

# **The University of Alabama in Huntsville**

**Report on Federal Financial Assistance Programs in  
Accordance with the OMB Uniform Guidance  
September 30, 2016  
EIN: 63-0520830**

**The University of Alabama in Huntsville**  
**Index**  
**September 30, 2016**

---

	<b>Page(s)</b>
<b>Part I – Schedule of Expenditures of Federal Awards</b>	
Schedule of Expenditures of Federal Awards.....	1–7
Notes to Schedule of Expenditures of Federal Awards .....	8–9
<b>Part II – Reports on Internal Control and Compliance</b>	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	10–11
Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance.....	12–14
<b>Part III – Schedule of Findings and Questioned Costs</b>	
Section I – Summary of Auditor’s Results.....	15
Section II - Financial Statement Findings .....	15
Section III - Federal Award Findings and Questioned Costs .....	15
<b>Part IV – Summary of Status of Findings from Prior Audits</b>	
Summary of Status of Findings from Prior Audit.....	16
<b>Part V – 2016 Financial Report</b>	
Financial Report 2016 .....	17

**Part I**  
**Schedule of Expenditures of Federal Awards**

# The University of Alabama in Huntsville Schedule of Expenditures of Federal Awards September 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Award Number or Pass-Through Entity Identifying Number	CFDA Number	Federal Expenditures	Passed to Subrecipients
<b>Research and Development Cluster</b>				
U.S. Department of Defense			\$	\$
Department of Army		12.RD	19,944,088	486,233
Department of Navy		12.RD	78,606	
Missile Defense Agency		12.RD	846,564	86,711
National Security Agency		12.902	248,067	
			<u>21,117,325</u>	<u>572,944</u>
<b>Pass-Through Funds</b>				
Stevens Institute of Technology	AGR DTD 9/27/2013	12.RD	870	
Stevens Institute of Technology	2102519-UAH-01	12.RD	35,319	
Rockwell Collins, Inc.	DARPA-BAA-14-40	12.RD	226,167	
AI Signal Research	ASRI-UAH-2014T-ECTD	12.RD	945,172	
AI Signal Research	ASRI-UAH-2016T-ECTSS	12.RD	345,151	
CFD Research Corporation	CFDRC 20120836	12.RD	3,629	
Analysis & Applications Associates, Inc..	AAA 16-001	12.RD	2,971	
Colsa Corporation	H07018000	12.RD	59,181	
Colsa Corporation	HS-120921	12.RD	2,254,843	
CAS	CAS SC 532-14	12.RD	4,328,646	
CAS	CAS SC 564-16	12.RD	928,955	
CAS	CAS-EX0C1-05	12.RD	284,142	
Intuitive Research and Technology Corporation	AE-P-UAH-001	12.RD	5,420,756	
Macaulay-Brown Inc..	GRY11233	12.RD	72,857	
Science Applications International Corporation	4600006511	12.RD	1,374,411	
Science Applications International Corporation	B00107	12.RD	82,043	
Science Applications International Corporation	JTS DATED 4/7/2015 2015-104	12.RD	58,364	
John Tiller	JTS DATED 7/1/2015	12.RD	18,825	
John Tiller	JTS SUBAWARD 11/12/2015	12.RD	15,629	
John Tiller	T14S112	12.RD	1,273,710	
Torch	T13S008	12.RD	(39)	
Torch	A10372-S016	12.RD	38,657	
Wyle Laboratories, Inc.	PO 18P15-4994	12.RD	27	
Yulista Aviation, Inc.	PO 7000334151	12.RD	8,832	
Massachusetts Institute of Technology	PO CH011632	12.RD	15,902	
Dynetics	NARS2015-001	12.RD	(8,337)	
North Alabama Robotic Systems, Inc.	PAMC15-01-UAH	12.RD	378,838	
Management Technology Associates	RF682-S2	12.RD	25,296	
Georgia Institute of Technology	S9010057	12.RD	282,629	
CSC				

The accompanying notes are an integral part of this schedule.

# The University of Alabama in Huntsville Schedule of Expenditures of Federal Awards September 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Award Number or Pass-Through Entity Identifying Number	CFDA Number	Federal Expenditures	Passed to Subrecipients
<b>Research and Development Cluster, continued</b>				
National Aeronautics & Space Administration, continued				
MATECH	RFAL-FY15 - MATECH-001	12.RD	21,122	
C3 Propulsion	WD2-3007-5034-072814	12.RD	2,634	
			18,497,202	-
			39,614,527	572,944
Total U.S. Department of Defense				
Department of Health & Human Services				
Pass-Through Funds				
iXpressGenes, Inc.	IXPRESSGENES 2013-001	93.RD	42,966	
Hudson Alpha Institute of Biotech	2014-02	93.172	79,638	
			122,604	-
Total U.S. Department of Health & Human Services				
National Science Foundation				
Engineering Grants		47.041	613,202	
Mathematical and Physical Sciences		47.049	272,936	
Geosciences		47.050	1,004,554	29,544
Computer and Information Science and Engineering		47.070	961,637	
Biological Sciences		47.074	74,565	
Education and Human Resources		47.076	789,354	
Office of Cyberinfrastructure		47.080	12,756	
			3,729,004	29,544
Pass-Through Funds				
Tuskegee University	34-21530-200-76190	47.081	24,678	
University of Alabama at Birmingham	000398033-007	47.076	8,353	
University of Illinois	SUBAWARD NO. 2014-06275-02	47.070	499	
University of Texas at San Antonio	1000001066	47.070	15,175	
Purdue University	4101-72990	47.076	23,264	
			71,969	-
			3,800,973	29,544
Total National Science Foundation				
National Aeronautics & Space Administration				
Science		43.RD	198,758	440,344
Exploration		43.001	4,368,973	
Space Operations		43.003	51,740	
		43.007	4,349	

The accompanying notes are an integral part of this schedule.

# The University of Alabama in Huntsville Schedule of Expenditures of Federal Awards September 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Award Number or Pass-Through Entity Identifying Number	CFDA Number	Federal Expenditures	Passed to Subrecipients
<b>Research and Development Cluster, continued</b>				
National Aeronautics & Space Administration, continued				
Education			12,648,314	1,267,744
Cross Agency Support		43.008	93,059	
Space Technology		43.009	18,526	
		43.012	17,383,719	1,708,088
<b>Pass-Through Funds</b>				
Johns Hopkins University	JHU APL 124715	43.008	40,181	
ITT Exelis	12-20166-857432 SA10	43.RD	82,311	
Chandra Science Center	GO4-15119B	43.001	10,756	
Chandra Science Center	GO5-16138C	43.001	13,707	
Gloyer Taylor Laboratories	NAS-111-001	43.RD	35,982	
Florida Institute of Technology	SUBAWARD NO. 201814A	43.001	16,952	
Florida Institute of Technology	201909	43.001	9,451	
Fond du Lac Tribal and Community College	P.O. NUMBER 24628	43.001	20,456	
Keystone Synergistic	PO # KSE15014	43.RD	19,059	
Keystone Synergistic	PO # KSE15015	43.RD	45,138	
University of Arizona	PO 13390	43.RD	(35)	
Boston University	SUBAWARD NO. 4500001434	43.001	63,247	
Aetos Systems	SC-2019-001	43.RD	61,853	
Aetos Systems	SC-2019-001 TO #2019.A52	43.RD	4,655	
University of Georgia	SUBAWARD NO RR185-447/49443	43.001	15,280	
Jacobs	ESSSA-039	43.RD	124,296	
Lockheed Martin	8100001543	43.RD	64,583	
Boeing	PO 841460	43.RD	1,042,993	
CFDRC	20121021	43.RD	39,502	
Pinnacle	PO 14-030312R	43.RD	96,830	
Planetary Science Institute	PSI 1350	43.009	19,977	
Smithsonian Institute	AR6-17018X	43.001	37,879	
Teledyne Brown	SUBCONTRACT NO. 955717	43.RD	196,703	
Smithsonian Astrophysical Observatory	SUBCONTRACT NO. SV4-84017	43.RD	98,726	
Smithsonian Astrophysical Observatory	SV2-82007	43.RD	20,778	
Health Research Institute	SUBAWARD NO. 5218-01	43.001	28,349	
Southwest Research Institute	SUBCONTRACT A99132BT	43.001	20,459	
Southwest Research Institute	SUBCONTRACT NO. F990055DRG	43.001	13,563	
U.S. Space & Rocket Center	ATP VIA P.O. 64092	43.002	197,110	

The accompanying notes are an integral part of this schedule.

# The University of Alabama in Huntsville Schedule of Expenditures of Federal Awards September 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Award Number or Pass-Through Entity Identifying Number	CFDA Number	Federal Expenditures	Passed to Subrecipients
<b>Research and Development Cluster, continued</b>				
National Aeronautics & Space Administration, continued				
U.S. Space & Rocket Center	ATP VIA P.O. 64093	43.002	167,218	
			2,607,959	
			19,991,678	1,708,088
Total National Aeronautics & Space Administration				
Department of Transportation		20.109	240,962	70,154
<b>Pass-Through Funds</b>				
University of Memphis	MEMORANDUM OF UNDERSTANDING	20.RD	28,961	
University of Memphis	MEMORANDUM OF UNDERSTANDING	20.RD	7,647	
University of Memphis	MEMORANDUM OF UNDERSTANDING	20.RD	8,235	
Alabama Department of Transportation	SPR-0001(058)	20.205	299,031	
Alabama Department of Transportation	4303-0199-281-HSIP-100060911-2	20.205	2,644	2,644
Alabama Department of Transportation	K-15-1636	20.509	70,504	
Alabama Department of Transportation	HSIP-NR16(901):CPMS NO. 100064	20.205	18,800	
Alabama Department of Transportation	K-14-1972	20.205	567	
Alabama Department of Transportation	K-13-0102	20.200	201,767	
Alabama Department of Transportation	K-15-1664	20.215	173,848	28,594
Alabama Department of Transportation	K-15-2066	20.RD	48,146	
Alabama Department of Transportation	SPR-0001(058)2015-533	20.205	38,061	1,616
Alabama Department of Transportation	STPSA-HSIP-6815 (251)	20.205	98,392	
			996,603	32,854
			1,237,565	103,008
Total Department of Transportation				
Department of Commerce		11.RD	107,739	17,708
Cluster Grants		11.020	5,261	
Weather and Air Quality Research		11.431	116,194	
Weather and Air Quality Research		11.459	159,096	
			388,290	17,708
<b>Pass-Through Funds</b>				
Alabama Technology Network	70NANB15H246	11.611	129,722	
Alabama Technology Network	AGR DTD 7/22/2015	11.611	132,561	
DISL	AGR 2586DE-01-UAH	11.432	670,624	
TARCOG	EDA PROJECT 04-69-07006	11.300	15,000	
DISL	SA15-UOA01	11.RD	48,385	

The accompanying notes are an integral part of this schedule.

# The University of Alabama in Huntsville Schedule of Expenditures of Federal Awards September 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Award Number or Pass-Through Entity Identifying Number	CFDA Number	Federal Expenditures	Passed to Subrecipients
<b>Research and Development Cluster, continued</b>				
Department of Commerce, continued				
University of Maryland	Z7813005	11.432	290,908	
University of Maryland	Z7817001	11.483	28,610	
University of Florida	UFDSP00010515	11.431	13,297	
			1,329,107	-
Total Department of Commerce			1,717,397	17,708
Department of Energy		81.RD	(38)	
Office of Science Financial Assistance Program		81.049	189,880	
			189,842	-
<b>Pass-Through Funds</b>				
University of Alabama	UA-DOE IMPLEMENTATION AWARD	81.049	999	
University of Chicago - Argonne, LLC	3F-30462	81.RD	(2,151)	
University of Michigan	SUBAWARD NO. 3001421626	81.049	38,795	
HyperV	SUB. NO. H2015-02	81.135	133,050	
University of South Alabama	USA-DOE AWARD DTD 12/7/2015	81.049	707	
			171,400	-
Total Department of Energy			361,242	-
Department of Agriculture		10.RD	502,535	90,458
Environmental Protection Agency		66.513	8,162	-
			67,356,683	2,521,750
<b>Total Research and Development Cluster</b>				
<b>Student Financial Aid Cluster</b>				
U.S. Department of Education				
Federal Supplemental Educational Opportunity Grant	P007A150081	84.007	138,825	
	P007A160081	84.007	20,059	
Federal Pell Grant Program	P063P150009	84.063	6,156,056	
	P063P160009	84.063	1,514,995	
Federal Work-Study Program	P033A150081	84.033	125,388	
	P033A160081	84.033	12,609	

The accompanying notes are an integral part of this schedule.



