>
<td>$71,997,883</td>
</tr>
<tr>
<td>Noncurrent Liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td>123,145,440</td>
<td>90,220,396</td>
</tr>
<tr>
<td>Federal advances-loan funds</td>
<td>505,113</td>
<td>380,330</td>
</tr>
<tr>
<td>Pension liability</td>
<td>147,428,000</td>
<td>165,132,000</td>
</tr>
<tr>
<td>OPEB liability</td>
<td>53,845,219</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total noncurrent liabilities</strong></td>
<td>$324,923,772</td>
<td>$255,732,726</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$396,487,873</td>
<td>$327,730,609</td>
</tr>
<tr>
<td><strong>Deferred Inflows of Resources</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred Inflows of resources related to pensions and OPEB</td>
<td>26,728,420</td>
<td>9,472,000</td>
</tr>
<tr>
<td><strong>Total Deferred Inflows of Resources</strong></td>
<td>$26,728,420</td>
<td>$9,472,000</td>
</tr>
<tr>
<td><strong>Total Liabilities and Deferred Inflows of Resources</strong></td>
<td>$423,216,293</td>
<td>$337,202,609</td>
</tr>
<tr>
<td><strong>Net Position:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>168,455,369</td>
<td>171,194,003</td>
</tr>
<tr>
<td>Restricted:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nonexpendable</td>
<td>9,990,561</td>
<td>9,944,806</td>
</tr>
<tr>
<td>Expendable</td>
<td>18,303,547</td>
<td>16,114,461</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>(104,230,070)</td>
<td>(54,239,524)</td>
</tr>
<tr>
<td><strong>Total Net Position</strong></td>
<td>$92,519,407</td>
<td>$143,013,745</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Position</strong></td>
<td>$515,735,700</td>
<td>$480,216,354</td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
The University of Alabama in Huntsville

Statements of Revenues, Expenses, and Changes in Net Position

Years Ended September 30, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tuition and fees</td>
<td>$106,800,049</td>
<td>$94,548,475</td>
</tr>
<tr>
<td>Less: scholarship allowances</td>
<td>(39,161,060)</td>
<td>(32,151,181)</td>
</tr>
<tr>
<td>Tuition and fees, net</td>
<td>67,638,989</td>
<td>62,397,294</td>
</tr>
<tr>
<td>Grants and contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>77,317,933</td>
<td>72,467,222</td>
</tr>
<tr>
<td>State</td>
<td>3,919,899</td>
<td>4,117,407</td>
</tr>
<tr>
<td>Private</td>
<td>1,740,491</td>
<td>2,301,327</td>
</tr>
<tr>
<td>Sales and services of</td>
<td>5,465,339</td>
<td>4,422,511</td>
</tr>
<tr>
<td>educational departments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auxiliary, net of $2,455,037</td>
<td>11,353,348</td>
<td>10,572,674</td>
</tr>
<tr>
<td>in 2018 and $1,921,947 in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017 of scholarship</td>
<td></td>
<td></td>
</tr>
<tr>
<td>allowances</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td>$167,435,999</td>
<td>$156,278,435</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compensation and benefits</td>
<td>164,700,313</td>
<td>160,210,876</td>
</tr>
<tr>
<td>Supplies and services</td>
<td>50,218,743</td>
<td>44,771,190</td>
</tr>
<tr>
<td>Depreciation</td>
<td>17,143,814</td>
<td>16,043,553</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>3,332,226</td>
<td>2,544,291</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>$235,395,096</td>
<td>$223,569,910</td>
</tr>
<tr>
<td><strong>Operating loss</strong></td>
<td>$(67,959,097)</td>
<td>$(67,291,475)</td>
</tr>
<tr>
<td><strong>Nonoperating Revenues</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State appropriations</td>
<td>48,352,459</td>
<td>47,833,247</td>
</tr>
<tr>
<td>Private gifts</td>
<td>3,067,873</td>
<td>3,289,744</td>
</tr>
<tr>
<td>Net investment income</td>
<td>4,849,274</td>
<td>10,240,992</td>
</tr>
<tr>
<td>Grant revenue</td>
<td>9,021,580</td>
<td>7,942,044</td>
</tr>
<tr>
<td>Loss on disposal of capital</td>
<td>(281,092)</td>
<td>(116,359)</td>
</tr>
<tr>
<td>assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>(4,223,715)</td>
<td>(3,442,330)</td>
</tr>
<tr>
<td><strong>Net Nonoperating Revenues</strong></td>
<td>60,786,379</td>
<td>65,747,338</td>
</tr>
<tr>
<td><strong>Loss before other changes in net position</strong></td>
<td>(7,172,718)</td>
<td>(1,544,137)</td>
</tr>
<tr>
<td><strong>Other Changes in Net Position</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital gifts and grants</td>
<td>2,161,614</td>
<td>623,722</td>
</tr>
<tr>
<td>Intergovernmental transfers</td>
<td>397,549</td>
<td></td>
</tr>
<tr>
<td>Additions to permanent</td>
<td></td>
<td>600,431</td>
</tr>
<tr>
<td>endowments</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Other changes in net position</strong></td>
<td>$2,559,163</td>
<td>$1,224,153</td>
</tr>
<tr>
<td>Decrease in net position</td>
<td>(4,613,555)</td>
<td>(319,984)</td>
</tr>
<tr>
<td>Net Position, Beginning of Year (as previously reported)</td>
<td>143,013,745</td>
<td>143,333,729</td>
</tr>
<tr>
<td>Cumulative effect of adopting new accounting guidance (see Note 10)</td>
<td>(45,880,783)</td>
<td>-</td>
</tr>
<tr>
<td>Net Position, Beginning of Year (as restated, as of October 1, 2017)</td>
<td>97,132,962</td>
<td>143,333,729</td>
</tr>
<tr>
<td><strong>Net Position, End of Year</strong></td>
<td><strong>$92,519,407</strong></td>
<td><strong>$143,013,745</strong></td>
</tr>
</tbody>
</table>

See accompanying notes to financial statements
The University of Alabama in Huntsville
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

2018  2017

Cash Flows from Operating Activities
Student tuition and fees $ 69,463,199 $ 64,124,277
Federal grants and contracts 74,603,550 71,554,571
State and local grants and contracts 3,790,337 4,077,715
Private grants and contracts 1,682,964 2,279,142
Sales and services of educational and other departmental activities 5,364,499 4,174,846
Auxiliary enterprises 12,216,963 11,074,707
Payments to suppliers (51,800,440) (43,769,500)
Payments to employees and related fringes (161,084,922) (154,860,588)
Payments for scholarships and fellowships (5,430,078) (4,697,705)
Net Cash Used in Operating Activities (51,193,928) (46,042,535)

Cash Flows from Noncapital Financing Activities
State educational appropriations 48,352,459 47,833,247
Private gifts 3,167,873 4,288,242
Student direct lending receipts 32,671,375 31,881,939
Student direct lending disbursements (32,696,156) (31,884,318)
Amounts received from affiliates 136,634 594,636
Amounts paid to affiliates (5,055) (4,311)
Grant revenue 9,021,580 7,942,044
Borrowings from UA System Pools 15,500,000 -
Repayment to UA System Pools (15,500,000) -
Interest payments on UA System Pools borrowings (20,569) -
Net Cash Provided by Noncapital Financing Activities 60,628,141 60,651,479

Cash Flows from Investing Activities
Income distributions from System investment pool 1,579,816 1,537,597
Proceeds from sales and maturities of investments 45,308,254 15,537,549
Purchases of investments (20,525,017) (16,228,598)
Net Cash Provided by Investing Activities 26,363,053 846,548

Cash Flows from Capital and Related Financing Activities
Net proceeds from issuance of bonds 37,379,673 -
Purchase of capital assets (41,456,739) (26,140,440)
Net proceeds / (loss) related to sale of capital assets (26,500) 21,005
Principal payments on capital debt (4,674,084) (4,994,238)
Interest payments on capital debt (4,088,470) (3,456,697)
Net Cash Used in Capital and Related Financing Activities (12,866,120) (34,570,370)

Net increase/(decrease) in cash and cash equivalents 22,931,146 (19,114,878)

Cash and Cash Equivalents, Beginning of Year 13,140,343 32,255,221
Cash and Cash Equivalents, End of Year $ 36,071,489 $ 13,140,343

Reconciliation of Cash and Cash Equivalents to the Statement of Net Position
Cash and cash equivalents in current assets 31,943,600 12,502,465
Restricted cash and cash equivalents 4,127,889 637,878
Total Cash and Cash Equivalents $ 36,071,489 $ 13,140,343

See accompanying notes to financial statements
### The University of Alabama in Huntsville
### Statements of Cash Flows -- Continued
### Years Ended September 30, 2018 and 2017

<table>
<thead>
<tr>
<th>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating loss</td>
<td>$(67,959,097)</td>
<td>$(67,291,475)</td>
</tr>
<tr>
<td>Adjustments to reconcile operating loss to net cash used in operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>16,998,215</td>
<td>16,010,962</td>
</tr>
<tr>
<td>Pension and OPEB expense</td>
<td>16,979,945</td>
<td>16,657,143</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>(4,772,972)</td>
<td>(2,651,505)</td>
</tr>
<tr>
<td>Other current assets</td>
<td>(2,225,439)</td>
<td>(2,386,778)</td>
</tr>
<tr>
<td>Pension and OPEB obligations</td>
<td>(13,851,024)</td>
<td>(11,737,939)</td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>(822,040)</td>
<td>1,698,729</td>
</tr>
<tr>
<td>Unearned revenues</td>
<td>4,458,484</td>
<td>3,658,328</td>
</tr>
<tr>
<td><strong>Net Cash Used in Operating Activities</strong></td>
<td><strong>$(51,193,928)</strong></td>
<td><strong>$(46,042,535)</strong></td>
</tr>
</tbody>
</table>

### Supplemental Noncash Activities Information

| Capital asset purchases accrued at year end | 2,322,559 | 5,465,384 |
| Capital assets acquired with a capital lease | 616,303 | - |

See accompanying notes to financial statements
### University of Alabama Huntsville Foundation
Discretely Presented Component Unit
Statements of Net Position
September 30, 2018 and 2017

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$2,681,139</td>
<td>$1,842,765</td>
</tr>
<tr>
<td>Investments</td>
<td>$47,131,702</td>
<td>$45,111,755</td>
</tr>
<tr>
<td>Investment real estate</td>
<td>$2,757,376</td>
<td>$2,757,376</td>
</tr>
<tr>
<td>Investment in trust</td>
<td>$5,360,460</td>
<td>$5,490,538</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>$459,884</td>
<td>$512,882</td>
</tr>
<tr>
<td>Pledges receivable, net</td>
<td>$4,551,109</td>
<td>$4,885,144</td>
</tr>
<tr>
<td>Prepaid income tax</td>
<td>$105,462</td>
<td>-</td>
</tr>
<tr>
<td>Trust receivable</td>
<td>$484,959</td>
<td>$484,959</td>
</tr>
<tr>
<td>Other receivable</td>
<td>$12,030</td>
<td>$50,460</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$63,544,121</strong></td>
<td><strong>$61,135,879</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$236,950</td>
<td>$25,087</td>
</tr>
<tr>
<td>Annuity payable</td>
<td>$119,529</td>
<td>$109,400</td>
</tr>
<tr>
<td>Payroll tax payable</td>
<td>$119,763</td>
<td>$298,067</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$476,242</strong></td>
<td><strong>$432,554</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted net assets</td>
<td>$23,326,920</td>
<td>$22,748,198</td>
</tr>
<tr>
<td>Temporarily restricted net assets</td>
<td>$16,496,324</td>
<td>$15,352,284</td>
</tr>
<tr>
<td>Permanently restricted net assets</td>
<td>$23,244,635</td>
<td>$22,602,843</td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>$63,067,879</strong></td>
<td><strong>$60,703,325</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td><strong>$63,544,121</strong></td>
<td><strong>$61,135,879</strong></td>
</tr>
</tbody>
</table>
# University of Alabama Huntsville Foundation

