

# **The UAB Educational Foundation**

**Consolidated Financial Statements  
Nine Months Ended June 30, 2015 and  
Year Ended September 30, 2014**

# The UAB Educational Foundation

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Nine Months Ended June 30, 2015 and the Year Ended September 30, 2014

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## Independent Auditor's Report

The Board of Directors  
The UAB Educational Foundation

We have audited the accompanying consolidated financial statements of the UAB Educational Foundation and its subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2015 and September 30, 2014 and the related consolidated statements of activities and changes in net assets and of cash flows for the nine months ended June 30, 2015 and the year ended September 30, 2014.

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

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Foundation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation'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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the UAB Educational Foundation and its subsidiary as of June 30, 2015 and September 30, 2014, and the results of their operations and their cash flows for the nine months ended June 30, 2015 and the year ended September 30, 2014 in accordance with accounting principles generally accepted in the United States of America.



***Emphasis of Matter***

As disclosed in Note 1 to the financial statements, the Foundation changed its fiscal year-end from September 30 to June 30. Our opinion is not modified with respect to this matter.

*PricewaterhouseCoopers LLP*

September 28, 2015

**The UAB Educational Foundation**  
**Consolidated Statements of Financial Position**  
**June 30, 2015 and September 30, 2014**

	2015	2014
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,341,098	\$ 3,854,480
Investments	11,105,276	15,140,868
Accounts receivable	644,143	302,347
Prepaid assets	73,280	80,613
Current portion of note receivable	6,000	6,000
Total current assets	<u>16,169,797</u>	<u>19,384,308</u>
Noncurrent assets		
Fixed assets, net	35,192,236	31,859,517
Investment in limited liability company	1,763,609	1,658,992
Note receivable	129,000	132,000
Beneficial interest in charitable trusts held by others	238,364	245,840
Other assets	283,889	293,571
Total noncurrent assets	<u>37,607,098</u>	<u>34,189,920</u>
Total assets	<u>\$ 53,776,895</u>	<u>\$ 53,574,228</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 729,271	\$ 1,091,814
Current gift annuity liability	46,104	48,629
Current portion of debt	618,075	514,307
Total current liabilities	<u>1,393,450</u>	<u>1,654,750</u>
Noncurrent liabilities		
Long-term debt	14,964,905	15,684,495
Long-term gift annuity liability	224,053	238,278
Deferred tax liability	160,319	-
Total noncurrent liabilities	<u>15,349,277</u>	<u>15,922,773</u>
Total liabilities	<u>16,742,727</u>	<u>17,577,523</u>
Net assets		
Unrestricted	31,947,297	30,489,529
Temporarily restricted	5,030,539	5,450,804
Permanently restricted	56,332	56,372
Total net assets	<u>37,034,168</u>	<u>35,996,705</u>
Total liabilities and net assets	<u>\$ 53,776,895</u>	<u>\$ 53,574,228</u>

The accompanying notes are an integral part of these consolidated financial statements.

**The UAB Educational Foundation**  
**Consolidated Statements of Activities and Changes in Net Assets**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

	2015	2014
<b>Changes in unrestricted net assets</b>		
Revenues and gains (losses)		
Donation revenue	\$ 447,436	\$ 801,053
Rental income, net	1,868,118	2,433,391
Interest and dividends	185,788	328,484
Realized and unrealized investment (losses) gains	(9,663)	553,474
Total revenues and gains (losses)	<u>2,491,679</u>	<u>4,116,402</u>
Net assets released from satisfaction of program restrictions	<u>2,845,958</u>	<u>4,080,849</u>
Total unrestricted revenues, gains, and other support	<u>5,337,637</u>	<u>8,197,251</u>
Expenses and other losses		
Program activities		
General university support	1,107,613	1,654,964
Hospital/Health System support	512,183	666,609
Academic and scholarship support	547,716	1,593,935
UAB Athletics support	1,186,433	1,596,062
Fundraising and development support	229,801	2,312,812
Property contributed to the University	6,019	1,245,000
Total program activities	<u>3,589,765</u>	<u>9,069,382</u>
General and administrative expenses	<u>290,104</u>	<u>385,345</u>
Total expenses and other losses	<u>3,879,869</u>	<u>9,454,727</u>
Increase (decrease) in unrestricted net assets	<u>1,457,768</u>	<u>(1,257,476)</u>
<b>Changes in temporarily restricted net assets</b>		
Donation revenue	1,993,272	2,700,659
Vending revenue	427,796	604,824
Interest and dividends	74,140	92,454
Realized and unrealized investment (losses) gains	(72,607)	69,013
Changes in the value of split-interest agreements	3,092	29,160
Net assets released from restrictions	(2,845,958)	(4,079,218)
Decrease in temporarily restricted net assets	<u>(420,265)</u>	<u>(583,108)</u>
<b>Changes in permanently restricted net assets</b>		
Interest and dividends	1,558	1,629
Realized and unrealized investment (losses) gains	(1,598)	2,376
Net assets released from restrictions	-	(1,631)
(Decrease) increase in permanently restricted net assets	<u>(40)</u>	<u>2,374</u>
Increase (decrease) in net assets	1,037,463	(1,838,210)
Net assets at beginning of period	<u>35,996,705</u>	<u>37,834,915</u>
Net assets at end of period	<u>\$ 37,034,168</u>	<u>\$ 35,996,705</u>

The accompanying notes are an integral part of these consolidated financial statements.