# The University of Alabama in Huntsville Schedule of Expenditures of Federal Awards September 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Award Number or Pass-Through Entity Identifying Number	CFDA Number	Federal Expenditures	Passed to Subrecipients
<b>Student Financial Aid Cluster, continued</b>				
U.S. Department of Education, continued				
Iraq & Afghanistan Service Grant	P408A150009	84.408	2,018	
Federal Direct Student Loans	P268K150009	84.268	(3,822)	
	P268K160009	84.268	14,899,636	
	P268K170009	84.268	14,669,244	
Total U.S. Department of Education			37,535,008	-
Department of Health & Human Services				
Nurse Faculty Loan Program (NFLP)				
Outstanding Loans as of October 1, 2015	1 E01HP28802-01-00	93.264	120,950	
New Loans Issued during 2016		93.264	89,216	
Administrative Cost Allowance			-	
Total Department of Health & Human Services			210,166	-
<b>Total Student Financial Aid Cluster</b>			<b>37,745,174</b>	<b>-</b>
<b>Other Programs</b>				
Department of Education				
Department of Health & Human Services				
Substance Abuse and Mental Health Services	1U79SM060497-01	93.243	28,794	3,000
Advanced Education Nursing Traineeships	A10HP2516-04-00	93.358	189,780	
Total Department of Health & Human Services			218,574	3,000
Department of Defense				
Information Security Grants	H98230-16-1-0336	12.902	53,740	
Manufacturing Design and Processing for Circuit Card Assembly	VISA-0626	12.U00	4,055	
Intergovernmental Personnel Agreement	IPA FOR GERALD WILSON	12.U01	165,863	
GenCyber Grant Program	H98230-16-1-0285	12.903	83,127	
GenCyber Grant Program	H98230-16-1-0255	12.903	32,988	
			339,773	-
Pass-Through Funds				
our	UA15-053	12.002	55,798	
University of Alabama	UA16-046	12.002	4,194	
			59,992	-
Total Department of Defense			399,765	-

The accompanying notes are an integral part of this schedule.

# The University of Alabama in Huntsville Schedule of Expenditures of Federal Awards September 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Award Number or Pass-Through Entity Identifying Number	CFDA Number	Federal Expenditures	Passed to Subrecipients
<b>Other Programs, continued</b>				
National Aeronautics & Space Administration		43.008	355,078	450
Pass-Through Funds				
Aetos Systems, Inc.	2019.A32	43.U00	19,964	
Aetos Systems, Inc.	2029.A001	43.U00	20,296	
			40,260	-
Total National Aeronautics & Space Administration			395,338	450
Small Business Administration				
Pass-Through Funds				
University of Alabama	SBA-UA15-020	59.037	6,105	
University of Alabama	SBA-UA16-025	59.037	104,571	
University of Alabama	STATE-UA16-004	59.037	10,942	
Total Small Business Administration			121,618	-
Department of Transportation				
Pass-Through Funds				
Alabama Department of Transportation	K-16-0503	20.U00	95,495	
Total Department of Transportation			95,495	-
Department of Commerce				
Alabama Technology Network	AGR DTD 7/22/2015	11.611	848	
Alabama Technology Network	04-79-07092	11.307	2,006	2,006
Pass-Through Funds			2,854	2,006
Alabama Technology Network	AGR DTD 9/9/2014	11.611	7,079	
Alabama Technology Network	AGR DTD 7/22/2015	11.611	527,501	2,204
Total Department of Commerce			534,580	2,204
			537,434	4,210
<b>Total Other Federal Awards</b>			<b>1,998,272</b>	<b>24,733</b>
<b>Total Expenditures of Federal Awards</b>			<b>\$ 107,100,129</b>	<b>\$ 2,546,483</b>

The accompanying notes are an integral part of this schedule.

# The University of Alabama in Huntsville

## Notes to Schedule of Expenditures of Federal Awards

### September 30, 2016

---

#### 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of The University of Alabama in Huntsville (the "University"), a campus of the University of Alabama System, under programs of the federal government for the year ended September 30, 2016. Other campuses of the University of Alabama System are presented in separate reports. The information presented in this Schedule is presented on the accrual basis of accounting, which is in accordance with the Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only the federal award activity of the University, it is not intended to and does not present the financial position, changes in net position and cash flows of the University.

The only component unit of the University is the University of Alabama in Huntsville Foundation. This component unit is not subject to requirements of the Uniform Guidance; therefore, it is not included within the Schedule or this report.

For purposes of this Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government and all sub-awards to the University by non-federal organizations pursuant to federal grants, contracts, and similar agreements.

Negative numbers in the Schedule represent adjustments to amounts reported in prior years in the normal course of business. The Catalog of Federal Domestic Assistance ("CFDA") and pass-through numbers have been provided to the extent they were available.

#### 2. Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures for federal award programs are recognized on the accrual basis of accounting. Expenditures for federal student financial aid programs include Federal Pell program grants to students, the federal share of students' Federal Supplemental Educational Opportunity Grants, and Federal Work-Study Program earnings and administrative cost allowances where applicable.

#### 3. Facilities and Administrative Costs (F&A Costs)

The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The University operates under predetermined fixed F&A cost rates which are effective from October 1, 2012 through September 30, 2016. The predetermined fixed rates were based on 2011 financial information. For the fiscal year ended September 30, 2016, the base rate for on-campus research is 48.0%. Base rates for other F&A cost recoveries range from 9.0% to 50.0%.

**The University of Alabama in Huntsville**  
**Notes to Schedule of Expenditures of Federal Awards**  
**September 30, 2016**

---

**4. Federal Student Loan Programs**

The Nurse Faculty Loan Program (NFLP) are administered directly by the University, and balances and transactions relating to these programs are included in the University's financial statements. NFLP outstanding at the beginning of the year, the administrative cost allowance and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at September 30, 2016 consists of:

	<b>CFDA.#</b>	<b>Amount</b>
Nurse Faculty Loans Receivable, September 30, 2016	93.264	\$ 210,166

The Federal Direct Student Loan Program (FDSLPL) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a Federal direct loan to pay for the student's cost of attendance directly through the University rather than through private lenders. 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. The FDSLPL issued during fiscal year 2016 are included in the federal expenditures presented in the Schedule.

**Part II**  
**Reports on Internal Control and Compliance**



**Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees of The University of Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements 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, and of the University of Alabama in Huntsville Foundation ("UAHF"), its discretely presented component unit, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise UAH's basic financial statements, and have issued our report thereon dated January 23, 2017. Other auditors audited the financial statements of UAHF, as described in our report on UAH's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of UAHF were not audited in accordance with *Government Auditing Standards* and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with this component unit. Our report includes an emphasis of a matter regarding the presentation of the financial statements as discussed in Note 1 to the financial statements.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered UAH's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of UAH's internal control. Accordingly, we do not express an opinion on the effectiveness of UAH's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether UAH's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of UAH's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UAH's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PricewaterhouseCoopers LLP*

January 23, 2017



**Report of Independent Auditors on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on  
Internal Control Over Compliance in Accordance with the Uniform Guidance**

To the Board of Trustees of the University of Alabama:

**Report on Compliance for Each Major Federal Program**

We have audited The University of Alabama in Huntsville's ("UAH"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of UAH's major federal programs for the year ended September 30, 2016. UAH's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

UAH's basic financial statements include the operations of the University of Alabama in Huntsville Foundation ("UAHF"), which did not receive federal awards during the year ended September 30, 2016. Accordingly, our audit, described below, did not include the operations of this component unit.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of UAH's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about UAH's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the UAH's compliance.





### ***Opinion on Each Major Federal Program***

In our opinion, The University of Alabama in Huntsville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

### **Report on Internal Control Over Compliance**

Management of UAH is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered UAH's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of UAH's internal control over compliance.

UAH's basic financial statements include the operations of UAHF, which did not receive federal awards during the year ended September 30, 2016. Accordingly, we did not consider internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs for this component unit.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of The University of Alabama in Huntsville and its discretely presented component unit as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise UAH's basic financial statements. We issued our report thereon dated January 23, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on UAH's financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*PricewaterhouseCoopers LLP*

Birmingham, Alabama  
January 23, 2017, except for the Report on Schedule of Expenditures of Federal Awards as to which date is June 27, 2017

**Part III**  
**Schedule of Findings and Questioned Costs**

**The University of Alabama in Huntsville**  
**Schedule of Findings and Questioned Costs**  
**Year Ended September 30, 2016**

---

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- ◆ Material weakness(es) identified?  Yes  No
- ◆ Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None reported
- ◆ Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

- ◆ Material weakness(es) identified?  Yes  No
- ◆ Significant deficiency(ies) identified that are not considered to be material weakness(es)?  Yes  None reported

Type of auditor’s report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

**Identification of Major Programs**

<b>CFDA Number</b>	<b>Name of Federal Program or Cluster</b>
Various	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$3,000,000

Auditee qualified as low-risk auditee?  Yes  No

**Section II – Financial Statement Findings**

No findings to be reported.

**Section III – Federal Award Findings and Questioned Costs**

No findings to be reported.

**Part IV**  
**Summary of Status of Findings from Prior Audits**

**The University of Alabama in Huntsville**  
**Summary of Status of Findings from Prior Audits**  
**Year Ended September 30, 2016**

---

There are no findings from prior years that require an update in this report.

**Part VI**  
**2016 Financial Report**

# The University of Alabama in Huntsville

## FINANCIAL REPORT 2015-2016



The Student Services Building (SSB) located in the center of campus, opened in spring 2016, and conveniently locates all student services in one facility. Some of the offices located in SSB include Admissions & Recruitment, Enrollment Services, Financial Aid, Career Services, and Graduate Programs. The UAH administration offices and a Conference Center are also in the facility.

### Table of Contents

---

Report of Independent Auditors	2
Management's Discussion and Analysis (Unaudited)	4
Statements of Net Position	17
Component Unit Statements of Financial Position	18
Statements of Revenues, Expenses, and Changes in Net Position	19
Component Unit Statements of Activities	20
Statements of Cash Flows	21
Notes to Financial Statements	23
The Board of Trustees of The University of Alabama	56
Administration and Financial Staff	57

---





## **Report of Independent Auditors**

To the Board of Trustees of The University of Alabama:

### **Report on the Financial Statements**

We have audited the accompanying financial statements 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, as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which consist of the statements of net position and the related statements of revenues, expenses, and changes in net position and of cash flows of UAH and the statements of financial position and the related statements of activities of the University of Alabama in Huntsville Foundation ("UAHF"), UAH's discretely presented component unit.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We did not audit the financial statements of UAHF, UAH's discretely presented component unit, as of September 30, 2016 and 2015 and for the years then ended. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of UAHF were not audited in accordance with *Government Auditing Standards*.

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 upon our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of UAH and its



discretely presented component unit at September 30, 2016 and 2015, 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, where applicable, the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of UAH. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2016 and 2015, its changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

The accompanying management's discussion and analysis on pages 4 through 15 and the required supplementary information on page 55 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 the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2017 on our consideration of UAH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended September 30, 2016. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UAH's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

January 23, 2017

## 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") during FY 2016 and FY 2015. This discussion and analysis has been prepared by University management and includes the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These statements should be read in conjunction with the Notes to Financial Statements.



### 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 25 in the nation, according to the National Science Foundation, including 5<sup>th</sup> in the United States in aeronautical and astronautical engineering. UAH is 13<sup>th</sup> in the nation in NASA-sponsored research and 19<sup>th</sup> in the nation in DOD research.

The University offers 84 degree-granting programs that meet the highest standards of excellence, including 40 bachelor's degree programs, 29 master's degree programs, and 15 doctoral programs through its nine colleges: Arts, Humanities and Social Sciences; Business Administration, 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.