## Discretely Presented Component Unit

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

**Years Ended September 30, 2018 and 2017**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue, gains, and other support:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contributions</td>
<td>$2,147,848</td>
<td>$6,661,970</td>
</tr>
<tr>
<td>Rent income</td>
<td>33,570</td>
<td>33,570</td>
</tr>
<tr>
<td>Investment income</td>
<td>1,820,496</td>
<td>1,994,066</td>
</tr>
<tr>
<td>Realized gain on sale of investments</td>
<td>313,501</td>
<td>158,578</td>
</tr>
<tr>
<td>Unrealized gain of investments</td>
<td>880,710</td>
<td>2,047,130</td>
</tr>
<tr>
<td>Equity in earnings of trust</td>
<td>496,340</td>
<td>833,659</td>
</tr>
<tr>
<td>Other income</td>
<td>24,197</td>
<td>11,598</td>
</tr>
<tr>
<td>Change in value of split-interest agreement</td>
<td>-</td>
<td>8,205</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td><strong>5,716,662</strong></td>
<td><strong>11,748,766</strong></td>
</tr>
<tr>
<td><strong>Expenses:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Realized loss on investments</td>
<td>13,249</td>
<td>-</td>
</tr>
<tr>
<td>Contributions to UAH</td>
<td>1,749,740</td>
<td>1,505,321</td>
</tr>
<tr>
<td>Scholarships to UAH</td>
<td>1,296,099</td>
<td>1,588,530</td>
</tr>
<tr>
<td>Professional services</td>
<td>78,995</td>
<td>65,750</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>166,350</td>
<td>190,300</td>
</tr>
<tr>
<td>Other expenses</td>
<td>47,675</td>
<td>97,227</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>3,352,108</strong></td>
<td><strong>3,447,128</strong></td>
</tr>
<tr>
<td>Change in net assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net Assets, Beginning of Year</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Assets, Beginning of Year</td>
<td>60,703,325</td>
<td>52,401,687</td>
</tr>
<tr>
<td><strong>Net Assets, End of Year</strong></td>
<td>$63,067,879</td>
<td>$60,703,325</td>
</tr>
</tbody>
</table>

See Note 2
Note 1 – Organization and Summary of Significant Accounting Policies

Financial Reporting Entity - The University of Alabama in Huntsville (the “University”) is one of three campuses of The University of Alabama System (the “System”), a discretely presented component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business type activities 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 cash flows in accordance with accounting principles generally accepted in the United States of America. The 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 System is recognized as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code.

Scope of Statements - The University follows Governmental Accounting Standards Board (GASB) Statement No. 61, The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34 (“GASB 61”). This Statement provides additional guidance in determining whether certain organizations affiliated with the University should be considered component units of the University for financial reporting purposes. The Statement also provides guidance on determining whether component units should be presented in the University’s financial statements as “blended” or “discrete” components based on their relationship and organizational structure.

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the University, as well as its discretely presented component unit, the University of Alabama Huntsville Foundation (“UAHF”).

UAHF is a legally separate, tax-exempt component unit of the University. UAHF is organized exclusively for charitable, scientific, and educational purposes in order to benefit the University. UAHF is governed by a 37-member board of trustees. Although the University does not control the timing or amount of receipts from UAHF, the majority of resources or income that UAHF holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by UAHF can only be used by, or for the benefit of, the University, UAHF is considered a component unit of the University. UAHF is reported in separate financial statements because it does not meet the criteria to be blended with the University as described in GASB 61.

UAHF is a not-for-profit organization that reports its financial results under the Financial Accounting Standards Board (“FASB”) Statements. Most significant to UAHF’s operations and reporting model is Accounting Standards Codification (ASC) 958, Not-for-Profit Entities. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

No modifications have been made to UAHF’s financial information in the University’s financial reporting entity for these differences; however, significant note disclosures (see Note 2) to UAHF’s financial statements have been incorporated into the University’s notes to the financial statements. During fiscal years 2018 and 2017, UAHF distributed $3,045,839 and $3,093,851, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF are available by phoning (256) 824-6350.

The University is also affiliated with the Eminent Scholars Foundation, Alabama Engineering Foundation and UAH Alumni Association. These entities do not meet the definition of component units under GASB guidance. Therefore, they have not been included within the University’s financial statements.

With Board approval on April 26, 2018, the University formed The University of Alabama in Huntsville Research and Technology Corporation (the “RTC”), an Alabama non-profit corporation. This entity does not meet the definition of a component unit under GASB guidance. Therefore, it is not included within the University’s financial statements.
**Basis of Accounting:** 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, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, an amendment of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Accordingly, the financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (“GASB”), using the economic measurement focus and the accrual basis of accounting.

**Net Position:** Net position is classified into the following four categories according to external donor restrictions or availability of assets for satisfaction of University obligations:

- **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 whose use 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 by the passage of time.

- **Unrestricted:** Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or The Board of Trustees of the University of Alabama.

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the University’s endowment, life income, and other long-term investments are included in the noncurrent investments category.

**Investments:** The University’s investment portfolio is primarily invested in three separate investment pools maintained by The University of Alabama. Fair value for the investment pools is determined by the System, based on the fair value of the underlying investment securities held by each investment pool. Fair value of the underlying securities held in each investment pool is based on quoted market prices or dealer quotes, where available, or determined using net asset values provided by underlying investment partnerships or companies, which primarily invest in readily marketable securities. Fair value for investments held directly by the University is determined from quoted market prices or market prices of similar instruments. Net investment income or loss, 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 three categories in the statement of net position. Investments recorded as endowment investments are those invested funds that cannot be used to fund current operations and thus are included in noncurrent assets. Investments for capital activities are included in noncurrent assets, except for amounts included in current assets to offset current construction-related payables. All other investments are included as operating investments.

**Accounts Receivable:** Accounts receivable consist primarily of tuition and fees charged to students, and amounts due from the federal government, 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.

**Compensated Absences:** The University accrues annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and years worked.
**Capital Assets:** Capital assets are recorded at cost at the date of acquisition, or acquisition value at date of donation in the case of gifts, less accumulated depreciation. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. 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 was incurred. The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Implementation costs, which are capitalized, include consulting expenses and allocation of internal salaries and fringes for the core implementation team. Training costs are expensed as incurred. Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are capitalized and depreciated. Interest costs, net of any related investment earnings, for certain assets acquired with the proceeds of tax-exempt borrowings are capitalized as a component of the cost of acquiring those assets.

Depreciation of buildings and building improvements (5-40 years), land improvements and infrastructure (10 years), library collection (10 years), computer software (10 years) and inventoried equipment (5-8 years) is computed on a straight-line basis. The University computes depreciation for certain buildings and building improvements using a componentized method.

Collections are recognized as an asset on the accompanying statements of net position in accordance with GASB Statement No. 35. The University defines collections as works of art or similar assets that are held for public exhibition, education, or research in furtherance of public service rather than financial gain which are protected, kept unencumbered, cared for, and preserved. Collection items are recorded at cost as of the date of acquisition or at their appraised or acquisition value on the date of donation in the case of gifts. Gains or losses from the sale of collection items are reflected on the statement of revenues, expenses, and changes in net position as changes in the appropriate net position classes, depending on the existence and type of donor-imposed restrictions.

**Unearned Revenues:** Unearned revenues consist primarily of the portion of amounts received for fall semester student tuition and fees and housing fees that are not earned until the next fiscal year. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

**Revenues:** The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net position are those that generally result from transactions such as payments received for providing services, payments made for services or goods received, and from contracts and grants. Certain significant revenue streams relied upon to support operations are recorded as nonoperating revenues, as defined by GASB guidance, including state educational appropriations, private gifts for other than capital purposes, investment income, and Federal Pell Grants.

Auxiliary enterprise revenues are generated primarily by University Housing. Capital gifts are considered neither operating nor nonoperating activities, and are presented after nonoperating activities on the accompanying statement of revenues, expenses, and changes in net position.

**Contract and Grant Revenue:** The University receives contract and grant revenues from governmental and private sources. The University recognizes revenues associated with the sponsored programs in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on the terms of the individual contract or grant.

**Scholarship Allowances and Student Aid:** Scholarship allowances applied to student accounts are recorded as an offset to student tuition and fees and auxiliary revenue. Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

**Internal Sales Activities:** All internal sales activities to the University departments from sales and service units (motor pool, postal services, telecommunications, etc.) have been eliminated in the accompanying financial statements.

**Federal Refundable Loans:** Certain loans to students are administered by UAH with funding primarily supported by the federal government. UAH's statements of net position include both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.
**Endowment Spending:** For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Alabama, 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.

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. The previous spending rate was 5% of the moving three-year average of the market (unit) value.

**Implementation of New Standard:** During the year ended September 30, 2018, the University adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/ expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The implementation of GASB Statement No. 75 resulted in an adjustment to net position of $45.9 million as of October 1, 2017. This standard was not applied retroactively to the 2017 financial statements because the state OPEB plan did not provide the necessary information.

**Use of Estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
Note 2 – Discretely Presented Component Unit-UAH Foundation

Basis of Accounting- The financial statements of UAHF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (“FASB”).

Basis of Presentation- Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of UAHF and changes therein are classified and reported as follows:

- **Unrestricted**- Net assets that are not subject to donor-imposed stipulations.

- **Temporarily Restricted**- Net assets subject to donor-imposed stipulations that may or will be met either by actions of UAHF and/or the passage of time.

- **Permanently Restricted**- Net assets subject to donor-imposed stipulations to be maintained permanently by UAHF. Generally, the donors of these assets restrict UAHF to use all or a part of the income earned on the related investments for specific purposes. 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-imposed stipulations.

In accordance with ASC 958-320, Not-for-Profit Entities, investments in debt securities and investments in equity securities with readily determinable fair values are reported at their fair values based on published market prices. Other investments, including real estate, are stated at cost or fair value at date of donation in the case of gifts. Changes in fair values are reported as unrealized gains or losses in the statement of activities. All interest income and realized gains and losses are reported in the statement of activities.

Investments – The following are the cost and reported value of investments as of September 30, 2018 and 2017:

<table>
<thead>
<tr>
<th></th>
<th>Reported Value 2018</th>
<th>Cost 2018</th>
<th>Reported Value 2017</th>
<th>Cost 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Certificates of deposit</td>
<td>$530,465</td>
<td>$530,465</td>
<td>$523,613</td>
<td>$523,613</td>
</tr>
<tr>
<td>Pooled Endowment Fund</td>
<td>41,702,865</td>
<td>38,204,687</td>
<td>39,252,296</td>
<td>36,618,858</td>
</tr>
<tr>
<td>Marketable debt securities</td>
<td>1,916,312</td>
<td>1,950,676</td>
<td>2,499,704</td>
<td>2,488,721</td>
</tr>
<tr>
<td>Marketable equity securities</td>
<td>1,658,203</td>
<td>1,275,016</td>
<td>1,500,077</td>
<td>1,159,820</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>1,323,857</td>
<td>1,278,147</td>
<td>1,336,065</td>
<td>1,295,675</td>
</tr>
<tr>
<td>Total</td>
<td>$47,131,702</td>
<td>$43,238,991</td>
<td>$45,111,755</td>
<td>$42,086,687</td>
</tr>
</tbody>
</table>
UAHF invests certain amounts in a commingled investment pool ("Pooled Endowment Fund") sponsored by The University of Alabama System. The value recognized for the investment pool is determined by the System and is based on UAHF’s proportionate share of the net asset value of the investment pool. The System has no variance power over the funds. Instead, the funds are distributed by the System to the Foundation upon its request. The investment pool invests in various investment securities, including both marketable and non-marketable securities.

**Investment in Unconsolidated Entities and Trust Receivable** - UAHF is one of several beneficiaries of a trust established upon the death in 1974 of one of the University’s benefactors. The sole assets of the trust consist of ownership interests in two closely-held Huntsville, Alabama businesses named Big Springs, Inc. ("Big Springs") and Chambers Bottling Company, LLC ("Chambers"). The trust holds a 70% interest in the common stock of Big Springs and a 65% interest in Chambers.

The trust was established with both lead and remainder beneficiaries. The lead interest in the trust (that is, the rights to the income generated by the trust assets) is divided equally among three sets of beneficiaries who hold a lifetime interest in those rights. As each lead interest terminates, a proportionate amount of the underlying assets in the trust is distributed among two residual beneficiaries, UAHF and another unrelated charitable organization. UAHF’s share of the residual interest of the trust assets is 90%. UAHF accounts for its residual interest in the trust as an unconditional promise to give noncash assets, consistent with generally accepted accounting principles for situations where a donee has the eventual right to noncash assets held by a charitable trust but not the cash flows generated by them while they are held by the trust. UAHF recorded this interest at fair value as of the date it was awarded in 1974, and currently carries this interest in the Trust receivable line on UAHF’s accompanying statements of financial position.

Eventually, all of the assets in the trust will be distributed upon the termination of the remaining lead interests, and the trust will terminate. At such time, UAHF will hold controlling interests of 63% and 58.5% in Big Springs and Chambers, respectively, and will consolidate these entities. UAHF will account for these interests under the equity method until the last lead interest is terminated, including the period after the termination of the second lead interest.

This table summarizes the combined financial position and results of operations of Big Springs and Chambers (on a consolidated basis) for the years ended September 30, 2018 and 2017.

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>$18,982,084</td>
<td>$18,571,467</td>
</tr>
<tr>
<td>Noncurrent Assets</td>
<td>17,348,133</td>
<td>16,909,249</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>(6,611,448)</td>
<td>(4,171,093)</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>(3,673,809)</td>
<td>(4,693,977)</td>
</tr>
<tr>
<td>Equity</td>
<td>$26,044,960</td>
<td>$26,615,646</td>
</tr>
<tr>
<td>Net Sales</td>
<td>$52,123,197</td>
<td>$46,126,981</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$2,790,728</td>
<td>$3,470,540</td>
</tr>
<tr>
<td>Net Income</td>
<td>$2,641,715</td>
<td>$4,224,267</td>
</tr>
</tbody>
</table>

During 2008, one of the income interests terminated, and a pro-rata distribution of the ownership interests held by the trust was transferred to UAHF. As a result of the satisfaction of a pro-rata share of the pledge, UAHF recognized a gain of $4,375,835 representing the increase in fair value of the noncash assets between the date the assets were promised in 1974 and their values upon actual receipt in 2008. As a result of the receipt of these equity interests, UAHF currently holds approximately 21% and 19.5% of Big Springs and Chambers, respectively. These equity interests allow UAHF to exercise significant influence over Big Springs and Chambers, and accordingly, UAHF accounts for these interests using the equity method of accounting. During the years ended September 30, 2018 and 2017, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of $496,340 and $833,659, respectively. In addition, UAHF received distributions from Chambers of $626,418 and $611,345 in FY 2018 and FY 2017, respectively. Big Springs did not make any distributions in either FY 2018 or FY 2017.
Income Taxes - The Foundation is a nonprofit corporation that is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue code for activities related to its exempt purpose. Certain of the Foundation’s activities are considered by the Internal Revenue Service to provide unrelated business income and, accordingly, income from these activities is subject to federal income tax. The Foundation’s income tax expense totaled $166,350 and $190,300 for the years ended September 30, 2018 and 2017, respectively.

Endowments - The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the State Legislature and signed into law effective January 1, 2009. UPMIFA prescribes new guidelines for the expenditure of a donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. Its predecessor, UMIFA, focused on the prudent spending of the net appreciation of the fund. UPMIFA instead focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount and net appreciation. UPMIFA eliminates UMIFA’s historic-dollar-value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. UAHF follows guidance provided by the FASB relevant to endowments of not-for-profit organizations and the related net asset classification of endowment funds subject to an enacted version of UPMIFA and enhanced disclosures for all endowment funds. The earnings distributions are appropriated for expenditure by the governing Board of Trustees of UAHF 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, UAHF’s Board of Trustees 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.

Restricted Net Assets - Restricted net assets are classified as either temporarily restricted net assets and available for the following purposes, or permanently restricted net assets, which are restricted to investment in perpetuity, the income from which is expendable for the following purposes at September 30, 2018 and 2017:

<table>
<thead>
<tr>
<th></th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Student support</td>
<td>$5,288,488</td>
<td>$4,829,608</td>
</tr>
<tr>
<td>Faculty support</td>
<td>2,974,428</td>
<td>2,711,644</td>
</tr>
<tr>
<td>Academic support</td>
<td>3,683,793</td>
<td>3,369,767</td>
</tr>
<tr>
<td>Facilities renovation</td>
<td>4,150,564</td>
<td>4,183,736</td>
</tr>
<tr>
<td>Research</td>
<td>325,538</td>
<td>187,464</td>
</tr>
<tr>
<td>Library</td>
<td>73,513</td>
<td>70,065</td>
</tr>
<tr>
<td>Total</td>
<td>$16,496,324</td>
<td>$15,352,284</td>
</tr>
</tbody>
</table>
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.

As of September 30, 2018 and 2017, the University had cash and cash equivalents totaling $36,071,489 and $13,140,343 respectively. Included in the amounts are deposits with trustees held for reserves, which totaled $4,127,889 and $637,878 in fiscal years 2018 and 2017, respectively.

Note 4 – Investments

The University invests its endowment funds in accordance with applicable limitations set forth in gift instruments, Board guidelines, or applicable laws. Also certain bond indentures require the University to invest the amounts held in specific construction funds, redemption funds, and bond funds in federal securities, eligible certificates, or eligible investments.

The Board has the responsibility for the establishment of the investment policy and the oversight of the investments for the System and related entities. In order to facilitate System-wide investment objectives and achieve economies of scale, the Board has established three distinct investment pools based primarily on the projected investment time horizons for System funds. These investment pools are the Pooled Endowment Fund (PEF), the Long Term Reserve Pool (LTRP) and the Short Term Liquidity Pool (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 the fiscal year 2018, the University borrowed $15.5 million from the UA System Pools on a short-term basis. The amount was paid back before year end. The following disclosures relate to both the System Pools, which include the investments of other System campuses and other affiliated entities, and the University-specific investment portfolio.

Pooled Endowment Fund (PEF): 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 (LTRP): The LTRP is a longer-term fund 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 (STLP): 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 liquidity.
**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.
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:

<table>
<thead>
<tr>
<th>Cash &amp; Receivables:</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
</tr>
<tr>
<td>Compass</td>
<td>$135,910</td>
<td>-</td>
</tr>
<tr>
<td>Wind Trust</td>
<td>42,342</td>
<td>-</td>
</tr>
<tr>
<td>Durkee Trust</td>
<td>370,989</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>549,241</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>55,602,214</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eminent Scholar Fund</td>
<td>2,635,731</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>UAH Portion of System Pool Investments:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pooled Endowment Fund</td>
</tr>
<tr>
<td>Long Term Reserve Fund</td>
</tr>
<tr>
<td>Short Term Liquidity Fund</td>
</tr>
<tr>
<td>Eminent Scholar Fund</td>
</tr>
<tr>
<td>Total Net Asset Value with System Pool Investments</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash &amp; Receivables:</th>
<th>2017</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
</tr>
<tr>
<td>Compass</td>
<td>$135,724</td>
<td>-</td>
</tr>
<tr>
<td>Wind Trust</td>
<td>42,878</td>
<td>-</td>
</tr>
<tr>
<td>Durkee Trust</td>
<td>347,434</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>526,036</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>78,172,586</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eminent Scholar Fund</td>
<td>2,583,465</td>
<td></td>
</tr>
</tbody>
</table>
At September 30, 2018 and 2017, the fair value of investments for the System Pools based on the inputs used to value them is summarized as follows:

<table>
<thead>
<tr>
<th>Pooled Endowment Fund</th>
<th>2018</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>NAV</th>
<th>Total Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Income Receivables</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$ 941,965</td>
</tr>
<tr>
<td>Total Receivables</td>
<td>941,965</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Cash Equivalents:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>48,621,460</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>48,621,460</td>
</tr>
<tr>
<td>Total Cash Equivalents</td>
<td>48,621,460</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>48,621,460</td>
</tr>
<tr>
<td>Equities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Common Stock</td>
<td>134,722,061</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>134,722,061</td>
</tr>
<tr>
<td>U.S. Preferred Stock</td>
<td>271,458</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>271,458</td>
</tr>
<tr>
<td>Foreign Stock</td>
<td>38,697,223</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>38,697,223</td>
</tr>
<tr>
<td>Total Equities</td>
<td>173,690,742</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>173,690,742</td>
</tr>
<tr>
<td>Fixed Income Securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Obligations</td>
<td></td>
<td>8,197,916</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>8,197,916</td>
</tr>
<tr>
<td>Mortgage Backed Securities</td>
<td></td>
<td>14,232,582</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14,232,582</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>28,446,907</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>28,446,907</td>
</tr>
<tr>
<td>Non-U.S. Bonds</td>
<td>3,257,623</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,257,623</td>
</tr>
<tr>
<td>Total Fixed Income Securities</td>
<td></td>
<td>54,135,028</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>54,135,028</td>
</tr>
<tr>
<td>Commingled Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Equity Funds</td>
<td>227,695,748</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>227,695,748</td>
</tr>
<tr>
<td>U.S. Bond Funds</td>
<td>56,400,000</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>56,400,000</td>
</tr>
<tr>
<td>Non-U.S. Bond Funds</td>
<td>27,184,600</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>27,184,600</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>526,940,220</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>526,940,220</td>
</tr>
<tr>
<td>Private Equity Funds</td>
<td>165,640,386</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>165,640,386</td>
</tr>
<tr>
<td>Real Estate Funds</td>
<td>203,754,855</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>203,754,855</td>
</tr>
<tr>
<td>Total Commingled Funds</td>
<td>1,207,615,809</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Total Fund Investments</td>
<td>222,312,202</td>
<td>365,415,376</td>
<td>-</td>
<td>-</td>
<td>896,335,461</td>
<td>1,484,063,039</td>
</tr>
<tr>
<td>Total Fund Assets</td>
<td>222,312,202</td>
<td>365,415,376</td>
<td>-</td>
<td>-</td>
<td>896,335,461</td>
<td>1,485,005,004</td>
</tr>
<tr>
<td>Total Fund Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(281,027)</td>
</tr>
<tr>
<td>Affiliated Entity Investments in Funds</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(238,893,599)</td>
</tr>
<tr>
<td>Total Net Asset Value</td>
<td>$222,312,202</td>
<td>$365,415,376</td>
<td>$</td>
<td>-</td>
<td>$896,335,461</td>
<td>$1,245,830,378</td>
</tr>
<tr>
<td></td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>NAV</td>
<td>Total Fair Value</td>
<td></td>
</tr>
<tr>
<td>----------------------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
<td>-----------------</td>
<td></td>
</tr>
<tr>
<td><strong>Pooled Endowment Fund</strong></td>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Receivables:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Income Receivables</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 737,344</td>
<td></td>
</tr>
<tr>
<td>Total Receivables</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>737,344</td>
<td></td>
</tr>
<tr>
<td><strong>Cash Equivalents:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>79,594,084</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>79,594,084</td>
<td></td>
</tr>
<tr>
<td>Total Cash Equivalents</td>
<td>79,594,084</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>79,594,084</td>
<td></td>
</tr>
<tr>
<td><strong>Equities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Common Stock</td>
<td>94,939,223</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>94,939,223</td>
<td></td>
</tr>
<tr>
<td>Foreign Stock</td>
<td>34,902,583</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>34,902,583</td>
<td></td>
</tr>
<tr>
<td>Total Equities</td>
<td>129,841,806</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>129,841,806</td>
<td></td>
</tr>
<tr>
<td><strong>Fixed Income Securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Obligations</td>
<td>-</td>
<td>8,498,567</td>
<td>-</td>
<td>-</td>
<td>8,498,567</td>
<td></td>
</tr>
<tr>
<td>Mortgage Backed Securities</td>
<td>-</td>
<td>6,136,259</td>
<td>-</td>
<td>-</td>
<td>6,136,259</td>
<td></td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>-</td>
<td>21,041,058</td>
<td>-</td>
<td>-</td>
<td>21,041,058</td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Bonds</td>
<td>-</td>
<td>3,038,650</td>
<td>-</td>
<td>-</td>
<td>3,038,650</td>
<td></td>
</tr>
<tr>
<td>Total Fixed Income Securities</td>
<td>-</td>
<td>38,714,534</td>
<td>-</td>
<td>-</td>
<td>38,714,534</td>
<td></td>
</tr>
<tr>
<td><strong>Commingled Funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Equity Funds</td>
<td>-</td>
<td>224,559,339</td>
<td>-</td>
<td>-</td>
<td>224,559,339</td>
<td></td>
</tr>
<tr>
<td>U.S. Bond Funds</td>
<td>-</td>
<td>58,363,636</td>
<td>-</td>
<td>-</td>
<td>58,363,636</td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Bond Funds</td>
<td>-</td>
<td>29,063,500</td>
<td>-</td>
<td>-</td>
<td>29,063,500</td>
<td></td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>506,943,088</td>
<td>506,943,088</td>
<td></td>
</tr>
<tr>
<td>Private Equity Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>123,786,463</td>
<td>123,786,463</td>
<td></td>
</tr>
<tr>
<td>Real Estate Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>203,564,413</td>
<td>203,564,413</td>
<td></td>
</tr>
<tr>
<td>Total Commingled Funds</td>
<td>-</td>
<td>311,986,475</td>
<td>-</td>
<td>-</td>
<td>834,293,964</td>
<td></td>
</tr>
<tr>
<td><strong>Total Fund Investments</strong></td>
<td>209,435,890</td>
<td>350,701,009</td>
<td>-</td>
<td>-</td>
<td>1,394,430,863</td>
<td></td>
</tr>
<tr>
<td><strong>Total Fund Assets</strong></td>
<td>209,435,890</td>
<td>350,701,009</td>
<td>-</td>
<td>-</td>
<td>1,395,168,207</td>
<td></td>
</tr>
<tr>
<td><strong>Total Fund Liabilities</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(223,940)</td>
<td></td>
</tr>
<tr>
<td><strong>Affiliated Entity Investments in Funds</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(222,871,294)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Net Asset Value</strong></td>
<td>$ 209,435,890</td>
<td>$ 350,701,009</td>
<td>$ -</td>
<td>$ 834,293,964</td>
<td>$ 1,172,072,973</td>
<td></td>
</tr>
</tbody>
</table>
## Long Term Reserve Pool Fund

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>NAV</th>
<th>Total Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receivables:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Income Receivables</td>
<td>$</td>
<td>-</td>
<td>$</td>
<td>$</td>
<td>$ 1,525,275</td>
</tr>
<tr>
<td>Total Receivables</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1,525,275</td>
</tr>
<tr>
<td><strong>Cash Equivalents:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>100,476,683</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100,476,683</td>
</tr>
<tr>
<td>Total Cash Equivalents</td>
<td>100,476,683</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100,476,683</td>
</tr>
<tr>
<td><strong>Equities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Common Stock</td>
<td>242,196,226</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>242,196,226</td>
</tr>
<tr>
<td>U.S. Preferred Stock</td>
<td>407,187</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>407,187</td>
</tr>
<tr>
<td>Foreign Stock</td>
<td>55,465,295</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>55,465,295</td>
</tr>
<tr>
<td>Total Equities</td>
<td>298,068,708</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>298,068,708</td>
</tr>
<tr>
<td><strong>Fixed Income Securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Obligations</td>
<td>-</td>
<td>12,738,159</td>
<td>-</td>
<td>-</td>
<td>12,738,159</td>
</tr>
<tr>
<td>Mortgage Backed Securities</td>
<td>-</td>
<td>21,717,846</td>
<td>-</td>
<td>-</td>
<td>21,717,846</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>-</td>
<td>42,659,327</td>
<td>-</td>
<td>-</td>
<td>42,659,327</td>
</tr>
<tr>
<td>Non-U.S. Bonds</td>
<td>-</td>
<td>5,164,476</td>
<td>-</td>
<td>-</td>
<td>5,164,476</td>
</tr>
<tr>
<td>Total Fixed Income Securities</td>
<td>-</td>
<td>82,279,808</td>
<td>-</td>
<td>-</td>
<td>82,279,808</td>
</tr>
<tr>
<td><strong>Commingled Funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Equity Funds</td>
<td>-</td>
<td>404,044,223</td>
<td>-</td>
<td>-</td>
<td>404,044,223</td>
</tr>
<tr>
<td>U.S. Equity Funds</td>
<td>-</td>
<td>67,935,522</td>
<td>-</td>
<td>-</td>
<td>67,935,522</td>
</tr>
<tr>
<td>Non-U.S. Bond Funds</td>
<td>-</td>
<td>44,052,238</td>
<td>-</td>
<td>-</td>
<td>44,052,238</td>
</tr>
<tr>
<td>U.S. Bond Funds</td>
<td>-</td>
<td>79,990,055</td>
<td>-</td>
<td>-</td>
<td>79,990,055</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>766,700,890</td>
<td>766,700,890</td>
</tr>
<tr>
<td>Real Estate Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>52,963,510</td>
<td>52,963,510</td>
</tr>
<tr>
<td>Total Commingled Funds</td>
<td>-</td>
<td>596,022,038</td>
<td>-</td>
<td>-</td>
<td>819,664,400</td>
</tr>
<tr>
<td><strong>Total Fund Investments</strong></td>
<td>398,545,391</td>
<td>678,301,846</td>
<td>-</td>
<td>819,664,400</td>
<td>1,896,511,637</td>
</tr>
<tr>
<td><strong>Total Fund Assets</strong></td>
<td>398,545,391</td>
<td>678,301,846</td>
<td>-</td>
<td>819,664,400</td>
<td>1,898,036,912</td>
</tr>
<tr>
<td><strong>Total Fund Liabilities</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(460,596)</td>
</tr>
<tr>
<td><strong>Affiliated Entity Investments in Funds</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(134,087,788)</td>
</tr>
<tr>
<td><strong>Total Net Asset Value</strong></td>
<td>$398,545,391</td>
<td>$678,301,846</td>
<td>$</td>
<td>$819,664,400</td>
<td>$1,763,488,528</td>
</tr>
<tr>
<td>Long Term Reserve Pool Fund</td>
<td>2017</td>
<td>Level 1</td>
<td>Level 2</td>
<td>Level 3</td>
<td>NAV</td>
</tr>
<tr>
<td>----------------------------</td>
<td>------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>-----</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Income Receivables</td>
<td>$</td>
<td>-</td>
<td>$</td>
<td>-</td>
<td>$</td>
</tr>
<tr>
<td>Total Receivables</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash Equivalents:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>58,259,515</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Cash Equivalents</td>
<td>58,259,515</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Equities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Common Stock</td>
<td>176,807,415</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Foreign Stock</td>
<td>50,575,577</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Equities</td>
<td>227,382,992</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fixed Income Securities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Obligations</td>
<td>-</td>
<td>14,142,677</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mortgage Backed Securities</td>
<td>-</td>
<td>11,840,312</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>-</td>
<td>35,515,741</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-U.S. Bonds</td>
<td>-</td>
<td>5,479,805</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Fixed Income Securities</td>
<td>-</td>
<td>66,978,535</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Commingled Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-U.S. Equity Funds</td>
<td>-</td>
<td>425,447,446</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>U.S. Bond Funds</td>
<td>-</td>
<td>67,342,316</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Non-U.S. Bond Funds</td>
<td>-</td>
<td>47,096,969</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>754,979,975</td>
<td>-</td>
</tr>
<tr>
<td>Real Estate Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>112,894,275</td>
<td>-</td>
</tr>
<tr>
<td>Total Commingled Funds</td>
<td>-</td>
<td>539,866,731</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Fund Investments</td>
<td>285,642,507</td>
<td>606,865,266</td>
<td>-</td>
<td>867,874,250</td>
<td>1,760,382,023</td>
</tr>
<tr>
<td>Total Fund Assets</td>
<td>285,642,507</td>
<td>606,865,266</td>
<td>-</td>
<td>867,874,250</td>
<td>1,762,753,909</td>
</tr>
<tr>
<td>Total Fund Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Affiliated Entity Investments in Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Total Net Asset Value</td>
<td>$285,642,507</td>
<td>$606,865,266</td>
<td>$</td>
<td>$867,874,250</td>
<td>$1,642,843,063</td>
</tr>
</tbody>
</table>
## Short Term Liquidity Pool Fund

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>NAV</th>
<th>Total Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receivables:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Income Receivables</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$ 3,378,475</td>
</tr>
<tr>
<td><strong>Total Receivables</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3,378,475</td>
</tr>
</tbody>
</table>

|                         |         |         |         |     |                  |
| **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