The campus receives national recognition on a regular basis. 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. Additionally, *USA Today* and *Princeton Review* reported UAH was one of the top 50 educational values in America.

The University received \$80.4 million for externally funded projects during FY 2016. 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, liabilities, and net position of the University as of the end of the fiscal year. 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 present end-of-year data for assets (current and noncurrent), liabilities (current and noncurrent), deferred inflows and outflows of resources, and net position.

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, investors and lending institutions. Finally, the statements of net position provide a picture of the net position and the availability 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 divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources, as it pertains to endowments, is only available for investment purposes. Donors have restricted income derived from these investments to primarily 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:

<b>Summary of Statements of Net Position</b>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current assets	\$ 127,947,579	\$ 124,846,241	\$ 145,140,584
Noncurrent assets:			
Endowment, life income and other investments	52,947,408	66,926,318	73,643,577
Capital assets, net	256,999,556	247,472,797	239,892,467
Legal settlement receivable	-	-	951,113
Other	3,193,812	3,004,808	171,882
<b>Total assets</b>	<b>441,088,355</b>	<b>442,250,164</b>	<b>459,799,623</b>
Deferred outflow from pension liability	<b>26,849,143</b>	<b>17,639,710</b>	-
Current liabilities	61,682,340	62,851,669	60,187,022
Noncurrent liabilities	255,958,429	245,193,520	103,084,078
<b>Total liabilities</b>	<b>317,640,769</b>	<b>308,045,189</b>	<b>163,271,100</b>
Deferred inflow from pension liability	<b>6,963,000</b>	<b>10,965,000</b>	-
Net position			
Net investment in capital assets	155,607,523	139,816,373	128,446,531
Restricted	26,004,706	23,224,738	19,319,644
Unrestricted	(38,278,500)	(22,161,426)	148,762,348
<b>Total net position</b>	<b>\$ 143,333,729</b>	<b>\$ 140,879,685</b>	<b>\$ 296,528,523</b>

For FY 2016, the University's current assets increased \$3.1 million primarily due to an increase in other current assets. Endowment, life income and other investments decreased \$14.0 million due to a decrease in investments for capital activities. Capital assets, net of depreciation, increased \$9.5 million primarily due to the construction of the Student Services Building. Other assets increased \$0.2 million due to pledges received from third parties. Current liabilities decreased \$1.2 million. The majority of this decrease is due to lower construction and payroll liabilities, offset by an increase in unearned revenues due to higher enrollment. Noncurrent liabilities increased by approximately \$10.8 million primarily the result of recording a \$14.1 million increase to the pension liability, offset by a decrease in long-term debt of \$4.6 million which was attributable to regularly scheduled principal payments, and the forgiveness of a note payable. The University recorded deferred outflows of resources of \$9.2 million primarily due to differences between projected and actual earnings of the pension plan. See Note 8 to the financial statements for additional information.

For FY 2015, the University's current assets decreased \$20.3 million primarily due to a decrease in investments held by the University. Endowment, life income and other investments decreased \$6.7 million due to unfavorable market activity. Capital assets,

net of depreciation, increased \$7.6 million primarily due to the construction of the Student Services Building. Other assets increased \$2.8 million due to pledges received from third parties. Current liabilities increased \$2.6 million. The majority of this increase is due to higher construction and payroll liabilities and unearned revenues that have increased with higher enrollment. Noncurrent liabilities increased by approximately \$142.1 million primarily the result of recording a \$146.2 million pension liability in connection with the adoption of GASB 68, offset by a decrease in long-term debt of \$4.1 million which was attributable to regularly scheduled principal payments. Also in connection with adopting GASB 68, the University recorded deferred outflows of resources of \$17.6 million and deferred inflows of resources of \$11.0 million. These amounts represent employer contributions to the pension plan subsequent to the measurement date, changes in proportionate share of contributions, and differences between projected and actual earnings of the pension plan and did not exist in the FY 2014 statement of net position as the University adopted GASB 68 prospectively. See Note 8 to the financial statements for additional information.

For FY 2016, the University's total net position increased \$2.5 million. The University's net investment in capital assets increased approximately \$15.8 million primarily due to capital expenditures. Restricted net position increased \$2.8 million. Unrestricted net position decreased approximately \$16.1 million primarily due to the construction of a building, paid for with institutional funds.

For FY 2015, the University's total net position decreased \$156 million. The University's net investment in capital assets increased approximately \$11.4 million primarily due to capital expenditures. Restricted net position increased \$3.9 million. Unrestricted net position decreased approximately \$170.9 million primarily due to the implementation of GASB 68.

### **Capital Assets**

For FY 2016, FY 2015, and FY 2014, the University had approximately \$493.8 million, \$469.4 million, and \$450.3 million invested in capital assets and accumulated depreciation of \$236.8 million, \$221.9 million, and \$210.4 million, respectively. Depreciation charges for FY 2016, FY 2015, and FY 2014 were \$15.4 million, \$14.4 million, and \$13.1 million, respectively.

The following table summarizes the University's capital assets, net of accumulated depreciation, as of September 30:

<b>Capital Assets, Net</b>			
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Land	\$ 8,046,641	\$ 8,046,641	\$ 7,591,148
Land improvements and infrastructure, net	8,096,560	7,532,370	7,636,800
Buildings and building improvements, net	222,358,952	216,570,427	210,321,979
Equipment, net	15,765,993	12,502,996	11,021,764
Library books, net	1,466,083	1,486,339	1,752,622
Computer software, net	140,925	209,622	443,752
Collections	1,124,402	1,124,402	1,124,402
<b>Total capital assets, net</b>	<b><u>\$ 256,999,556</u></b>	<b><u>\$ 247,472,797</u></b>	<b><u>\$ 239,892,467</u></b>

Major capital additions during FY 2016 included completion of the Student Services Building. Additional information about the University's capital assets is presented in Note 5 to the financial statements.

Major capital additions during FY 2015 included construction of the Student Services Building, completion of the Severe Weather Institute and Radar & Lightning Laboratory, and completion of the expansion and renovation of the Nursing Building.

Major capital additions during FY 2014 included construction of the Severe Weather Institute and Radar & Lightning Laboratory, completion of the Student Life Center, completion of phase II of the Campus Greenway, expansion and renovation of the Nursing Building, and renovations in Wilson Hall, Frank Franz Hall, Salmon Library and Roberts Hall.

Additional information about the University's capital assets is presented in Note 5 to the financial statements.

## Debt

The following table summarizes outstanding debt by type, as of September 30:

<b>Debt</b>			
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Bonds - Current	\$3,839,000	\$4,502,000	\$4,330,000
Bonds - Long Term	93,355,000	97,194,000	101,706,000
Lease - Current	1,155,238	-	-
Lease - Long Term	1,155,238	-	-
Notes - Current	-	368,600	368,600
Notes - Long Term	-	737,200	1,105,800
Premium, net	848,025	895,436	272,278
<b>Total debt outstanding</b>	<b><u>\$100,352,501</u></b>	<b><u>\$103,697,236</u></b>	<b><u>\$ 107,782,678</u></b>

Principal and interest on these revenue bonds are collateralized by a pledge of revenues produced by student housing and student tuition and fees.

**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, both operating and nonoperating, along with the increase/decrease in net position. State appropriations are nonoperating 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:

<b>Summary of Statements of Revenues, Expenses, and Changes in Net Position</b>			
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Operating revenues:			
Tuition and fees	\$ 85,003,514	\$ 76,258,430	\$ 72,713,243
Less: scholarship allowances	(27,185,681)	(22,515,168)	(19,244,242)
Tuition and fees, net	57,817,833	53,743,262	53,469,001
Federal, state and private grants and contracts	80,370,163	75,204,472	91,029,643
Sales and services of educational departments	4,111,462	4,159,834	3,678,370
Auxiliary, net of \$1,597,528 in 2016 and \$1,292,389 in 2015, and \$1,030,275 in 2014 of scholarship allowances	9,159,681	7,466,287	6,686,732
Total operating revenues	151,459,139	140,573,855	154,863,746
Operating expenses	212,907,733	206,082,157	208,922,729
Operating loss	(61,448,594)	(65,508,302)	(54,058,983)
Nonoperating revenues (expenses):			
State educational appropriations	44,959,223	43,997,235	43,102,390
Private gifts	5,515,288	6,175,489	3,172,745
Net investment income (loss)	9,334,432	(5,556,417)	6,926,302
Pell grant revenue	7,671,050	7,670,824	7,395,098
Loss on disposal of capital assets	(14,794)	(171,128)	(1,461,846)
Interest expense	(3,562,561)	(3,944,121)	(3,454,765)
Capital gifts and grants	-	13,582	28,000
Net nonoperating revenues	63,902,638	48,185,464	55,707,924
Increase/(Decrease) in net position	2,454,044	(17,322,838)	1,648,941
Net position, beginning of year (as previously reported)	140,879,685	296,528,523	294,879,582
Cumulative effect of adopting new accounting guidance	-	(138,326,000)	-
Net position, beginning of year (as restated)	140,879,685	158,202,523	294,879,582
<b>Net position, end of year</b>	<b>\$143,333,729</b>	<b>\$140,879,685</b>	<b>\$ 296,528,523</b>



Approximately \$45 million in state appropriations were received in FY 2016, an increase of 2% or \$962 thousand from the prior year.

Gross tuition and fees increased approximately \$8.7 million in FY 2016 due to a continued growth in total enrollment. Gross tuition and fees increased approximately \$3.5 million in FY 2015. The tuition rate decreased by 0.33% for the 2014-2015 academic year. The University set records during fall 2015 for total enrollment, undergraduate and graduate students combined, as well as for the size of its freshman class. The following is a summary of revenues by source (both operating and nonoperating) for the years ended September 30. 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*.

Revenue Sources						
	2016		2015		2014	
State educational appropriations	\$44,959,223	20.5%	\$43,997,235	22.8%	\$43,102,390	20.0%
Net investment (loss) income	9,334,432	4.3%	(5,556,417)	-2.9%	6,926,302	3.2%
Grants and contracts	80,370,163	36.7%	75,204,472	39.0%	91,029,643	42.2%
Gifts	5,515,288	2.5%	6,175,489	3.2%	3,172,745	1.5%
Auxiliary	9,159,681	4.2%	7,466,287	3.9%	6,686,732	3.1%
Net tuition and fees	57,817,833	26.4%	53,743,262	27.9%	53,469,001	24.9%
Sales and services	4,111,462	1.9%	4,159,834	2.1%	3,678,370	1.7%
Capital gifts and grants	-	0.0%	13,583	0.0%	28,000	0.0%
Pell grants	7,671,050	3.5%	7,670,824	4.0%	7,395,098	3.4%
<b>Total revenues</b>	<b>\$218,939,132</b>		<b>\$192,874,569</b>		<b>\$215,488,281</b>	

Investments produced gains for FY 2016 in the amount of \$9.3 million, a \$14.9 million increase over FY 2015. Investments produced losses for FY 2015 in the amount of \$5.6 million, a \$12.5 million decrease over FY 2014. Fluctuation is due primarily to market conditions.

Grants and contracts revenues increased \$5.2 million in FY 2016 due primarily to increases in federal contracts. Grants and contracts revenues decreased \$15.8 million in FY 2015. The FY 2015 decline can be traced largely to a \$ 9.8 million pass-through federal contract for FY 2014 that was not renewed in FY 2015. Grants and contracts revenues decreased \$6.9 million in FY 2014 due primarily to a \$5.0 million pass-through federal contract that was not renewed in FY 2014.

National Science Foundation revenues increased \$567 thousand and \$375 thousand in FY 2016 and FY 2015, respectively. National Science Foundation revenues decreased \$2.4 million in FY 2014 primarily due to the completion of the \$1.0 million ESPCOR Research and the \$776 thousand Education contract received in FY 2013.

The University received gifts of approximately \$5.5 million in FY 2016, primarily from the University of Alabama Huntsville Foundation. FY 2015 was an exceptional year for gifts with the University receiving approximately \$6.2 million due primarily to a single donor gift of \$3.0 million from Bryant Bank for the Nursing program. The University received gifts totaling \$3.2 million in FY 2014.