<table>
<thead>
<tr>
<th></th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>NAV</th>
<th>Total Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Receivables:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued Income Receivables</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$3,222,354</td>
</tr>
<tr>
<td>Total Receivables</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td>3,222,354</td>
</tr>
<tr>
<td><strong>Cash Equivalents:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Market Funds</td>
<td>100,227,735</td>
<td>-</td>
<td></td>
<td></td>
<td>100,227,735</td>
</tr>
<tr>
<td>Total Cash Equivalents</td>
<td>100,227,735</td>
<td>-</td>
<td></td>
<td></td>
<td>100,227,735</td>
</tr>
<tr>
<td><strong>Fixed Income Securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government Obligations</td>
<td>-</td>
<td>244,194,221</td>
<td>-</td>
<td>-</td>
<td>244,194,221</td>
</tr>
<tr>
<td>Mortgage Backed Securities</td>
<td>-</td>
<td>149,207,687</td>
<td>-</td>
<td>-</td>
<td>149,207,687</td>
</tr>
<tr>
<td>Collateralized Mortgage Obligations</td>
<td>-</td>
<td>11,990,320</td>
<td>-</td>
<td>-</td>
<td>11,990,320</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>-</td>
<td>165,646,257</td>
<td>-</td>
<td>-</td>
<td>165,646,257</td>
</tr>
<tr>
<td>Non-U.S. Bonds</td>
<td>-</td>
<td>61,129,470</td>
<td>-</td>
<td>-</td>
<td>61,129,470</td>
</tr>
<tr>
<td>Total Fixed Income Securities</td>
<td>-</td>
<td>632,167,955</td>
<td>-</td>
<td>-</td>
<td>632,167,955</td>
</tr>
<tr>
<td><strong>Commingled Funds:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Bond Funds</td>
<td>-</td>
<td>205,630,016</td>
<td>-</td>
<td>-</td>
<td>205,630,016</td>
</tr>
<tr>
<td>Total Commingled Funds</td>
<td>-</td>
<td>205,630,016</td>
<td>-</td>
<td>-</td>
<td>205,630,016</td>
</tr>
<tr>
<td><strong>Total Fund Investments</strong></td>
<td>100,227,735</td>
<td>837,797,971</td>
<td>-</td>
<td>-</td>
<td>938,025,706</td>
</tr>
<tr>
<td><strong>Total Fund Assets</strong></td>
<td>100,227,735</td>
<td>837,797,971</td>
<td>-</td>
<td>-</td>
<td>941,248,060</td>
</tr>
<tr>
<td>Total Fund Liabilities</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(243,098)</td>
</tr>
<tr>
<td>Affiliated Entity Investments in Funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(62,963,316)</td>
</tr>
<tr>
<td><strong>Total Net Asset Value</strong></td>
<td>$100,227,735</td>
<td>$837,797,971</td>
<td>$-</td>
<td>$-</td>
<td>$878,041,646</td>
</tr>
</tbody>
</table>
Additional information on fair values, unfunded commitments, remaining life, and redemption for investments measure at the NAV for the System Pools at September 30, 2018 is as follows:

### Pooled Endowment Fund

<table>
<thead>
<tr>
<th>Fair Value</th>
<th>Unfunded Commitments</th>
<th>Unfunded Commitments</th>
<th>Remaining Life</th>
<th>Redemption Notice</th>
<th>Redemption Period</th>
<th>Redemption Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedge funds - absolute return, credit, long/short equities</td>
<td>$ 526,940,220</td>
<td>$ -</td>
<td>No limit</td>
<td>Monthly, Quarterly, and Annually</td>
<td>Lock-up provisions ranging from none to 2 years</td>
<td></td>
</tr>
<tr>
<td>Private equity - private credit, buyouts, venture, secondary</td>
<td>165,640,386</td>
<td>130,997,015</td>
<td>1-10 years</td>
<td>Partnerships ineligible for redemption</td>
<td>Not redeemable</td>
<td></td>
</tr>
<tr>
<td>Real estate - public natural resources</td>
<td>54,975,744</td>
<td>-</td>
<td>No limit</td>
<td>Monthly</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Real estate - natural resources, real estate, infrastructure</td>
<td>148,779,111</td>
<td>49,461,242</td>
<td>1-15 years</td>
<td>Partnerships ineligible for redemption</td>
<td>Not redeemable</td>
<td></td>
</tr>
</tbody>
</table>

| Total | $ 896,335,461 | $ 180,458,257 |

### Long Term Reserve Pool

<table>
<thead>
<tr>
<th>Fair Value</th>
<th>Unfunded Commitments</th>
<th>Unfunded Commitments</th>
<th>Remaining Life</th>
<th>Redemption Notice</th>
<th>Redemption Period</th>
<th>Redemption Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hedge funds - absolute return, credit, long/short equities</td>
<td>$ 766,700,890</td>
<td>$ -</td>
<td>No limit</td>
<td>Monthly, Quarterly, and Annually</td>
<td>Lock-up provisions ranging from none to 2 years</td>
<td></td>
</tr>
<tr>
<td>Real estate - public natural resources</td>
<td>52,954,569</td>
<td>-</td>
<td>No limit</td>
<td>Monthly</td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Real estate - private real estate</td>
<td>8,941</td>
<td>-</td>
<td>1-10 years</td>
<td>Partnerships ineligible for redemption</td>
<td>Not redeemable</td>
<td></td>
</tr>
</tbody>
</table>

| Total | $ 819,664,400 | $ - |
**Investment Risk Factors:** There are many factors that 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 JPM Non-U.S. GBI Index for international investment 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 $35,248,000 and $18,000,000 in the PEF and LTRP 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 $356,725,000 and $339,700,000 in the PEF and LTRP 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. At September 30, 2018 and 2017, respectively, approximately $105,563,100 and $79,400,000 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 $261,189,000 and $305,900,000 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 are as follows:
Custodial Credit Risk: Custodial credit risk is the risk that in the event of a corporate failure of a custodian, the System’s investment securities may not be returned. Investment securities in the System Pools are registered in the Board’s name by the custodial bank as an agent for the System. Other types of investments (i.e. 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 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, there was no investment in a single issuer that represents 5% or more of total investments held by any single investment manager of the System Pools, 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 point (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.

The effective durations for fixed or variable income securities held by the System Pools at September 30, 2018 and 2017 are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government Obligations</td>
<td>8,197,916</td>
<td>8,498,567</td>
<td>12,738,159</td>
<td>14,142,677</td>
<td>179,884,745</td>
<td>244,194,221</td>
</tr>
<tr>
<td>Other U.S. and Non-U.S. Denominated:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AAA</td>
<td>779,600</td>
<td>-</td>
<td>968,280</td>
<td>-</td>
<td>70,741,960</td>
<td>57,770,342</td>
</tr>
<tr>
<td>AA</td>
<td>3,796,225</td>
<td>2,827,897</td>
<td>5,708,359</td>
<td>4,895,316</td>
<td>30,793,835</td>
<td>45,669,400</td>
</tr>
<tr>
<td>A</td>
<td>9,462,969</td>
<td>8,297,086</td>
<td>14,112,658</td>
<td>14,267,929</td>
<td>87,893,696</td>
<td>98,995,277</td>
</tr>
<tr>
<td>BBB</td>
<td>13,268,623</td>
<td>9,469,093</td>
<td>20,151,133</td>
<td>15,722,458</td>
<td>82,640,685</td>
<td>94,842,218</td>
</tr>
<tr>
<td>BB</td>
<td>4,245,245</td>
<td>2,472,128</td>
<td>6,381,065</td>
<td>4,358,741</td>
<td>6,436,205</td>
<td>3,200,172</td>
</tr>
<tr>
<td>B</td>
<td>548,625</td>
<td>1,013,505</td>
<td>807,975</td>
<td>1,751,103</td>
<td>1,955,776</td>
<td>5,216,578</td>
</tr>
<tr>
<td>C and &lt; C</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>641,329</td>
<td>2,868,608</td>
</tr>
<tr>
<td>Total</td>
<td>$186,341,088</td>
<td>$205,735,755</td>
<td>$306,798,764</td>
<td>$239,677,336</td>
<td>$827,840,305</td>
<td>$938,025,705</td>
</tr>
</tbody>
</table>
The information presented does not take into account the relative weighting of the portfolio components to the total portfolio.

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. As of September 30, 2018 and 2017, the fair market value of these investments held by the System Pools are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Backed Securities</td>
<td>$14,232,582</td>
<td>$6,136,259</td>
<td>$21,717,846</td>
<td>$11,840,312</td>
<td>$175,661,110</td>
<td>$149,207,687</td>
</tr>
<tr>
<td>Collateralized Mortgage Obligations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>14,788,045</td>
<td>11,990,320</td>
</tr>
<tr>
<td>Total Fixed</td>
<td>$14,232,582</td>
<td>$6,136,259</td>
<td>$21,717,846</td>
<td>$11,840,312</td>
<td>$190,449,155</td>
<td>$161,198,007</td>
</tr>
</tbody>
</table>

**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 assets reduce the total expected rate of return. 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.

**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.

As of September 30, 2018 and 2017, the effective durations for these securities are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage Backed Securities</td>
<td>5.3</td>
<td>3.5</td>
<td>5.3</td>
<td>3.3</td>
<td>1.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Collateralized Mortgage Obligations</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2.6</td>
<td>2.2</td>
</tr>
</tbody>
</table>
Foreign Currency Risk: The strategic asset allocation policy for the PEF and the LTRP includes an allocation to non-United States equity securities 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 as 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, there were no securities on loan from the investment pools.

Note 5 – Receivables

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

The composition of accounts receivable as of September 30, 2018 and 2017 is summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition and fees (net of allowance for doubtful accounts of $1,346,010 in 2018 and $1,313,180 in 2017)</td>
<td>$ 9,143,477</td>
<td>$ 7,488,262</td>
</tr>
<tr>
<td>Auxiliary enterprises and other operating activities</td>
<td>355,150</td>
<td>80,858</td>
</tr>
<tr>
<td>Federal, state, and private grants and contracts (net of allowance for doubtful accounts of $352,928 in 2018 and $344,460 in 2017)</td>
<td>19,704,670</td>
<td>16,937,264</td>
</tr>
<tr>
<td>Other</td>
<td>1,200,530</td>
<td>1,144,819</td>
</tr>
<tr>
<td>Net accounts receivable</td>
<td>$ 30,403,827</td>
<td>$ 25,651,203</td>
</tr>
</tbody>
</table>
Note 6 – Capital Assets

Capital assets activity for the years ended September 30, 2018 and 2017 is summarized as follows:

<table>
<thead>
<tr>
<th>October 1, 2017</th>
<th>October 1, 2016</th>
<th>Additions</th>
<th>Retirements</th>
<th>Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>14,050,899</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Land improvements and infrastructure</td>
<td>20,422,764</td>
<td>1,270,556</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>18,779,116</td>
<td>30,141,621</td>
<td>-</td>
<td>(37,893,437)</td>
</tr>
<tr>
<td>Equipment</td>
<td>72,509,982</td>
<td>5,149,844</td>
<td>(2,794,764)</td>
<td>-</td>
</tr>
<tr>
<td>Library books</td>
<td>26,329,044</td>
<td>161,967</td>
<td>(18,952)</td>
<td>-</td>
</tr>
<tr>
<td>Computer software</td>
<td>3,006,245</td>
<td>232,573</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Collections</td>
<td>1,124,402</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total cost of capital assets</strong></td>
<td>523,330,747</td>
<td>40,873,077</td>
<td>(3,039,626)</td>
<td>-</td>
</tr>
</tbody>
</table>

| Less accumulated depreciation | 251,322,093 | 17,143,814 | (2,785,034) | -           | 265,680,873 |

| **Capital assets, net** | $272,008,654 | $23,729,263 | $(254,592) $ | -           | $295,483,325 |

<table>
<thead>
<tr>
<th>October 1, 2017</th>
<th>October 1, 2016</th>
<th>Additions</th>
<th>Retirements</th>
<th>Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>8,046,641</td>
<td>6,004,258</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Land improvements and infrastructure</td>
<td>20,056,620</td>
<td>366,144</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Buildings and building improvements</td>
<td>364,185,061</td>
<td>2,923,234</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>382,341</td>
<td>18,396,775</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Equipment</td>
<td>26,215,530</td>
<td>162,942</td>
<td>(49,428)</td>
<td>-</td>
</tr>
<tr>
<td>Library books</td>
<td>3,006,245</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Collections</td>
<td>1,124,402</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total cost of capital assets</strong></td>
<td>493,799,056</td>
<td>31,190,015</td>
<td>(1,658,324)</td>
<td>-</td>
</tr>
</tbody>
</table>

| Less accumulated depreciation | 236,799,500 | 16,043,553 | (1,520,960) | -           | 251,322,093 |

| **Capital assets, net** | $256,999,556 | $15,146,462 | $(137,364) $ | -           | $272,008,654 |
Note 7 – Long-term Debt

Long-term debt activity for the years ended September 30, 2018 and 2017 is summarized as follows:

<table>
<thead>
<tr>
<th>Type/Supported by</th>
<th>October 1, 2017</th>
<th>New Debt</th>
<th>Principal Repayment</th>
<th>September 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student housing revenue</td>
<td>$26,641,000</td>
<td>$</td>
<td>$650,000</td>
<td>$25,991,000</td>
</tr>
<tr>
<td>General fee revenue</td>
<td>66,714,000</td>
<td>32,515,000</td>
<td>3,291,000</td>
<td>95,938,000</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>1,155,238</td>
<td>616,303</td>
<td>1,349,387</td>
<td>422,154</td>
</tr>
<tr>
<td>Total debt</td>
<td>94,510,238</td>
<td>33,131,303</td>
<td>5,290,387</td>
<td>122,351,154</td>
</tr>
</tbody>
</table>

Less current portion (5,096,238) (4,722,149)

Premium, net 806,396 5,516,435

Total long-term debt $90,220,396 $123,145,440

<table>
<thead>
<tr>
<th>Type/Supported by</th>
<th>October 1, 2016</th>
<th>New Debt</th>
<th>Principal Repayment</th>
<th>September 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student housing revenue</td>
<td>$27,261,000</td>
<td>$</td>
<td>$620,000</td>
<td>$26,641,000</td>
</tr>
<tr>
<td>General fee revenue</td>
<td>69,933,000</td>
<td>-</td>
<td>3,219,000</td>
<td>66,714,000</td>
</tr>
<tr>
<td>Lease obligations</td>
<td>2,310,476</td>
<td>-</td>
<td>1,155,238</td>
<td>1,155,238</td>
</tr>
<tr>
<td>Total debt</td>
<td>99,504,476</td>
<td>-</td>
<td>4,994,238</td>
<td>94,510,238</td>
</tr>
</tbody>
</table>

Less current portion (4,994,238) (5,096,238)

Premium, net 848,025 806,396

Total long-term debt $95,358,263 $90,220,396

Maturities and interest on long-term debt for the next five years and subsequent five-year periods ended September 30 are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Principal</th>
<th>Interest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>$4,722,149</td>
<td>$4,902,250</td>
<td>$9,624,399</td>
</tr>
<tr>
<td>2020</td>
<td>4,873,149</td>
<td>4,774,636</td>
<td>9,647,785</td>
</tr>
<tr>
<td>2021</td>
<td>4,838,856</td>
<td>4,634,239</td>
<td>9,473,095</td>
</tr>
<tr>
<td>2022</td>
<td>4,872,000</td>
<td>4,480,946</td>
<td>9,352,946</td>
</tr>
<tr>
<td>2023</td>
<td>5,035,000</td>
<td>4,322,400</td>
<td>9,357,400</td>
</tr>
<tr>
<td>2024-2028</td>
<td>26,425,000</td>
<td>18,555,171</td>
<td>44,980,171</td>
</tr>
<tr>
<td>2029-2033</td>
<td>20,695,000</td>
<td>13,751,897</td>
<td>34,446,897</td>
</tr>
<tr>
<td>2034-2038</td>
<td>19,585,000</td>
<td>9,558,990</td>
<td>29,143,990</td>
</tr>
<tr>
<td>2039-2043</td>
<td>22,150,000</td>
<td>4,968,020</td>
<td>27,118,020</td>
</tr>
<tr>
<td>2044-2048</td>
<td>9,155,000</td>
<td>1,418,250</td>
<td>10,573,250</td>
</tr>
</tbody>
</table>

$122,351,154 $71,366,799 $193,717,953
The following is a detailed schedule of long-term debt:

### Description and Purpose

<table>
<thead>
<tr>
<th>Description and Purpose</th>
<th>Date Issued</th>
<th>Final Maturity</th>
<th>Interest Rate - %</th>
<th>Original Indebtedness September 30, 2018</th>
<th>Outstanding Indebtedness September 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bonds Payable:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dormitory Revenue Bonds of 1980</td>
<td>5/1/1980</td>
<td>5/1/2020</td>
<td>3.00</td>
<td>$ 2,180,000</td>
<td>$ 185,000</td>
</tr>
<tr>
<td>Dormitory Revenue Bonds of 1981</td>
<td>7/23/1982</td>
<td>5/1/2021</td>
<td>3.00</td>
<td>$ 2,602,000</td>
<td>$ 291,000</td>
</tr>
<tr>
<td>Revenue Bonds-Series 2009A</td>
<td>8/4/2009</td>
<td>7/1/2029</td>
<td>3.00-4.50</td>
<td>8,115,000</td>
<td>5,205,000</td>
</tr>
<tr>
<td>Student Housing Revenue Bonds-Series 2010-A</td>
<td>7/14/2010</td>
<td>6/1/2042</td>
<td>2.85-6.125</td>
<td>27,990,000</td>
<td>25,515,000</td>
</tr>
<tr>
<td>General Fee Revenue Bonds-Series 2012-A</td>
<td>4/3/2012</td>
<td>10/1/2031</td>
<td>0.73-4.28</td>
<td>11,170,000</td>
<td>8,135,000</td>
</tr>
<tr>
<td>General Fee Revenue Bonds-Series 2012-B</td>
<td>9/5/2012</td>
<td>12/1/2026</td>
<td>0.74-3.84</td>
<td>13,700,000</td>
<td>9,170,000</td>
</tr>
<tr>
<td>General Fee Revenue Bonds-Series 2013-A-2</td>
<td>4/4/2013</td>
<td>4/1/2043</td>
<td>4.00</td>
<td>24,455,000</td>
<td>24,455,000</td>
</tr>
<tr>
<td>General Fee Revenue Bonds-Series 2014-A</td>
<td>12/15/2014</td>
<td>9/1/2034</td>
<td>3.00-5.00</td>
<td>11,860,000</td>
<td>8,810,000</td>
</tr>
<tr>
<td>General Fee Revenue Bonds-Series 2015-A</td>
<td>3/25/2015</td>
<td>6/1/2025</td>
<td>1.96</td>
<td>5,175,000</td>
<td>3,728,000</td>
</tr>
<tr>
<td>General Fee Revenue Bonds-Series 2018-A-1</td>
<td>3/22/2018</td>
<td>9/1/2027</td>
<td>5.00</td>
<td>5,400,000</td>
<td>5,400,000</td>
</tr>
<tr>
<td>General Fee Revenue Bonds-Series 2018-A-2</td>
<td>3/22/2018</td>
<td>9/1/2048</td>
<td>5.00</td>
<td>27,115,000</td>
<td>27,115,000</td>
</tr>
<tr>
<td><strong>Total Bonds Payable</strong></td>
<td></td>
<td></td>
<td></td>
<td>147,312,000</td>
<td>121,929,000</td>
</tr>
<tr>
<td><strong>Lease Obligation:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brocade Communications</td>
<td>10/1/2015</td>
<td>1/15/2018</td>
<td></td>
<td>3,465,714</td>
<td>-</td>
</tr>
<tr>
<td>Key Government Finance Inc</td>
<td>6/1/2018</td>
<td>6/1/2021</td>
<td></td>
<td>616,303</td>
<td>422,154</td>
</tr>
<tr>
<td><strong>Total Lease Obligation</strong></td>
<td></td>
<td></td>
<td></td>
<td>4,082,017</td>
<td>422,154</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td></td>
<td></td>
<td></td>
<td>$ 151,394,017</td>
<td>$ 122,351,154</td>
</tr>
</tbody>
</table>

The University’s general fee bonds and student housing bonds are subject to certain covenants. These covenants, among other things, require the University 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 that reflect the financial condition of the University, the project, other pledged facilities, and other pledged assets; and to comply with certain restrictions as to additional indebtedness. The University is in compliance with all restrictive financial covenants as of September 30, 2018.

During the year, the University issued General Fee Revenue Bonds Series 2018-A1 and 2018-A2 for the purpose of constructing and equipping the Charger Village II Residence Hall. The Series 2018-A1 was privately issued in March 2018 directly to a bank for $5,400,000. This bond principal matures each year from 2018 until 2027 and carries an interest rate of 5.00%. The Series 2018-A2 bonds were also issued in March 2018 in the form of $27,115,000 serial bonds with the principal maturing each year from 2028 through 2048. The Series 2018-A2 bonds carries an interest rate of 5.00%.

In October 2018, the University issued General Fee Revenue Bonds Series 2018-B1 and 2018-B2 for the purpose of constructing and equipping the Morton Hall expansion and other related campus infrastructure, improvements and additions. The Series 2018-B1 bond was privately issued in October 2018 directly to a bank for $5,290,000. This bond principal matures each year from 2018 until 2028 and carries an interest rate of 5.00%. The Series 2018-B2 bonds were also issued in October 2018 in the form of $14,555,000 serial bonds with principal maturing each year from 2029 through 2043 and $7,755,000 term bond maturing in 2048. Each from of the Series 2018-B2 bonds carries an interest rate of 5.00%.
Note 8 – Self-Insurance

The University participates with other campuses in the System in a self-insurance program for general liability risks. 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 consolidated trust fund, at an actuarially determined rate, to provide funding for the retained risk. The accompanying statements of net position include a reserve of $408,904 and $300,394 for general liability for fiscal years 2018 and 2017, respectively.

The University also maintains a self-insured health plan. During 2018, the University paid $24.75 and $10.53 per month per health insurance contract for administrative charges and stop loss coverage, respectively. The accompanying statements of net position include a self-insurance reserve of $1,771,711 and $1,644,620 for health insurance for 2018 and 2017, respectively. Annual contributions are made to the health plan, utilizing an actuarially determined rate, to provide funding for the reserve. The changes in the total reported self-insurance liabilities are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance, beginning of year</td>
<td>$1,945,014</td>
<td>$1,763,132</td>
</tr>
<tr>
<td>Claims paid</td>
<td>(13,468,958)</td>
<td>(13,156,960)</td>
</tr>
<tr>
<td>Contributions and adjustments</td>
<td>13,616,468</td>
<td>13,338,842</td>
</tr>
<tr>
<td>Balance, end of year</td>
<td>$2,092,524</td>
<td>$1,945,014</td>
</tr>
</tbody>
</table>

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 Teacher’s 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.

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 the 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 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 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 7.5% 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.