The University’s auxiliary activities are comprised primarily of the Bevill Conference Center and Hotel, food service, housing, and bookstore. Auxiliary activities increased \$1.7 million, \$780 thousand and \$552 thousand in FY 2016, FY 2015 and FY 2014, respectively.

Sales and services revenue decreased by \$48 thousand in FY 2016. Sales and services revenue increased by \$481 thousand in FY 2015 due to an increase in enrollment. As fees were held flat, sales and services revenue was stable for FY 2014.

The University receives grant and contract revenue from federal, state and local governments and private agencies. These funds are used to further the mission of the University: research, education, and public service. These funds are recorded as operating revenues. The following chart reflects the funding sources for federal operating grant and contract revenue for the years ended September 30:

<b>Detail of Federal Grants &amp; Contracts Revenue</b>			
	<u>2016</u>	<u>2015</u>	<u>2014</u>
National Aeronautics and Space Administration	\$ 20,842,244	\$ 20,148,797	\$ 21,140,998
Department of Defense	42,320,727	40,260,133	50,183,241
National Science Foundation	4,169,421	3,602,857	3,227,998
Department of Education	625,761	582,024	585,406
Other	4,650,881	3,667,073	4,764,922
<b>Total</b>	<b>\$ 72,609,034</b>	<b>\$ 68,260,884</b>	<b>\$ 79,902,565</b>

National Aeronautics and Space Administration (NASA) revenues increased \$693 thousand in FY 2016. National Aeronautics and Space revenues decreased \$992 thousand in FY 2015 and increased \$543 thousand in FY 2014 primarily due to an increase in NASA research contracts.

Department of Defense (DoD) revenues increased \$2.1 million in FY 2016 primarily due to new federal pass-through contracts. Department of Defense revenues decreased \$9.9 million in FY 2015 and \$8.4 million in FY 2014 primarily due to pass-through contracts for FY 2014 and FY 2013 that were not renewed for FY 2015 and FY 2014.

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

<b>Operating expenses (by functional classification)</b>			
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Instruction	\$ 58,220,362	\$ 53,931,815	\$ 52,052,721
Research	67,422,410	64,651,852	74,757,309
Public service	4,044,377	5,765,716	5,638,106
Academic support	11,093,403	11,261,569	10,830,804
Student services	16,378,477	15,994,309	14,590,093
Institutional support	20,155,287	20,915,985	19,218,556
Operations and maintenance of plant	13,469,491	13,301,579	13,267,827
Scholarships and fellowships	2,139,731	1,128,515	1,101,624
Auxiliary enterprises	4,586,105	4,690,415	4,407,374
Depreciation	15,398,090	14,440,402	13,058,315
<b>Total operating expenses</b>	<b><u>\$ 212,907,733</u></b>	<b><u>\$ 206,082,157</u></b>	<b><u>\$ 208,922,729</u></b>
<b>Operating expenses (by natural classification)</b>			
Compensation and benefits	\$ 153,938,849	\$ 150,457,933	\$ 151,092,560
Supplies and services	41,431,063	40,055,307	43,670,230
Depreciation	15,398,090	14,440,402	13,058,315
Scholarships and fellowships	2,139,731	1,128,515	1,101,624
<b>Total operating expenses</b>	<b><u>\$ 212,907,733</u></b>	<b><u>\$ 206,082,157</u></b>	<b><u>\$ 208,922,729</u></b>

In FY 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. In FY 2015, instruction expenses increased \$1.9 million primarily due to compensation and benefits. FY 2014, instruction expenses increased \$3.2 million also due to an increase in compensation and benefits.

Research expenses increased \$2.8 million in FY 2016 due to an increase in contracts and grants. Research expenses decreased \$10.1 million and \$7.0 million in FY2015 and FY 2014, respectively primarily due to decreases in contracts and grants.

Public service expenses decreased \$1.7 million in FY 2016 due to decreases in federal public service contracts and grants. Public service expenses increased \$128 thousand and \$816 thousand during FY 2015 and FY 2014, respectively, due to increases in federal public service contracts and grants.

Academic support decreased slightly during FY 2016 by \$168 thousand. Academic support increased \$431 thousand during FY 2015. Academic support saw an increase of \$1.0 million during FY 2014.

Operations and maintenance of plant increased \$168 thousand during FY 2016. Operations and maintenance of plant increased \$34 thousand during FY 2015 primarily due to increases in utilities costs and other services. Operations and maintenance of plant increased \$786 thousand from FY 2013 to FY 2014.

Compensation and benefits increased \$3.5 million in FY 2016, primarily due to a combination of increases in grants and contracts and health insurance and other benefit costs. FY 2015 saw a \$635 thousand decrease in compensation and benefits. The increase in compensation and benefits of \$7.5 million in FY 2014 was primarily due to annual merit based salary increases and increases in retirement, health insurance and other benefit costs.

Scholarships and fellowships expense increased \$1.0 million during FY 2016. Scholarships and fellowships expense increased \$27 thousand for FY 2015. Scholarships and fellowships expense decreased \$12 thousand for FY 2014. 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 \$1.4 million in FY 2016 due to the University's continued growth. In FY 2015, supplies and services expenses decreased \$3.6 million due to the decline in federal contracts and grants. Supplies and services expenses decreased \$6.8 million in FY 2014 due to a decline in research grants and related expenses.



## Statements of Cash Flows

The statements of cash flows present the significant sources and uses of cash. The University's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts. The following are condensed statements of cash flows for the years ended September 30:

<b>Condensed Statements of Cash Flows</b>		
	<b>2016</b>	<b>2015</b>
Cash received from operations	\$ 151,163,994	\$ 151,018,015
Cash payments for operations	(200,069,150)	(192,840,609)
Net cash used in operating activities	(48,905,156)	(41,822,594)
Net cash used in capital and related financing activities	(33,679,776)	(30,544,464)
Net cash provided by investing activities	15,097,383	25,556,007
Net cash provided by noncapital financing activities	58,618,607	56,151,095
Net increase in cash and cash equivalents from other than operating activities	40,036,214	51,162,638
Net (decrease) increase in cash and cash equivalents	(8,868,942)	9,340,044
Cash and cash equivalents, beginning of year	41,124,163	31,784,119
Cash and cash equivalents, end of year	<u>\$ 32,255,221</u>	<u>\$ 41,124,163</u>

The University used \$48.9 million of cash for operating activities in FY 2016, offset by \$58.6 million of cash provided by noncapital financing activities. Similarly, in FY 2015, \$41.8 million of cash used for operating activities was offset by \$56.2 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses. The increase in cash provided by noncapital financing activities was due mainly to an increase in private gifts.

Cash of \$33.6 million and \$30.5 million in FY 2016 and FY 2015, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments.

Cash provided by investing activities totaled \$15.1 million in FY 2016. Cash provided by investing activities totaled \$25.6 million in FY 2015.

## 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 FY 2015, the University was funded at 48.5% of the ACHE recommended funding. The funding percentage dropped to 45.8% in FY 2016.

State appropriations at the University have been reduced from \$58.1 million in FY 2008 to \$45.0 million in FY 2016. In FY 2008, the University was funded at 78% of what the ACHE recommended. 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.

Undergraduate and graduate student enrollments were at a record high for Fall 2015. The University also experienced the largest first-time freshman enrollment. The University continues to expand its College of Education, the Rise School, and the Honors Program. The Nursing Building expansion and renovation is fully completed. The University continues to strategically upgrade its infrastructure.

The University research continues to diversify its research portfolio beyond the traditional strong areas in NASA and DoD funding.

The University fielded men's and women's lacrosse teams in FY 2016 and the first ever lacrosse match was played on the UAH campus in the spring of 2016.



## 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.

# FINANCIAL STATEMENTS



**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE  
STATEMENTS OF NET POSITION  
September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 31,638,074	\$ 40,459,232
Operating investments	59,595,149	51,473,261
Accounts receivable, net	22,959,641	22,005,137
Other current assets	<u>13,754,715</u>	<u>10,908,611</u>
Total current assets	127,947,579	124,846,241
Noncurrent Assets:		
Restricted cash and cash equivalents	617,147	664,931
Endowment investments	31,770,261	29,241,567
Investments for capital activities	20,560,000	37,019,820
Capital assets, net	256,999,556	247,472,797
Other noncurrent assets	<u>3,193,812</u>	<u>3,004,808</u>
Total noncurrent assets	<u>313,140,776</u>	<u>317,403,923</u>
<b>Total Assets</b>	<b><u>441,088,355</u></b>	<b><u>442,250,164</u></b>
<b>Deferred Outflows of Resources</b>		
Deferred outflows from pension	<u>26,849,143</u>	<u>17,639,710</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>26,849,143</u></b>	<b><u>17,639,710</u></b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 467,937,498</u></b>	<b><u>\$ 459,889,874</u></b>
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 18,435,391	\$ 22,027,061
Unearned revenues	34,478,616	32,461,781
Current portion of long-term debt	4,994,238	4,870,600
Deposits held for others	<u>3,774,095</u>	<u>3,492,227</u>
Total current liabilities	61,682,340	62,851,669
Noncurrent Liabilities:		
Long-term debt	95,358,263	98,826,636
Federal advances-loan funds	210,166	118,884
Pension liability	<u>160,390,000</u>	<u>146,248,000</u>
Total noncurrent liabilities	<u>255,958,429</u>	<u>245,193,520</u>
<b>Total Liabilities</b>	<b><u>317,640,769</u></b>	<b><u>308,045,189</u></b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows from pension	<u>6,963,000</u>	<u>10,965,000</u>
<b>Total Deferred Inflows of Resources</b>	<b><u>6,963,000</u></b>	<b><u>10,965,000</u></b>
<b>Net Position</b>		
Net investment in capital assets	155,607,523	139,816,373
Restricted:		
Nonexpendable	9,286,245	9,207,315
Expendable	16,718,461	14,017,423
Unrestricted	<u>(38,278,500)</u>	<u>(22,161,426)</u>
<b>Total Net Position</b>	<b><u>143,333,729</u></b>	<b><u>140,879,685</u></b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b><u>\$ 467,937,498</u></b>	<b><u>\$ 459,889,874</u></b>

See accompanying notes to financial statements



**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION  
DISCRETELY PRESENTED COMPONENT UNIT  
STATEMENTS OF FINANCIAL POSITION  
September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 3,927,693	\$ 3,747,678
Investments	40,149,490	37,609,812
Investment real estate	2,757,376	2,757,376
Investment in trust	5,268,223	5,237,815
Accrued interest	445,443	399,305
Pledges receivable, net	92,732	62,050
Trust receivable	484,959	484,959
Related party receivable	-	1,105,800
<b>Total Assets</b>	<b><u>\$ 53,125,916</u></b>	<b><u>\$ 51,404,795</u></b>
Accounts payable	\$ 6,057	\$ 25,471
Annuity payable	122,038	123,914
Payroll tax payable	596,134	-
<b>Total Liabilities</b>	<b><u>724,229</u></b>	<b><u>149,385</u></b>
Unrestricted net assets	21,518,833	22,330,817
Temporarily restricted net assets	9,528,814	8,328,743
Permanently restricted net assets	21,354,040	20,595,850
<b>Total Net Assets</b>	<b><u>52,401,687</u></b>	<b><u>51,255,410</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 53,125,916</u></b>	<b><u>\$ 51,404,795</u></b>

See Note 15



**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Years Ended September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Operating Revenues</b>		
Tuition and fees	\$ 85,003,514	\$ 76,258,430
Less: scholarship allowances	<u>(27,185,681)</u>	<u>(22,515,168)</u>
Tuition and fees, net	57,817,833	53,743,262
Grants and contracts		
Federal	72,609,034	68,260,884
State	4,567,601	4,689,746
Private	3,193,528	2,253,842
Sales and services of educational departments	4,111,462	4,159,834
Auxiliary, net of \$1,597,528 in 2016 and \$1,292,389 in 2015 of scholarship allowances	<u>9,159,681</u>	<u>7,466,287</u>
<b>Total Operating Revenues</b>	<b><u>151,459,139</u></b>	<b><u>140,573,855</u></b>
<b>Operating Expenses</b>		
Compensation and benefits	153,938,849	150,457,933
Supplies and services	41,431,063	40,055,307
Depreciation	15,398,090	14,440,402
Scholarships and fellowships	<u>2,139,731</u>	<u>1,128,515</u>
<b>Total Operating Expenses</b>	<b><u>212,907,733</u></b>	<b><u>206,082,157</u></b>
Operating loss	(61,448,594)	(65,508,302)
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	44,959,223	43,997,235
Private gifts	5,515,288	6,175,489
Net investment income (loss)	9,334,432	(5,556,417)
Pell grant revenue	7,671,050	7,670,824
Loss on disposal of capital assets	(14,794)	(171,128)
Interest expense	<u>(3,562,561)</u>	<u>(3,944,121)</u>
<b>Net Nonoperating Revenues</b>	63,902,638	48,171,882
Capital gifts	-	13,582
	<b><u>63,902,638</u></b>	<b><u>48,185,464</u></b>
Increase/(Decrease) in net position	2,454,044	(17,322,838)
Net Position, Beginning of Year (as previously reported)	140,879,685	296,528,523
Cumulative effect of adopting new accounting guidance (see Note 8)	<u>-</u>	<u>(138,326,000)</u>
Net Position, Beginning of Year (as restated, as of October 1, 2014)	<u>140,879,685</u>	<u>158,202,523</u>
<b>Net Position, End of Year</b>	<b><u>\$ 143,333,729</u></b>	<b><u>\$ 140,879,685</u></b>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**STATEMENTS OF ACTIVITIES**  
**Years Ended September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Changes in net assets</b>		
<b>Revenue, gains, and other support:</b>		
Contributions	\$ 1,924,577	\$ 1,265,423
Rent income	33,870	33,861
Investment income	1,900,369	1,840,066
Realized gain/(loss) on sale of investments	2,391,339	355,797
Equity in earnings of trust	632,159	596,253
Other income	6,847	90,772
Change in allowance for uncollectibles	-	17,789
Change in value of split-interest agreement	-	22,242
<b>Total Revenues</b>	<u>6,889,161</u>	<u>4,222,203</u>
<b>Expenses:</b>		
Realized (gain) loss on investments	\$ 418,775	\$ 3,541,447
Contributions to UAH	3,642,518	1,742,343
Scholarships to UAH	1,452,577	1,442,292
Professional services	64,000	88,710
Income tax expense	106,826	212,201
Labor/Payroll expense	-	28,610
Change in value of split-interest agreement	4,638	
Other expenses	53,550	54,731
<b>Total Expenses</b>	<u>5,742,884</u>	<u>7,110,334</u>
Change in net assets	1,146,277	(2,888,131)
Net Assets, Beginning of Year	<u>51,255,410</u>	<u>54,143,541</u>
<b>Net Assets, End of Year</b>	<u>\$ 52,401,687</u>	<u>\$ 51,255,410</u>

See Note 15

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENT OF CASH FLOWS**  
**Years Ended September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 59,843,243	\$ 55,321,999
Federal grants and contracts	70,051,410	75,753,515
State and local grants and contracts	4,451,084	5,165,489
Private grants and contracts	3,112,063	2,482,479
Sales and services of educational and other departmental activities	3,685,940	4,180,326
Auxiliary enterprises	10,020,254	8,114,207
Payments to suppliers	(41,370,412)	(41,373,954)
Payments to employees and related fringes	(153,921,203)	(148,844,877)
Payments for scholarships and fellowships	(4,777,535)	(2,621,778)
<b>Net Cash Used in Operating Activities</b>	<u><b>(48,905,156)</b></u>	<u><b>(41,822,594)</b></u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from issuance of bonds	-	17,035,000
Purchase of capital assets	(24,443,389)	(21,840,244)
Proceeds from sale of capital assets	-	7,700
Principal payments on capital debt	(5,657,238)	(21,743,600)
Interest payments on capital debt	(3,579,149)	(4,003,320)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u><b>(33,679,776)</b></u>	<u><b>(30,544,464)</b></u>
<b>Cash Flows from Investing Activities</b>		
Income distributions from System investment pool	1,471,817	1,797,771
Proceeds from sales and maturities of other investments	15,003,100	25,003,175
Contributions to System investment pool	(1,377,534)	(1,244,939)
<b>Net Cash Provided by Investing Activities</b>	<u><b>15,097,383</b></u>	<u><b>25,556,007</b></u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State educational appropriations	44,959,223	43,997,235
Private gifts	4,211,421	3,375,489
Student direct lending receipts	30,017,708	28,217,556
Student direct lending disbursements	(29,565,058)	(28,041,718)
Amounts received from affiliates	387,537	118,883
Amounts paid to affiliates	(14,387)	(91,790)
Legal settlement	951,113	904,616
Pell grant revenue	7,671,050	7,670,824
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u><b>58,618,607</b></u>	<u><b>56,151,095</b></u>
Net (decrease) increase in cash and cash equivalents	(8,868,942)	9,340,044
Cash and Cash Equivalents, Beginning of Year	41,124,163	31,784,119
<b>Cash and Cash Equivalents, End of Year</b>	<u><b>\$ 32,255,221</b></u>	<u><b>\$ 41,124,163</b></u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>		
Cash and cash equivalents in current assets	31,638,074	40,459,232
Cash and cash equivalents for capital activities	-	-
Restricted cash and cash equivalents	617,147	664,931
<b>Total Cash and Cash Equivalents</b>	<u><b>\$ 32,255,221</b></u>	<u><b>\$ 41,124,163</b></u>

See accompanying notes to financial statements

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE  
STATEMENT OF CASH FLOWS -- Continued  
Years Ended September 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (61,448,594)	\$ (65,508,302)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	15,359,742	15,030,634
Pension expense	12,405,710	12,540,610
Changes in allowance for doubtful accounts	(54)	406,272
Changes in assets and liabilities:		
Accounts receivable, net	(2,311,926)	6,515,387
Other current assets	(2,846,104)	(1,811,778)
Pension obligations	(11,475,143)	(11,293,320)
Accounts payable and accrued liabilities	(605,622)	(1,473,949)
Unearned revenues	2,016,835	3,771,852
<b>Net Cash Used in Operating Activities</b>	<u><b>\$ (48,905,156)</b></u>	<u><b>\$ (41,822,594)</b></u>
 <b>Supplemental Noncash Activities Information</b>		
Loss on disposal of capital assets	\$ 14,794	\$ 171,128
Gift of capital assets	-	13,582
Capital assets acquired with a liability at year end	1,039,531	4,008,991
Pledged receivables	2,998,067	2,800,000
Forgiveness of note payable	1,105,800	-
Capital assets acquired with a capital lease	3,465,714	-

See accompanying notes to financial statements



---

## Notes to Financial Statements Years Ended September 30, 2016 and 2015

### 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. 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 15) to UAHF's financial statements have been incorporated into the University's notes to the financial statements. During FY 2016 and FY 2015, UAHF distributed \$5,095,095 and \$3,184,635, respectively, to or for the University for both restricted and unrestricted purposes. Phone 256-824-6350 for complete financial statements for UAHF.

The University is also affiliated with the Eminent Scholars Foundation, Alabama Engineering Foundation and UAH Alumni Association. These entities' resources are not significant to the University; therefore, they are not included as component units under GASB guidance.

**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. Accordingly, the financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America, as issued by the GASB, using the economic measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**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.

**Implementation of New Standards:** During the year ended September 30, 2016, the University adopted GASB Statement No. 72, *Fair Value Measurement and Application*. With the adoption of this statement, the University expanded disclosures to present its investments across a hierarchy of valuation inputs. Additionally, certain investments held in the University of Alabama System Investment Pools that were historically reported at cost are now reported at fair value (refer to Note 3). The adoption of GASB 72 was not material to the University's financial statements.

During the year ended September 30, 2015, the University adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, effective October 1, 2014. These statements revise existing standards for employer financial statements relating to measuring and reporting pension liabilities for multi-employer cost-sharing pension plans provided by the University to its employees. The University is required to recognize a liability equal to its proportionate share of the Teachers' Retirement System of Alabama Plan's net pension liability.

**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 investments are primarily reported at fair value. 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 provided by the System, based on the fair value of the underlying investment securities held by each investment pool. Fair value of the underlying securities held in each investment pool is based on quoted market prices or dealer quotes, where available, or determined using net asset values provided by underlying investment partnerships or companies, which primarily invest in readily marketable securities. Fair value for 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, 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, and current amounts due to the University related to a legal settlement. Accounts receivable are recorded net of estimated uncollectible amounts.

**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 guidance. 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 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 exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's operating revenues are from exchange transactions. 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.

**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.

**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. The Board approved a spending rate for FY 2016 and FY 2015 of 5.0% of a trailing three-year average of the market (unit) value.

**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.

**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.

**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 – Cash**

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.

For FY 2016 and FY 2015, the University had cash and cash equivalents totaling \$32,255,221 and \$41,124,163 respectively. Included in the amounts are deposits with trustees held for reserves, which totaled \$617,147 in FY 2016 and \$664,931 in FY 2015.

## **Note 3 – 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 Endowment Fund, the Long Term Reserve Pool and the Short Term Liquidity Pool (collectively, the “System Pools”). Pursuant to Board investment policies, each System or related entity may include all or a portion of their investments within the System-sponsored investment pools. These investment funds are considered ‘internal’ investment pools under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with the assets pooled on a market value basis. Separately managed funds that reside with each entity are to be invested consistent with the asset mix of the corresponding System investment pool. The following disclosures relate to both the System Pools, which include the investments of other System entities and other affiliated entities, and the University-specific investment portfolio.

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

**Long Term Reserve Pool (LTRP):** The LTRP is a longer-term fund used as an investment vehicle to manage operating reserves with a time horizon of seven to ten years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid and semi-liquid securities. This fund is not currently invested in long-term lockup funds with illiquid assets.

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

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

**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, 2016. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. University management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

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

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



At September 30, 2016 and 2015, the fair value of investments for the System Pools based on the inputs used to value them is summarized as follows:

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



ENDOWMENT FUND					
	2015				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
<b>Receivables:</b>					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 732,281
Total Receivables	-	-	-	-	732,281
<b>Cash Equivalents:</b>					
Money Market Funds	45,827,694	-	-	-	45,827,694
Total Cash Equivalents	45,827,694	-	-	-	45,827,694
<b>Equities:</b>					
U.S. Common Stock	91,674,908	-	-	-	91,674,908
Foreign Stock	6,733,725	-	-	-	6,733,725
Total Equities	98,408,633	-	-	-	98,408,633
<b>Fixed Income Securities:</b>					
U.S. Government Obligations	-	11,925,084	-	-	11,925,084
Corporate Bonds	-	22,370,872	-	-	22,370,872
Non-U.S. Bonds	-	2,573,773	-	-	2,573,773
Total Fixed Income Securities	-	36,869,729	-	-	36,869,729
<b>Commingled Funds:</b>					
Non-U.S. Equity Funds	-	196,196,151	-	-	196,196,151
U.S. Bond Funds	-	59,672,727	-	-	59,672,727
Non-U.S. Bond Funds	-	27,041,898	-	-	27,041,898
Hedge Funds	-	-	-	448,537,456	448,537,456
Private Equity Funds	-	-	-	94,958,199	94,958,199
Real Estate Funds	-	-	-	132,005,489	132,005,489
Total Commingled Funds	-	282,910,776	-	675,501,144	958,411,920
Total Fund Investments	144,236,327	319,780,505	-	675,501,144	1,139,517,976
Total Fund Assets	144,236,327	319,780,505	-	675,501,144	1,140,250,257
Total Fund Liabilities	-	-	-	-	(138,496)
Affiliated Entity Investments in Funds	-	-	-	-	(145,926,519)
Total Net Asset Value	\$ 144,236,327	\$ 319,780,505	\$ -	\$ 675,501,144	\$ 994,185,242