The University’s contractually required 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 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 following is a comparative presentation of contributions:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>University contributions</td>
<td>$12,184,536</td>
<td>$11,711,569</td>
</tr>
<tr>
<td>Employee contributions</td>
<td>7,238,969</td>
<td>7,137,398</td>
</tr>
<tr>
<td>Total contributions</td>
<td>$19,423,505</td>
<td>$18,848,967</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>University contribution regular rate</td>
<td>12.24% Tier 1</td>
<td>12.01% Tier 1</td>
</tr>
<tr>
<td></td>
<td>11.01% Tier 2</td>
<td>10.82% Tier 2</td>
</tr>
<tr>
<td>Employee contribution rate</td>
<td>7.50% Tier 1</td>
<td>7.50% Tier 1</td>
</tr>
<tr>
<td></td>
<td>6.00% Tier 2</td>
<td>6.00% Tier 2</td>
</tr>
<tr>
<td>Employee contribution law enforcement rate</td>
<td>8.50% Tier 1</td>
<td>8.50% Tier 1</td>
</tr>
<tr>
<td></td>
<td>7.00% Tier 2</td>
<td>7.00% Tier 2</td>
</tr>
</tbody>
</table>

Salaries and wages for covered employees participating in TRS were approximately $102.2 million during the year ended September 20, 2018 and $100.4 million during 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 $147,128,000 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 employers’ shares 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 1.500009% which was a decrease of 0.025324% from its proportion measured as of September 30, 2016.
For the year ended September 30, 2018, the University recognized pension expense of $12.1 million. At September 30, 2018 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<table>
<thead>
<tr>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differences between expected and actual experience</td>
<td>$ -</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>8,799,000</td>
</tr>
<tr>
<td>Net difference between projected and actual earnings on pension plan investments</td>
<td>-</td>
</tr>
<tr>
<td>Changes in proportion and differences between Employer contributions and proportionate share of contributions</td>
<td>1,921,000</td>
</tr>
<tr>
<td>Employer contributions subsequent to the measurement date</td>
<td>12,165,770</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$22,885,770</strong></td>
</tr>
</tbody>
</table>

For the year ended September 30, 2017, the University recognized pension expense of $16.7 million. At September 30, 2017 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<table>
<thead>
<tr>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differences between expected and actual experience</td>
<td>$ -</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>11,659,000</td>
</tr>
<tr>
<td>Net difference between projected and actual earnings on pension plan investments</td>
<td>2,387,000</td>
</tr>
<tr>
<td>Changes in proportion and differences between Employer contributions and proportionate share of contributions</td>
<td>3,397,000</td>
</tr>
<tr>
<td>Employer contributions subsequent to the measurement date</td>
<td>11,737,939</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$29,180,939</strong></td>
</tr>
</tbody>
</table>
$12,165,770 of the amount reported as deferred outflows of resources 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 will be recognized in pension expense as follows:

**Actuarial assumptions.** The total pension 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:

<table>
<thead>
<tr>
<th>Year ending September 30:</th>
<th>Inflation</th>
<th>Investment rate of return*</th>
<th>Projected salary increases</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2.75%</td>
<td>7.75%</td>
<td>3.25% - 5.00%</td>
</tr>
<tr>
<td>2020</td>
<td>2.75%</td>
<td>7.75%</td>
<td>3.25% - 5.00%</td>
</tr>
<tr>
<td>2021</td>
<td>2.75%</td>
<td>7.75%</td>
<td>3.25% - 5.00%</td>
</tr>
<tr>
<td>2022</td>
<td>2.75%</td>
<td>7.75%</td>
<td>3.25% - 5.00%</td>
</tr>
<tr>
<td>2023</td>
<td>2.75%</td>
<td>7.75%</td>
<td>3.25% - 5.00%</td>
</tr>
<tr>
<td>Thereafter</td>
<td>2.75%</td>
<td>7.75%</td>
<td>3.25% - 5.00%</td>
</tr>
</tbody>
</table>

*Net of pension plan investment expense, including inflation

The actuarial assumptions used in the September 30, 2016 valuation were based on the results of an actuarial experience study for the period October 1, 2010—September 30, 2015. Post-Retirement mortality rates for service retirements and dependent beneficiaries were based on 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 Disability Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

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

<table>
<thead>
<tr>
<th>Target Allocation</th>
<th>Long-Term Expected Rate of Return*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income</td>
<td>17.00%</td>
</tr>
<tr>
<td>U.S. Large Stocks</td>
<td>32.00%</td>
</tr>
<tr>
<td>U.S. Mid Stocks</td>
<td>9.00%</td>
</tr>
<tr>
<td>U.S. Small Stocks</td>
<td>4.00%</td>
</tr>
<tr>
<td>International Developed Market Stocks</td>
<td>12.00%</td>
</tr>
<tr>
<td>International Emerging Market Stocks</td>
<td>3.00%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>10.00%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>10.00%</td>
</tr>
<tr>
<td>Cash Equivalents</td>
<td>3.00%</td>
</tr>
<tr>
<td>Total</td>
<td>100.00%</td>
</tr>
</tbody>
</table>

*Includes assumed rate of inflation of 2.5%.
**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:

<table>
<thead>
<tr>
<th></th>
<th>1% Decrease (6.75%)</th>
<th>Current Rate (7.75%)</th>
<th>1% Increase (8.75%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>University's proportionate share of collective net pension liability (Dollar amounts in thousands)</td>
<td>$203,351</td>
<td>$147,428</td>
<td>$100,122</td>
</tr>
</tbody>
</table>

**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 September 22, 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.

**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, are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>University contributions</td>
<td>$ 3,117,337</td>
<td>$ 3,018,061</td>
</tr>
<tr>
<td>Employee contributions</td>
<td>6,038,625</td>
<td>5,740,903</td>
</tr>
<tr>
<td>Total contributions</td>
<td>$ 9,155,962</td>
<td>$ 8,758,964</td>
</tr>
</tbody>
</table>
The University’s total salaries and wages subject to benefit plan participation for the years ended September 30, 2018 and 2017 are summarized in the table below:

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Salaries and Wages</td>
<td>$119,844,093</td>
<td>$116,383,027</td>
</tr>
<tr>
<td>Salaries and Wages of employees participating in:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRS</td>
<td>$103,210,401</td>
<td>$100,416,137</td>
</tr>
<tr>
<td>TIAA - CREF</td>
<td>$ 69,176,292</td>
<td>$ 64,535,829</td>
</tr>
</tbody>
</table>

**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. The statement of net position includes vacation pay and salary-related payments associated with vacation pay accruals of $4,733,798 and $4,787,778 for fiscal years 2018 and 2017, respectively. There is no such accrual recognized for sick leave benefits because no terminal cash benefit is available to employees for accumulated sick leave.

**Note 10 – Other 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. TRS offers health care benefits through a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board (“PEEHIP”). Retired employees age sixty-five or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer and PEEHIP becomes the secondary insurer. Most retirees elect to participate in the PEEHIP with TRS, in which case the retirees pay a portion of the PEEHIP premium and the University pays an allocation toward the cost of retiree coverage.

PEEHIP. Plan description. The Alabama Retired Education Employees’ Health Care Trust (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 (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 (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 Board. The 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 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 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 (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 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 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 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 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 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 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 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 Board. This reduction in the employer contribution ceases upon notification to the Board of the attainment of Medicare coverage.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPBEP. At September 30, 2018, the University reported a liability of $53.8 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 0.725%, which was an increase of 0.123% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the University recognized OPEB expense of $3.2 million with no special funding situations. At September 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<table>
<thead>
<tr>
<th>Deferred Outflows of Resources</th>
<th>Deferred Inflows of Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Differences between expected and actual experience</td>
<td>-</td>
</tr>
<tr>
<td>Changes of assumptions</td>
<td>5,590,744</td>
</tr>
<tr>
<td>Net difference between projected and actual earnings on OPEB plan investments</td>
<td>286,676</td>
</tr>
<tr>
<td>Changes in proportion and differences between Employer contributions and proportionate share of contributions</td>
<td>8,323,066</td>
</tr>
<tr>
<td>Employer contributions subsequent to the measurement date</td>
<td>1,685,254</td>
</tr>
<tr>
<td>Total</td>
<td>10,008,320</td>
</tr>
<tr>
<td></td>
<td>5,877,420</td>
</tr>
</tbody>
</table>
$1.7 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 $450,764
2020 $450,764
2021 $450,764
2022 $450,764
2023 $522,433
Thereafter $120,157

**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:

<table>
<thead>
<tr>
<th>Description</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>2.75%</td>
</tr>
<tr>
<td>Projected Salary Increases¹</td>
<td>3.25% - 5.00%</td>
</tr>
<tr>
<td>Long-Term Investment Rate of Return²</td>
<td>7.25%</td>
</tr>
<tr>
<td>Municipal Bond Index Rate at the Measurement Date</td>
<td>3.57%</td>
</tr>
<tr>
<td>Municipal Bond Index Rate at the Prior Measurement Date</td>
<td>2.93%</td>
</tr>
<tr>
<td>Projected Year for Fiduciary Net Position (FNP) to be Depleted</td>
<td>2042</td>
</tr>
<tr>
<td>Single Equivalent Interest Rate the Measurement Date</td>
<td>4.63%</td>
</tr>
<tr>
<td>Single Equivalent Interest Rate the Prior Measurement Date</td>
<td>4.01%</td>
</tr>
<tr>
<td>Healthcare Cost Trend Rate</td>
<td></td>
</tr>
<tr>
<td>Pre-Medicare Eligible</td>
<td>7.75%</td>
</tr>
<tr>
<td>Medicare Eligible</td>
<td>5.00%</td>
</tr>
<tr>
<td>Ultimate Trend Rate</td>
<td></td>
</tr>
<tr>
<td>Pre-Medicare Eligible</td>
<td>5.00%</td>
</tr>
<tr>
<td>Medicare Eligible</td>
<td>5.00%</td>
</tr>
<tr>
<td>Year of Ultimate Trend Rate</td>
<td>2022</td>
</tr>
</tbody>
</table>

¹Includes 3.00% wage inflation.
²Compounded 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 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.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Target Allocation</th>
<th>Long-Term Expected Real Rate of Return*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Income</td>
<td>30.00%</td>
<td>4.40%</td>
</tr>
<tr>
<td>U.S. Large Stocks</td>
<td>38.00%</td>
<td>8.00%</td>
</tr>
<tr>
<td>U.S. Mid Stocks</td>
<td>8.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>U.S. Small Stocks</td>
<td>4.00%</td>
<td>11.00%</td>
</tr>
<tr>
<td>International Developed Market Stocks</td>
<td>15.00%</td>
<td>9.50%</td>
</tr>
<tr>
<td>Cash</td>
<td>5.00%</td>
<td>1.50%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>--------</strong></td>
</tr>
</tbody>
</table>

* Geometric mean, includes 2.5% 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:

<table>
<thead>
<tr>
<th>Current Healthcare Trend Rate</th>
<th>1% Decrease</th>
<th>1% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>(7.75% decreasing to 5% for pre-Medicare, 5% for Medicare Eligible, and 2% for Optional Plans)</td>
<td>(6.75% decreasing to 4% for pre-Medicare, 4% for Medicare Eligible, and 1% for Optional Plans)</td>
<td>(8.75% decreasing to 6% for pre-Medicare, 6% for Medicare Eligible, and 3% for Optional Plans)</td>
</tr>
<tr>
<td>Net OPEB Liability</td>
<td>$ 43,473,627</td>
<td>$ 53,845,219</td>
</tr>
</tbody>
</table>

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:

<table>
<thead>
<tr>
<th>1% Decrease</th>
<th>Current Discount Rate</th>
<th>1% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>(3.63%)</td>
<td>(4.63%)</td>
<td>(5.63%)</td>
</tr>
<tr>
<td>Net OPEB Liability</td>
<td>$ 65,087,668</td>
<td>$ 53,845,219</td>
</tr>
</tbody>
</table>

**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.
Note 11 – Federal Direct Lending

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, the University disbursed $32,696,156 and $31,884,318, respectively, under the FDSLP.

Note 12 – Contracts and Grants

As of September 30, 2018 and 2017, the University was awarded approximately $79.8 million and $66.9 million, respectively, in contracts and grants which have 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.