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

LONG TERM RESERVE POOL FUND					
	2015				Total Fair Value
	Level 1	Level 2	Level 3	NAV	
<b>Receivables:</b>					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 928,183
Total Receivables	-	-	-	-	928,183
<b>Cash Equivalents:</b>					
Money Market Funds	53,715,774	-	-	-	53,715,774
Total Cash Equivalents	53,715,774	-	-	-	53,715,774
<b>Equities:</b>					
U.S. Common Stock	78,549,689	-	-	-	78,549,689
Foreign Stock	7,331,290	-	-	-	7,331,290
Total Equities	85,880,979	-	-	-	85,880,979
<b>Fixed Income Securities:</b>					
U.S. Government Obligations	-	17,681,310	-	-	17,681,310
Corporate Bonds	-	32,050,655	-	-	32,050,655
Non-U.S. Bonds	-	3,857,095	-	-	3,857,095
Total Fixed Income Securities	-	53,589,060	-	-	53,589,060
<b>Commingled Funds:</b>					
U.S. Equity Funds	-	52,678,292	-	-	52,678,292
Non-U.S. Equity Funds	-	299,302,691	-	-	299,302,691
U.S. Bond Funds	-	55,754,545	-	-	55,754,545
Non-U.S. Bond Funds	-	33,568,513	-	-	33,568,513
Hedge Funds	-	-	-	528,911,448	528,911,448
Real Estate Funds	-	-	-	67,950,890	67,950,890
Total Commingled Funds	-	441,304,041	-	596,862,338	1,038,166,379
Total Fund Investments	139,596,753	494,893,101	-	596,862,338	1,231,352,192
Total Fund Assets	139,596,753	494,893,101	-	596,862,338	1,232,280,375
Total Fund Liabilities	-	-	-	-	(100,561)
Affiliated Entity Investments in Funds	-	-	-	-	(72,589,331)
Total Net Asset Value	\$ 139,596,753	\$ 494,893,101	\$ -	\$ 596,862,338	\$ 1,159,590,483

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

SHORT TERM LIQUIDITY POOL FUND					
	2015			NAV	Total Fair Value
	Level 1	Level 2	Level 3		
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 2,875,267
Total Receivables	-	-	-	-	2,875,267
Cash Equivalents:					
Money Market Funds	107,786,001	-	-	-	107,786,001
Total Cash Equivalents	107,786,001	-	-	-	107,786,001
Fixed Income Securities:					
U.S. Government Obligations	-	233,056,867	-	-	233,056,867
Mortgage Backed Securities	-	155,032,472	-	-	155,032,472
Collateralized Mortgage Obligations	-	22,197,142	-	-	22,197,142
Corporate Bonds	-	185,111,586	-	-	185,111,586
Non-U.S. Bonds	-	67,420,921	-	-	67,420,921
Total Fixed Income Securities	-	662,818,988	-	-	662,818,988
Commingled Funds:					
U.S. Bond Funds	-	208,669,176	-	-	208,669,176
Total Commingled Funds	-	208,669,176	-	-	208,669,176
Total Fund Investments	107,786,001	871,488,164	-	-	979,274,165
Total Fund Assets	107,786,001	871,488,164	-	-	982,149,432
Total Fund Liabilities	-	-	-	-	(320,823)
Affiliated Entity Investments in Funds	-	-	-	-	(76,155,181)
Total Net Asset Value	\$ 107,786,001	\$ 871,488,164	\$ -	\$ -	\$ 905,673,428

**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. At least 95% of these fixed income investments must be in investment grade securities (securities with ratings of BBB- or Baa3) or higher. However, multi-strategy fixed income managers may have up to 20% of their investments in non-investment grade securities. Securities of foreign entities denominated in U.S. dollars are limited to 10% of a manager's portfolio. Securities denominated in currencies other than U.S. dollars are not permissible unless part of a multi-strategy fixed income account where the limitation is 20% of the manager's portfolio.

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and LTRP, which are tracked against the Barclays Government Credit Index for U.S. investments and the Citigroup WGBI Index for international investment benchmarks for the fixed income portion of these pools. Fixed income investments within the Endowment and LTRP include corporate and U.S. Treasury and/or agency bonds with a minimum BBB- rating and an average duration of four years. In addition, approximately \$1,200,000 and \$1,400,000 in the Endowment and LTRP at September 30, 2016 and 2015, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$279,200,000 and \$275,600,000 in the Endowment and LTRP, for FY 2016 and FY2015, 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 with a minimum rating of BB or higher. At September 30, 2016 and 2015, respectively, approximately \$78,100,000 and \$86,700,000 was invested by the STLP in unrated fixed income securities, excluding commingled bond funds, and money market funds. Fixed income commingled funds and commercial paper totaled approximately \$310,200,000 and \$316,500,000 at September 30, 2016 and 2015, respectively.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2016 and 2015 are as follows:

	ENDOWMENT FUND		LTRP FUND		STLP FUND	
	2016	2015	2016	2015	2016	2015
Fixed or Variable Income Securities						
U.S. Government Obligations	\$ 11,635,633	\$ 11,925,084	\$ 13,315,542	\$ 17,681,310	\$ 206,021,290	\$ 233,056,867
Other U.S. and Non-U.S. Denominated:						
AAA	-	-	-	-	\$ 66,722,557	76,994,388
AA	\$ 4,935,622	5,308,729	\$ 5,902,771	7,818,545	\$ 62,277,161	56,012,019
A	\$ 11,351,391	10,171,266	\$ 13,602,107	14,500,606	\$ 94,456,013	99,306,842
BBB	\$ 9,710,555	8,504,328	\$ 11,642,153	12,154,468	\$ 96,922,375	77,043,546
BB	\$ 396,562	410,272	\$ 581,625	634,058	\$ 12,178,203	21,027,641
B		-		-	\$ 6,109,639	8,654,442
C and < C		-		-	\$ 3,388,143	4,052,387
Unrated	\$ 549,764	550,050	\$ 674,710	800,073	\$ 78,100,343	86,670,856
Commingled Funds:						
U.S. Bond Funds: Unrated	\$ 59,563,636	59,672,727	\$ 65,616,121	55,754,545	\$ 199,067,054	208,669,176
Non-U.S. Bond Funds: Unrated	\$ 26,423,526	27,041,898	\$ 42,818,930	33,568,513		-
Money Market Funds: Unrated	\$ 37,501,965	45,827,694	\$ 47,260,189	53,715,774	\$ 111,156,636	107,786,001
<b>TOTAL</b>	<b>\$ 162,068,654</b>	<b>\$ 169,412,048</b>	<b>\$ 201,414,148</b>	<b>\$ 196,627,892</b>	<b>\$ 936,399,414</b>	<b>\$ 979,274,165</b>

**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, 2016 and 2015, 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, 2016 and 2015 are as follows:

	ENDOWMENT FUND		LTRP FUND		STLP FUND	
	2016	2015	2016	2015	2016	2015
U.S. GOVERNMENT OBLIGATIONS	8.1	7.3	8.4	7.2	1.9	1.7
CORPORATE BONDS	4.7	4.4	4.6	4.4	2.1	2.0
NON-U.S. BONDS	-	-	-	-	2.1	2.0
COMMINGLED BOND FUNDS	1.8	2.4	1.5	2.1	2.8	2.7

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, 2016 and 2015, the fair market value of these investments held by the System Pools are as follows:

	ENDOWMENT FUND		LTRP FUND		STLP FUND	
	2016	2015	2016	2015	2016	2015
MORTGAGE BACKED SECURITIES	\$ -	\$ -	\$ -	\$ -	\$ 166,643,153	\$ 155,032,472
COLLATERALIZED MORTGAGE OBLIGATIONS	-	-	-	-	12,035,018	22,197,142
TOTAL FIXED	\$ -	\$ -	\$ -	\$ -	\$ 178,678,171	\$ 177,229,614

**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.

**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, 2016 and 2015, the effective durations for these securities are as follows:

	ENDOWMENT FUND		LTRP FUND		STLP FUND	
	2016	2015	2016	2015	2016	2015
MORTGAGE BACKED SECURITIES	-	-	-	-	0.9	1.1
COLLATERALIZED MORTGAGE OBLIGATIONS	-	-	-	-	1.7	0.9

**Foreign Currency Risk:** The strategic asset allocation policy for the Endowment Fund and the LTRP includes an allocation to non-United States equity securities and fixed income securities. Each international equity manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager's portfolio, measured at market value. Currency hedging of foreign bonds and stocks is allowed under System Policy. As of September 30, 2016 and 2015, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$64.9 million and \$67.4 million of foreign bonds denominated in U.S. dollars and held by the STLP at September 30, 2016 and 2015, respectively.

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

At September 30, 2016 and 2015, there were no securities on loan from the investment pools.

#### Note 4 – Accounts Receivable

The composition of accounts receivable for FY 2016 and FY 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Tuition and fees (net of allowance for doubtful accounts of \$1,239,053 in 2016 and \$1,239,053 in 2015)	\$ 5,860,688	\$ 5,823,390
Auxiliary enterprises and other operating activities	65,047	266,088
Federal, state, and private grants and contracts (net of allowance for doubtful accounts of \$342,787 in 2016 and \$342,841 in 2015)	16,136,752	14,492,914
Legal settlement receivable, net present value	-	951,113
Other	897,154	471,632
Net accounts receivable	\$ 22,959,641	\$ 22,005,137

**Note 5 – Capital Assets**

Capital assets activity for FY 2016 and FY 2015 is summarized as follows:

	October 1, <u>2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2016</u>
Land	\$ 8,046,641	\$ -	-	\$ -	\$ 8,046,641
Land improvements and infrastructure	18,120,250	982,769	-	953,601	20,056,620
Buildings and building improvements	338,474,152	16,457,068	-	9,253,841	364,185,061
Construction in progress	10,207,442	382,341	-	(10,207,442)	382,341
Equipment	64,342,882	6,865,747	(426,413)	-	70,782,216
Library books	26,077,271	251,718	(113,459)	-	26,215,530
Computer software	3,006,245	-	-	-	3,006,245
Collections	1,124,402	-	-	-	1,124,402
Total cost of capital assets	<u>469,399,285</u>	<u>24,939,643</u>	<u>(539,872)</u>	<u>-</u>	<u>493,799,056</u>
Less accumulated depreciation	221,926,488	15,398,090	(525,078)	-	236,799,500
Capital assets, net	<u>\$ 247,472,797</u>	<u>\$ 9,541,553</u>	<u>\$ (14,794)</u>	<u>\$ -</u>	<u>\$ 256,999,556</u>

	October 1, <u>2014</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2015</u>
Land	\$ 7,591,148	\$ 455,493	-	\$ -	\$ 8,046,641
Land improvements and infrastructure	16,766,186	1,254,064	-	100,000	18,120,250
Buildings and building improvements	311,183,723	6,194,455	(1,521,144)	22,617,118	338,474,152
Construction in progress	22,717,118	10,207,442	-	(22,717,118)	10,207,442
Equipment	61,942,391	3,966,155	(1,565,664)	-	64,342,882
Library books	26,023,838	55,455	(2,022)	-	26,077,271
Computer software	2,939,750	66,495	-	-	3,006,245
Collections	1,124,402	-	-	-	1,124,402
Total cost of capital assets	<u>450,288,556</u>	<u>22,199,559</u>	<u>(3,088,830)</u>	<u>-</u>	<u>469,399,285</u>
Less accumulated depreciation	210,396,089	14,440,402	(2,910,003)	-	221,926,488
Capital assets, net	<u>\$ 239,892,467</u>	<u>\$ 7,759,157</u>	<u>\$ (178,827)</u>	<u>\$ -</u>	<u>\$ 247,472,797</u>

**Note 6 – Long-term Debt**

Long-term debt activity for FY 2016 and FY 2015 is summarized as follows:

<u>Type/Supported by</u>	<u>October 1, 2015</u>	<u>New Debt</u>	<u>Principal Repayment</u>	<u>September 30, 2016</u>
Bonds:				
Student housing revenue	\$ 27,856,000	\$ -	\$ 595,000	\$ 27,261,000
General fee revenue	73,840,000	-	3,907,000	69,933,000
Note payable	1,105,800	-	1,105,800	-
Lease obligations	-	3,465,714	1,155,238	2,310,476
<b>Total debts</b>	<b>102,801,800</b>	<b>\$ 3,465,714</b>	<b>\$ 6,763,038</b>	<b>99,504,476</b>
Less current portion	(4,870,600)			(4,994,238)
Premium, net	895,436			848,025
<b>Total long-term debt</b>	<b>\$ 98,826,636</b>			<b>\$ 95,358,263</b>

<u>Type/Supported by</u>	<u>October 1, 2014</u>	<u>New Debt</u>	<u>Principal Repayment</u>	<u>September 30, 2015</u>
Bonds:				
Student housing revenue	\$ 39,856,000	\$ -	\$ 12,000,000	\$ 27,856,000
General fee revenue	66,180,000	17,035,000	9,375,000	73,840,000
Note payable	1,474,400	-	368,600	1,105,800
<b>Total debts</b>	<b>107,510,400</b>	<b>\$ 17,035,000</b>	<b>\$ 21,743,600</b>	<b>102,801,800</b>
Less current portion	(4,698,600)			(4,870,600)
Premium, net	272,278			895,436
<b>Total long-term debt</b>	<b>\$103,084,078</b>			<b>\$ 98,826,636</b>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 4,994,238	\$ 3,456,698	\$ 8,450,936
2018	5,096,238	3,370,431	8,466,669
2019	4,038,000	3,276,500	7,314,500
2020	4,164,000	3,173,386	7,337,386
2021	4,265,000	3,058,739	7,323,739
2022-2026	23,097,000	14,834,278	37,931,278
2027-2031	18,550,000	8,921,959	27,471,959
2032-2036	14,640,000	5,738,270	20,378,270
2037-2041	15,370,000	2,863,094	18,233,094
2042-2043	5,290,000	215,510	5,505,510
	<b>\$ 99,504,476</b>	<b>\$ 48,908,865</b>	<b>\$ 148,413,341</b>

The following is a detailed schedule of long-term debt:

<u>Description and Purpose</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate - %</u>	<u>Original Indebtedness</u>	<u>Outstanding Indebtedness September 30, 2016</u>	<u>Outstanding Indebtedness September 30, 2015</u>
<b>Bonds Payable:</b>						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	\$ 2,180,000	\$ 360,000	\$ 445,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	496,000	591,000
Revenue Bonds-Series 2009A	8/4/2009	7/1/2029	3.00-4.50	8,115,000	5,920,000	6,260,000
Student Housing Revenue Bonds-Series 2010-A	7/14/2010	6/1/2042	2.85-6.125	27,990,000	26,405,000	26,820,000
General Fee Revenue Bonds-Series 2012-A	4/3/2012	10/1/2031	0.73-4.28	11,170,000	9,260,000	9,740,000
General Fee Revenue Bonds-Series 2012-B	9/5/2012	12/1/2026	0.74-3.84	13,700,000	10,630,000	11,415,000
General Fee Revenue Bonds-Series 2013-A-1	4/4/2013	4/1/2023	1.57	7,550,000	5,400,000	6,125,000
General Fee Revenue Bonds-Series 2013-A-2	4/4/2013	4/1/2043	4.00	24,455,000	24,455,000	24,455,000
General Fee Revenue Bonds-Series 2014-A	12/15/2014	9/1/2034	3.00-5.00	11,860,000	9,565,000	10,670,000
General Fee Revenue Bonds-Series 2015-A	3/25/2015	6/1/2025	1.96	5,175,000	4,703,000	5,175,000
<b>Total Bonds Payable</b>				<u>114,797,000</u>	<u>97,194,000</u>	<u>101,696,000</u>
<b>Note Payable:</b>						
UAH Foundation	7/10/2013	7/1/2018		1,843,000	-	1,105,800
<b>Total Note Payable</b>				<u>1,843,000</u>	<u>-</u>	<u>1,105,800</u>
<b>Lease Obligation:</b>						
Brocade Communications	10/1/2015	1/15/2018		3,465,714	2,310,476	-
<b>Total Lease Obligation</b>				<u>3,465,714</u>	<u>2,310,476</u>	<u>-</u>
<b>Total Debt</b>				<u>\$120,105,714</u>	<u>\$ 99,504,476</u>	<u>\$ 102,801,800</u>

During 2016, the note payable to the UAH Foundation was forgiven.

In March 2015, the University refinanced the Revenue Bond Series 2005-A, which resulted in a reduction of future principal and interest payments of \$607,787. This savings will average \$60,778 per year for the next 10 years. The amounts outstanding on these bonds were paid in March 2015 in the amount of \$5.1 million. There is no defeased debt related to the Revenue Bond Series 2005-A.

In December 2014, the University refinanced the Student Housing Revenue Bonds Series 2004-A and Series 2004-B, which resulted in a reduction of future principal and interest payments of \$1.5 million. This savings will average \$77 thousand per year for the next 20 years. The amounts outstanding on these bonds were paid in January 2015 in the amount of \$11.8 million. There is no defeased debt outstanding related to the Student Housing Revenue Bonds Series 2004-A and Series 2004-B at September 30, 2014.

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 Borrower, 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, 2016.

**Note 7 – 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 \$282,547 and \$330,629 for general liability for FY 2016 and FY 2015, respectively.

The University also maintains a self-insurance health plan. For FY 2016, the University paid \$23.00 and \$5.67 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 \$1,480,585 and \$1,302,851 for health insurance for FY 2016 and FY 2015, 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:

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 1,633,480	\$ 1,507,118
Claims paid	(11,844,683)	(10,422,808)
Contributions and adjustments	11,974,335	10,549,170
Balance, end of year	<u>\$ 1,763,132</u>	<u>\$ 1,633,480</u>

**Note 8 – Retirement Plan**

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

### **Defined Benefit Plan – TRS**

*Plan description.* The 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](http://www.rsa-al.gov).

*Benefits provided.* State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Members of 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, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members. The University's contribution rate for the year ended September 30, 2015 was 11.71% of annual pay for Tier 1 members and 11.05% of annual pay for Tier 2 members.

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:

	<b><u>2016</u></b>		<b><u>2015</u></b>	
University contributions	\$ 11,474,249		\$ 11,311,261	
Employee contributions	<u>7,059,838</u>		<u>7,083,068</u>	
Total contributions	<u>\$ 18,534,087</u>		<u>\$ 18,394,329</u>	
	<b><u>2016</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2015</u></b>
	<b><u>Tier 1</u></b>	<b><u>Tier 2</u></b>	<b><u>Tier 1</u></b>	<b><u>Tier 2</u></b>
University contribution regular rate	11.94%	10.84%	11.71%	11.05%
Employee contribution rate	7.50%	6.00%	7.50%	6.00%
Employee contribution law enforcement rate	8.50%	7.00%	8.50%	7.00%

Salaries and wages for covered employees participating in TRS were approximately \$98.7 million during FY 2016 and \$97.9 million during FY 2015.

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.* At September 30, 2016, the University reported a liability of \$160,390,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2014. 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, 2016 the University's proportion was 1.532529% which was a decrease of 0.077322% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2016, the University recognized pension expense of \$12.4 million. At September 30, 2016 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 869,000
Changes of assumptions	-	-
Net difference between projected and actual earnings		
on pension plan investments	10,501,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	4,873,000	6,094,000
Employer contributions subsequent to the measurement date	11,475,143	-
Total	<u>\$ 26,849,143</u>	<u>\$ 6,963,000</u>

\$11,475,143 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 ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended September 30:</b>	
2017	\$2,442,000
2018	\$2,442,000
2019	\$2,442,000
2020	\$1,409,000
2021	(\$324,000)
Thereafter	-

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of September 30, 2014 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Investment rate of return*	8.00%
Projected salary increases	3.50% - 8.25%
*Net of pension plan investment expense	



The actuarial assumptions used in the actuarial valuation as of September 30, 2014, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2010. The Board of Control accepted and approved these changes on January 27, 2012, which became effective at the beginning of fiscal year 2012. Mortality rates for TRS were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA projected to 2015 and set back one year for females.

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

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

\*Includes assumed rate of inflation of 2.50%.

The amounts presented and disclosed in the financial statements as of September 30, 2016 related to the GASB 68 pension activity were based upon the best available information at the valuation date. Subsequent to the valuation date, the Retirement Systems of Alabama completed experience studies for both TRS and ERS. As a result, certain assumptions including the mortality rates and discount rate will likely change for future valuations of the pension liability. This could result in a significant increase in the pension liability recorded by the University in fiscal year 2017.

*Discount rate.* The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions,

components of the pension plan’s fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<b>1% Decrease (7.00%)</b>	<b>Current Rate (8.00%)</b>	<b>1% Increase (9.00%)</b>
University's proportionate share of collective net pension liability (Dollar amounts in thousands)	\$212,184	\$160,390	\$116,461

*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, 2015. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2015. The auditor’s report dated October 17, 2016 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, 2015 along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

### Defined Contribution Plans

As previously noted, some employees participate in the optional TIAA-CREF and VALIC programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All regular full-time and regular part-time employees are eligible to participate from the date of employment. The University contributes a matching amount up to 5% of the employee’s monthly contribution for regular, full-time exempt employees. The University’s contribution is funded as it accrues and, along with that of employees, is immediately and fully vested. The contribution for FY 2016 and FY 2015, excluding amounts not eligible for matching, are summarized as follows:

	<b>2016</b>	<b>2015</b>
University contributions	\$ 2,991,075	\$ 2,973,550
Employee contributions	5,542,020	5,634,108
Total contributions	<u>\$ 8,533,095</u>	<u>\$ 8,607,658</u>

The University’s total salaries and wages subject to benefit plan participation for FY 2016 and FY 2015 are summarized in the table below:

	<b>2016</b>	<b>2015</b>
Total Salaries and Wages	\$ 116,033,297	\$ 113,062,928
Salaries and Wages of employees participating in:		
TRS	\$ 98,670,645	\$ 97,998,750
TIAA - CREF	\$ 65,290,361	\$ 64,676,695

**Note 9 – 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 offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians’ benefits, outpatient care, prescription drugs, and mental health benefits. The Code of Alabama 1975, Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers. The required rates of retirees are as follows as of September 30, 2016:

*Retired Member Rates:*

- Individual Coverage/Non-Medicare Eligible - \$151
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents - \$391
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$250
- Individual Coverage/Medicare Eligible Retired Member - \$10
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$250
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109
- Tobacco surcharge - \$50 per month and additional \$50 per month for spouse if both are tobacco users
- Wellness premium waiver - \$50 per month for non-Medicare retirees
- PEEHIP Supplemental Plan - \$0

Members who retired on or after October 1, 2005, and before January 1, 2012, pay two percent of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by 2%. Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than age 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium will no longer apply. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five year period.

Optional plans (Hospital Indemnity, Cancer, Dental, Vision) – Up to two optional plans can be taken by retirees at no cost if the retiree is not also enrolled in one of the Hospital Medical Plans. Otherwise, retirees can purchase the Optional Plans at the normal monthly rate of \$38 or \$45 for family dental.

The required contribution rate of the employer was \$399 per retiree per month for FY 2016. The University paid \$1,866,406 and \$1,703,480 for 394 and 382 retirees for FY 2016 and FY 2015, respectively. The required contribution rate is determined by PEEHIP in accordance with State statute. The complete financial report for PEEHIP can be obtained at the Retirement Systems of Alabama Members PEEHIP website under the PEEHIP Financial Reports/Financial Statements.

Retirees are eligible for tuition assistance benefits for themselves as well as for their spouse and dependent children.

#### **Note 10 – 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 \$4,745,829 and \$4,728,970 for FY 2016 and FY 2015, 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 11 – Federal Direct Lending Program**

The Federal Direct Student Loan Program (“FDSLPL”) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL 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 FDSLPL 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. For FY 2016 and FY 2015, the University disbursed \$29,565,058 and \$28,041,718, respectively, under the FDSLPL.

### **Note 12 – Contracts and Grants**

As of FY 2016 and FY 2015, the University was awarded approximately \$58.2 million and \$50.8 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.

During FY 2016 and FY 2015, the University expended \$0 and \$132,202 in federal funding under the American Recovery and Reinvestment Act (“ARRA”), respectively. Those funds were primarily in the form of sponsored research grants.

### **Note 13 – 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 construction of the Charger Village addition in December 2016. At September 30, 2016, the estimated remaining cost to complete the construction was approximately \$36.6 million which is expected to be funded from a future University bond issue.