Note 13 – Operating Expenses by Function

Operating expenses by functional classification for the years ended September 2018 and 2017 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>Year Ended September 30, 2018</th>
<th>Year Ended September 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Salaries and Fringe Benefits</td>
<td>Supplies and Services</td>
</tr>
<tr>
<td>Instruction</td>
<td>$41,304,006</td>
<td>$16,564,230</td>
</tr>
<tr>
<td>Research</td>
<td>44,828,892</td>
<td>15,327,433</td>
</tr>
<tr>
<td>Public service</td>
<td>2,534,255</td>
<td>996,623</td>
</tr>
<tr>
<td>Academic support</td>
<td>6,783,581</td>
<td>2,467,753</td>
</tr>
<tr>
<td>Student services</td>
<td>7,517,299</td>
<td>3,040,885</td>
</tr>
<tr>
<td>Institutional support</td>
<td>11,298,284</td>
<td>4,124,631</td>
</tr>
<tr>
<td>Operations and maintenance of plant</td>
<td>4,131,447</td>
<td>1,931,292</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>1,446,329</td>
<td>383,373</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>$119,844,093</strong></td>
<td><strong>$44,856,220</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Year Ended September 30, 2017</th>
<th>Year Ended September 30, 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Salaries and Fringe Benefits</td>
<td>Supplies and Services</td>
</tr>
<tr>
<td>Instruction</td>
<td>$39,430,315</td>
<td>$15,441,787</td>
</tr>
<tr>
<td>Research</td>
<td>42,888,686</td>
<td>15,041,730</td>
</tr>
<tr>
<td>Public service</td>
<td>2,487,082</td>
<td>961,830</td>
</tr>
<tr>
<td>Academic support</td>
<td>6,408,216</td>
<td>2,386,441</td>
</tr>
<tr>
<td>Student services</td>
<td>7,237,255</td>
<td>2,928,906</td>
</tr>
<tr>
<td>Institutional support</td>
<td>12,388,574</td>
<td>4,746,766</td>
</tr>
<tr>
<td>Operations and maintenance of plant</td>
<td>4,321,495</td>
<td>1,932,569</td>
</tr>
<tr>
<td>Scholarships and fellowships</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Auxiliary enterprises</td>
<td>1,221,404</td>
<td>387,820</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>$116,383,027</strong></td>
<td><strong>$43,827,849</strong></td>
</tr>
</tbody>
</table>
Note 14 – Contingencies and Commitments

The University has sovereign immunity and is therefore, in the opinion of System 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 liability arising from the performance of their official duties. There are some exceptions to the sovereign immunity doctrine, most notably in 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.

The University has contracted for the renovation and addition of Morton Hall and the construction of the D.S. Davidson Invention to Innovation Center. At September 30, 2018, the estimated remaining cost to complete these projects was $29.3 million and $4.8 million, respectively. The projects are expected to be funded from a combination of University bond proceeds, donations and state sources.

Note 15 - Segment Information

The University constructed Southeast Housing and issued bonds in 1980 and 1981. The bonds were payable from revenues received by the University for the use and occupancy of the facility. Condensed financial information of the University’s segment as of September 30, 2018 and 2017 is as follows:
### Condensed Statements of Position

<table>
<thead>
<tr>
<th></th>
<th>Dorm Revenue Bonds 1980</th>
<th>Dorm Revenue Bonds 1981</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$182,878</td>
<td>$180,182</td>
</tr>
<tr>
<td>Capital assets, net of accumulated depreciation</td>
<td>614,451</td>
<td>604,858</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>797,329</td>
<td>785,040</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>1,741,980</td>
<td>1,104,045</td>
</tr>
<tr>
<td>Noncurrent liabilities</td>
<td>95,000</td>
<td>185,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>1,836,980</td>
<td>1,289,045</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net investment in capital assets</td>
<td>429,451</td>
<td>329,858</td>
</tr>
<tr>
<td>Restricted</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expendable</td>
<td>240,000</td>
<td>232,000</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>(1,709,102)</td>
<td>(1,065,863)</td>
</tr>
<tr>
<td><strong>Total net position</strong></td>
<td>(1,039,651)</td>
<td>(504,005)</td>
</tr>
<tr>
<td><strong>Total liabilities and net position</strong></td>
<td>$797,329</td>
<td>$785,040</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>Dorm Revenue Bonds 1980</th>
<th>Dorm Revenue Bonds 1981</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Operating revenues</td>
<td>$586,741</td>
<td>$647,923</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(1,133,402)</td>
<td>(674,490)</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>(138,525)</td>
<td>(130,297)</td>
</tr>
<tr>
<td><strong>Operating loss</strong></td>
<td>(685,186)</td>
<td>(156,864)</td>
</tr>
<tr>
<td>Nonoperating expenses</td>
<td>1,422</td>
<td>11,516</td>
</tr>
<tr>
<td>Transfers from general funds</td>
<td>148,119</td>
<td>-</td>
</tr>
<tr>
<td><strong>Changes in net position</strong></td>
<td>(535,645)</td>
<td>(145,348)</td>
</tr>
<tr>
<td><strong>Net position, beginning of year</strong></td>
<td>(504,006)</td>
<td>(358,657)</td>
</tr>
<tr>
<td><strong>Net position, end of year</strong></td>
<td>$(1,039,651)</td>
<td>$(504,005)</td>
</tr>
</tbody>
</table>

### Condensed Statements of Cash Flows

<table>
<thead>
<tr>
<th></th>
<th>Dorm Revenue Bonds 1980</th>
<th>Dorm Revenue Bonds 1981</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>Operating activities</td>
<td>$539,785</td>
<td>$5,178</td>
</tr>
<tr>
<td><strong>Capital and related financing activities</strong></td>
<td>539,785</td>
<td>5,178</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash, beginning of year</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash, end of year</strong></td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Note 16 – 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 not a 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. The statement is effective for reporting periods beginning after December 15, 2018. The University is evaluating whether there will be any material impact from its adoption of GASB 84.

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

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

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer's proportion of the collective net pension liability</td>
<td>1.500009%</td>
<td>1.525333%</td>
<td>1.532529%</td>
<td>1.609851%</td>
</tr>
<tr>
<td>Employer's proportionate share of the collective net pension liability</td>
<td>$147,428,000</td>
<td>$165,132,000</td>
<td>$160,390,000</td>
<td>$146,248,000</td>
</tr>
<tr>
<td>Employer's covered payroll during measurement period</td>
<td>$100,416,137</td>
<td>$98,670,645</td>
<td>$97,998,750</td>
<td>$97,032,526</td>
</tr>
</tbody>
</table>

Employer's proportionate share of the collective net pension liability as percentage of its covered payroll:

- 146.82%
- 167.36%
- 163.67%
- 150.72%

Plan fiduciary net position as a percentage of the total collective pension liability:

- 71.50%
- 67.93%
- 67.51%
- 71.01%

### Schedule of University Contributions
**Teachers' Retirement System of Alabama**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractually Required Contribution</td>
<td>$12,184,536</td>
<td>$11,711,569</td>
<td>$11,474,249</td>
<td>$11,311,261</td>
</tr>
<tr>
<td>Contributions in relation to the contractually required contribution</td>
<td>($12,184,536)</td>
<td>($11,711,569)</td>
<td>($11,474,249)</td>
<td>($11,311,261)</td>
</tr>
<tr>
<td>Contribution deficiency (excess)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>University's covered payroll</td>
<td>$102,231,521</td>
<td>$100,416,137</td>
<td>$98,670,645</td>
<td>$97,998,750</td>
</tr>
<tr>
<td>Contributions as a percentage of covered payroll</td>
<td>11.92%</td>
<td>11.66%</td>
<td>11.63%</td>
<td>11.54%</td>
</tr>
</tbody>
</table>

### 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.
- Measurement period: For fiscal year 2017, the measurement period is October 1, 2015 - September 30, 2016.
- Measurement period: For fiscal year 2016, the measurement period is October 1, 2014 - September 30, 2015.
- Measurement period: For fiscal year 2015, the measurement period is October 1, 2013 - September 30, 2014.
## The University of Alabama in Huntsville
### Required Supplementary Information (Unaudited)

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer's proportion of the net</td>
<td>0.724951%</td>
</tr>
<tr>
<td>OPEB liability</td>
<td></td>
</tr>
<tr>
<td>Employer's proportionate share of the</td>
<td>$53,845,219</td>
</tr>
<tr>
<td>net OPEB liability</td>
<td></td>
</tr>
<tr>
<td>Employer's covered payroll</td>
<td>$100,416,137</td>
</tr>
<tr>
<td>during measurement period</td>
<td></td>
</tr>
<tr>
<td>Employer's proportionate share of the</td>
<td>53.62%</td>
</tr>
<tr>
<td>net OPEB liability as a percentage</td>
<td></td>
</tr>
<tr>
<td>of its covered payroll</td>
<td></td>
</tr>
<tr>
<td>Plan fiduciary net position as a percentage</td>
<td>15.37%</td>
</tr>
<tr>
<td>of the total OPEB liability</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contractually required contribution</td>
<td>$1,685,254</td>
</tr>
<tr>
<td>Contributions in relation to the contractually required contribution</td>
<td>($1,685,254)</td>
</tr>
<tr>
<td>Contribution deficiency (excess)</td>
<td>-</td>
</tr>
<tr>
<td>University's covered-employee payroll</td>
<td>$102,231,521</td>
</tr>
<tr>
<td>Contributions as a percentage of covered-employee payroll</td>
<td>1.65%</td>
</tr>
</tbody>
</table>
THE BOARD OF TRUSTEES
OF THE UNIVERSITY OF ALABAMA

The Honorable Kay Ivey
Governor of the State of Alabama
President ex officio

Trustees by Congressional District:

First District
Marietta M. Urquhart
Harris V. Morrissette

Second District
Joseph C. Espy III
W. Davis Malone III

Third District
James W. Wilson III
Kenneth L. Vandervoort, M.D.

Fourth District
Finis E. St. John IV
Scott Phelps

Fifth District
Ronald W. Gray,
President pro tempore
William Britt Sexton

Sixth District
Vanessa Leonard
W. Stancil “Stan” Starnes

Seventh District
Barbara Humphrey
Karen P. Brooks

Eric Mackey
State Superintendent of Education
ex officio

Trustees Emeriti:

Frank H. Bromberg, Jr.
Paul W. Bryant, Jr.
Angus R. Cooper II
Oliver H. Delchamps, Jr.
Jack Edwards
Joseph L. Fine
Sandral Hultett, M.D.
Andria S. Hurst
John D. Johns
Peter L. Lowe
John J. McMahon, Jr.
Joe H. Ritch
Cleophus Thomas, Jr.
John Russell Thomas

Finis E. St. John IV
Interim Chancellor
ADMINISTRATION

Robert A. Altenkirch
President

Todd M. Barré
Vice President for Finance and Administration

Christine W. Curtis
Provost, Executive Vice President for Academic Affairs

Laterrica Shelton
Interim Vice President for Diversity, Equity and Inclusion

Mallie Hale
Interim Vice President for University Advancement

Robert Lindquist
Interim Vice President for Research and Economic Development

Kristi Motter
Vice President for Student Affairs

David Berkowitz
Dean, Graduate Studies

Sean Lane
Dean, College of Arts, Humanities & Social Sciences

Sundar Christopher
Dean, College of Science

Shankar Mahalingam
Dean, College of Engineering

Marsha Adams
Dean, College of Nursing

Beth Nason Quick
Dean, College of Education

Jason Greene
Dean, College of Business Administration

William Wilkerson
Dean, Honors College

Karen Clanton
Dean, Professional & Continuing Studies

FINANCIAL STAFF

Robert C. Leonard
Associate Vice President for Finance & Business Services

Debbie Allen
Senior Staff Assistant

Melanie C. Newby
Director, Accounting & Financial Reporting

Tanya K. Smith
Senior Associate Director, Accounting & Financial Reporting

Charles A. Burns
Assistant Director, Accounting & Financial Reporting

Betty M. Eley
Senior Accountant

Chandrakala Utiapalli
Senior Accountant

Laura Vereen
Senior Accountant

Natalie Thomas
Accountant II

Christy Baker
Accountant I

Gloria Anderson
Accounting Assistant

Janice Clack
Senior Accounts Payable Clerk

Terri Couch
Accounts Payable Assistant

Valarie L. King
Director, Contracts & Grants Accounting

Winnet H. Leonard (10/1/17-5/31/18)
Bursar

Photographs courtesy of University Advancement and University Athletics