**Note 14 – Operating Expenses by Function**

Operating expenses by functional classification for FY 2016 and FY 2015 are summarized as follows:

	Year Ended September 30, 2016					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 38,876,737	\$ 13,333,551	\$ 6,010,074	\$ -	\$ -	\$ 58,220,362
Research	45,532,087	13,365,606	8,524,717	-	-	67,422,410
Public service	1,567,203	481,472	1,995,702	-	-	4,044,377
Academic support	6,501,877	1,949,856	2,641,670	-	-	11,093,403
Student services	7,060,770	2,523,728	6,793,979	-	-	16,378,477
Institutional support	11,005,095	4,283,423	4,866,769	-	-	20,155,287
Operations and maintenance of plant	4,331,114	1,631,945	7,506,432	-	-	13,469,491
Scholarships and fellowships	-	-	-	-	2,139,731	2,139,731
Auxiliary enterprises	1,158,414	335,971	3,091,720	-	-	4,586,105
Depreciation	-	-	-	15,398,090	-	15,398,090
Total Operating Expenses	\$ 116,033,297	\$ 37,905,552	\$ 41,431,063	\$ 15,398,090	\$ 2,139,731	\$ 212,907,733

	Year Ended September 30, 2015					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 36,662,366	\$ 12,552,026	\$ 4,717,423	\$ -	\$ -	\$ 53,931,815
Research	44,252,654	13,374,353	7,024,845	-	-	64,651,852
Public service	2,510,856	751,985	2,502,875	-	-	5,765,716
Academic support	6,217,682	1,958,541	3,085,346	-	-	11,261,569
Student services	6,897,875	2,332,955	6,763,479	-	-	15,994,309
Institutional support	11,181,017	4,529,793	5,205,175	-	-	20,915,985
Operations and maintenance of plant	4,223,602	1,583,000	7,494,977	-	-	13,301,579
Scholarships and fellowships	-	-	-	-	1,128,515	1,128,515
Auxiliary enterprises	1,116,876	312,352	3,261,187	-	-	4,690,415
Depreciation	-	-	-	14,440,402	-	14,440,402
Total Operating Expenses	\$ 113,062,928	\$ 37,395,005	\$ 40,055,307	\$ 14,440,402	\$ 1,128,515	\$ 206,082,157

**Note 15 – 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.

**Basis of Presentation-** Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed stipulations. 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 cost and reported value of investments at September 30, 2016 and 2015 are presented below:

	<u>2016</u>		<u>2015</u>	
	<u>Reported Value</u>	<u>Cost</u>	<u>Reported Value</u>	<u>Cost</u>
Certificates of deposit	\$ 518,338	\$ 518,338	\$ 513,684	\$ 513,684
Pooled Endowment Fund	36,953,830	36,110,389	34,398,535	35,904,064
Marketable debt securities	76,364	76,088	128,525	127,946
Marketable equity securities	1,396,001	1,205,303	1,432,714	1,260,141
Mutual funds	1,204,957	1,261,434	1,136,354	1,230,442
Total	<u>\$ 40,149,490</u>	<u>\$ 39,171,552</u>	<u>\$ 37,609,812</u>	<u>\$ 39,036,277</u>

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.

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, 2016 and 2015, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of \$632,159 and \$596,254, respectively. In addition, UAHF received distributions from Chambers of \$601,750 and \$548,067 in FY 2016 and FY 2015, respectively. Big Springs did not make any distributions in either FY 2016 or FY 2015.

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.

The following summarizes the combined financial position and results of operations of Big Springs and Chambers (on a consolidated basis) for the years ended September 30, 2016 and 2015:

	2016	2015
Current Assets	\$ 17,151,598	\$ 17,702,874
Noncurrent Assets	12,137,004	11,757,718
Current Liabilities	(3,693,565)	(4,159,783)
	<u>(100,000)</u>	<u>-</u>
Equity	<u>\$ 25,495,037</u>	<u>\$ 25,300,809</u>
Net Sales	\$ 43,648,211	\$ 38,652,507
Operating Income	\$ 3,103,196	\$ 2,952,730
Net Income	\$ 3,280,128	\$ 3,095,124

**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 \$106,826 and \$212,201 for the years ended September 30, 2016 and 2015, 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(s) 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 adopted 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 impact of this guidance on the classification of net assets for UAHF was not material to UAHF and is disclosed in UAHF's financial statements. 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, 2016 and 2015:

	Temporarily Restricted		Permanently Restricted	
	2016	2015	2016	2015
Student support	\$ 4,121,500	\$ 3,577,316	\$ 11,946,865	\$ 11,189,675
Faculty support	2,276,421	1,833,841	6,043,455	6,043,455
Academic support	2,774,750	2,502,725	3,313,293	3,312,293
Facilities renovation	136,059	136,059	-	-
Research	156,953	222,307	-	-
Library	63,131	56,495	50,427	50,427
Total	<u>\$ 9,528,814</u>	<u>\$ 8,328,743</u>	<u>\$ 21,354,040</u>	<u>\$ 20,595,850</u>

**Note 16 - Legal Settlement Receivable**

In July 2006, Nektar Therapeutics (Nektar) and the University announced the settlement of the University’s litigation against Nektar and Dr. Milton Harris, in exchange for a total cash payment of \$25,000,000. Under the terms of the agreement, Nektar and Dr. Harris jointly made an upfront payment totaling \$15,000,000 to the University during FY 2006 with remaining payments due through FY 2016. Included in the statements of net position is the net present value of the remaining payments owed to the University of \$0 and \$951,113 as of September 30, 2016 and 2015, respectively. The amount receivable at September 30, 2015 is included in the other current assets line item on the statement of net position.

**Note 17 - 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 for FY 2016 and FY 2015, is as follows:

<b>Condensed Statements of Position</b>				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Assets</b>				
Current assets	\$ 179,299	\$ 179,193	\$ 154,898	\$ 154,896
Capital assets, net of accumulated depreciation	<u>732,737</u>	<u>732,818</u>	<u>710,134</u>	<u>716,680</u>
<b>Total assets</b>	<u>\$ 912,036</u>	<u>\$ 912,011</u>	<u>\$ 865,032</u>	<u>\$ 871,576</u>
<b>Liabilities</b>				
Current liabilities	\$ 995,693	\$ 715,121	\$ 1,959,339	\$ 1,721,077
Noncurrent liabilities	<u>275,000</u>	<u>360,000</u>	<u>640,518</u>	<u>730,905</u>
<b>Total liabilities</b>	<u>\$ 1,270,693</u>	<u>\$ 1,075,121</u>	<u>\$ 2,599,857</u>	<u>\$ 2,451,982</u>
<b>Net assets</b>				
Net investment in capital assets	\$ 372,737	\$ 287,818	\$ 214,134	\$ 125,680
Restricted				
Expendable	212,000	192,000	280,000	280,000
Unrestricted	<u>(943,394)</u>	<u>(642,928)</u>	<u>(2,228,959)</u>	<u>(1,986,086)</u>
<b>Total net position</b>	<u>(358,657)</u>	<u>(163,110)</u>	<u>(1,734,825)</u>	<u>(1,580,406)</u>
<b>Total liabilities and net position</b>	<u>\$ 912,036</u>	<u>\$ 912,011</u>	<u>\$ 865,032</u>	<u>\$ 871,576</u>
<b>Condensed Statements of Revenues, Expenses and Changes in Net Position</b>				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 505,632	\$ 519,619	\$ 698,003	\$ 811,633
Operating expenses	(706,868)	(606,599)	(827,867)	(1,001,047)
Depreciation expense	<u>(130,169)</u>	<u>(123,665)</u>	<u>(136,633)</u>	<u>(130,129)</u>
<b>Operating loss</b>	(331,405)	(210,645)	(266,497)	(319,543)
Nonoperating expenses	5,770		(18,010)	
Transfers from general funds	<u>130,088</u>	<u>3,203</u>	<u>130,088</u>	<u>(20,860)</u>
<b>Changes in net position</b>	(195,547)	(207,442)	(154,419)	(340,403)
Net position, beginning of year	<u>(163,110)</u>	<u>44,332</u>	<u>(1,580,406)</u>	<u>(1,240,003)</u>
Net position, end of year	<u>\$ (358,657)</u>	<u>\$ (163,110)</u>	<u>\$ (1,734,825)</u>	<u>\$ (1,580,406)</u>
<b>Condensed Statements of Cash Flows</b>				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>Cash flows from</b>				
Operating activities	\$ (178,615)	\$ (67,970)	\$ (121,429)	\$ (184,286)
Capital and related financing activities	<u>178,615</u>	<u>67,970</u>	<u>121,429</u>	<u>184,286</u>
<b>Net increase (decrease) in cash</b>	-	-	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Cash, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Note 18 – Recently Issued Pronouncements**

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

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

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

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

The GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants* (“GASB 79”), in December 2015. The objective of this statement is to address accounting and financial reporting for certain external investment pools and pool participants. This statement is effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. These provisions are effective for reporting periods beginning after December 15, 2015. The University is evaluating whether there will be any material impact from its adoption of GASB 79.

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

The University of Alabama in Huntsville  
Required Supplementary Information

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

	<u>2016</u>	<u>2015</u>
Employer's proportion of the collective net pension liability	1.532529%	1.609851%
Employer's proportionate share of the collective net pension liability	\$160,390,000	\$146,248,000
Employer's covered-employee payroll during measurement period	\$97,998,750	\$97,032,526
Employer's proportionate share of the collective net pension liability as percentage of its covered-employee payroll	163.67%	150.72%
Plan fiduciary net position as a percentage of the total collective pension liability	67.51%	71.01%

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

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$11,474,249	\$11,311,261
Contributions in relation to the contractually required contribution	(\$11,474,249)	(\$11,311,261)
Contribution deficiency (excess)	-	-
University's covered-employee payroll	\$98,670,645	\$97,998,750
Contributions as a percentage of covered-employee payroll	11.63%	11.54%

Notes to Schedules

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

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

## THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA

**The Honorable Robert J. Bentley**  
Governor of the State of Alabama  
President *ex officio*

**Michael Sentance**  
State Superintendent of Education  
*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  
William Britt Sexton

---

Sixth District

Vanessa Leonard  
John D. Johns

---

Seventh District

Judge John H. England, Jr.  
Barbara Humphrey  
Karen P. Brooks,  
President pro tempore

**Trustees Emeriti:**

---

Frank H. Bromberg, Jr.

Paul W. Bryant, Jr.

Angus R. Cooper II

Oliver H. Delchamps, Jr.

Garry Neil Drummond

Jack Edwards

Joseph L. Fine

Sandra Hullett, M.D.

Andria S. Hurst

Peter L. Lowe

John J. McMahon, Jr.

John T. Oliver, Jr.

Joe H. Ritch

Cleophus Thomas, Jr.

John Russell Thomas

---

C. Ray Hayes  
Chancellor

## ADMINISTRATION

Robert A. Altenkirch  
President

Ray M. Pinner  
Senior Vice President for Finance  
and Administration

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

Delois H. Smith  
Vice President for Diversity and Multicultural  
Affairs

Robert E. Lyon  
Vice President for University Advancement

Ray Vaughn  
Vice President for Research and Economic  
Development

Kristi Motter  
Vice President for Student Affairs

David Berkowitz  
Dean, Graduate Studies

Mitch Berbrier  
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 Newby  
Director, Accounting & Financial Reporting

Tanya K. Smith  
Associate Director,  
Accounting & Financial Reporting

Charles A. Burns  
Assistant Director,  
Accounting & Financial Reporting

Betty M. Eley  
Senior Accountant

Jeremy D. Holden  
Senior Accountant

Laura Vereen  
Accountant II

Nicholas Simmons  
Accountant I

Sharon Box  
Accounting Assistant

Debra Henderson  
Accounting Assistant

Patricia D. Ewert  
Manager, Accounts Payable

Valarie L. King  
Director, Contracts & Grants Accounting

Winnet H. Leonard  
Bursar

---

Photographs courtesy of University  
Advancement and University Athletics



**UAH**  
THE UNIVERSITY OF  
ALABAMA IN HUNTSVILLE