**The UAB Educational Foundation**  
**Consolidated Statements of Cash Flows**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

	2015	2014
<b>Cash flows from operating activities</b>		
Cash received from donors	\$ 2,414,306	\$ 3,488,602
Cash received from tenants	1,928,026	2,772,534
Cash received from other service recipients	2,920,592	3,427,083
Cash paid for grants and other university support	(3,898,140)	(7,619,048)
Cash paid to suppliers	(1,551,329)	(2,071,173)
Cash paid for income taxes	(159,398)	(177,213)
Cash paid for interest	(452,191)	(320,771)
Interest and dividends received	269,027	623,485
Cash received from pledges receivable	-	7,000
Cash received from note receivable	3,000	6,000
Net cash provided by operating activities	<u>1,473,893</u>	<u>136,499</u>
<b>Cash flows from investing activities</b>		
Purchases of investments	(120,906)	(603,000)
Proceeds from sale of investments	3,961,603	3,154,491
Capital expenditures	(4,212,150)	(1,484,492)
Proceeds from maturity of certificates of deposit	-	25,000
Net cash (used in) provided by investing activities	<u>(371,453)</u>	<u>1,091,999</u>
<b>Cash flows from financing activities</b>		
Principal payments on debt	(615,822)	(15,221,782)
Proceeds from the issuance of long-term debt	-	14,813,600
Net cash used in financing activities	<u>(615,822)</u>	<u>(408,182)</u>
Net increase in cash and cash equivalents	486,618	820,316
<b>Cash</b>		
Beginning of year	<u>3,854,480</u>	<u>3,034,164</u>
End of year	<u>\$ 4,341,098</u>	<u>\$ 3,854,480</u>

The accompanying notes are an integral part of these consolidated financial statements.

**The UAB Educational Foundation**  
**Consolidated Statements of Cash Flows**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

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**Reconciliation of change in net assets to  
net cash provided by operating activities**

Change in net assets	\$ 1,037,463	\$ (1,838,210)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	903,077	1,114,645
Property contributed to the University	6,019	1,245,000
Realized and unrealized investment losses (gains), net	194,895	(278,744)
In-kind donation revenue	(12,037)	-
Loss on disposal of fixed assets	889	-
Earnings from investment in LLC	(111,029)	(346,119)
Distributions from LLC	6,412	198,020
Changes in operating assets and liabilities		
Accounts receivable	(341,796)	(238,962)
Pledges receivable, net	-	7,000
Note receivable	3,000	6,000
Prepaid assets	7,333	15
Other assets	23,176	(7,339)
Accounts payable and accrued liabilities	(387,078)	274,352
Gift annuity liability	(16,750)	841
Deferred tax liability	160,319	-
Net cash provided by operating activities	<u>\$ 1,473,893</u>	<u>\$ 136,499</u>

The accompanying notes are an integral part of these consolidated financial statements.

# The UAB Educational Foundation

## Notes to Consolidated Financial Statements

### Nine Months Ended June 30, 2015 and Year Ended September 30, 2014

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#### 1. Summary of Significant Accounting Policies

##### **Organization and Relationship to University of Alabama at Birmingham**

The UAB Educational Foundation (the Foundation) was organized for the sole benefit of the University of Alabama at Birmingham (UAB). The Foundation provides funds and certain facilities to UAB for its educational and scientific functions and provides support for UAB athletic programs. In the event of dissolution of the Foundation, the board of directors, after satisfying all claims against the Foundation, is to transfer any remaining assets to UAB.

The Foundation has an agreement with UAB whereby it will make annual expenditures of not less than \$50,000 for the benefit of UAB. This requirement has been met each previous year, including the period ended June 30, 2015.

##### **Principles of Consolidation and Basis of Presentation**

The accompanying consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, Medical Towers, Inc., after elimination of intercompany balances and transactions, and have been prepared on the accrual basis of accounting. The Foundation presents a consolidated statement of cash flows and displays its activities and net assets in three classes based on the existence or absence of donor-imposed restrictions, as follows:

##### ***Unrestricted Net Assets***

Unrestricted net assets generally result from revenues derived from providing services and receiving unrestricted contributions, less expenses incurred in providing services, raising contributions, and performing administrative functions.

##### ***Temporarily Restricted Net Assets***

Temporarily restricted net assets generally result from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. These amounts are reclassified to unrestricted net assets when such restrictions are met or have expired.

##### ***Permanently Restricted Net Assets***

Permanently restricted net assets generally result from contributions and other inflows of assets that are subject to donor-imposed stipulations that the assets be held in perpetuity. Income from these assets can be unrestricted or restricted based on donor stipulation.

Unrealized and realized gains and losses and dividends and interest from investing in income-producing assets may be included in any of these net asset classifications depending on donor restrictions.

Subsequent events have been evaluated through September 28, 2015, which represents the date that these financials were available to be issued.

# The UAB Educational Foundation

## Notes to Consolidated Financial Statements

### Nine Months Ended June 30, 2015 and Year Ended September 30, 2014

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#### **Adoption of New Bylaws**

At its annual board meeting on December 16, 2014, the Board of Directors approved several changes to the bylaws of the Foundation and its subsidiary. Some of the more significant changes included:

- Changed the fiscal year-end of the Foundation from September 30<sup>th</sup> to June 30<sup>th</sup>.
- Changed the number of directors from 13 to a maximum of 20.
- Reduction of the number of ex officio directors from 5 to 3.
- Established an Audit Committee, which must meet to review and approve the annual audited financial statements no later than 90 days following the end of the fiscal year.
- Extended the deadline for the annual board meeting from 90 days to 120 days following the end of the fiscal year.

#### **Cash and Cash Equivalents**

The Foundation considers cash on hand and all highly liquid financial instruments purchased with an original maturity of three months or less to be cash and cash equivalents.

#### **Contribution Revenue**

Contributions received, including unconditional promises to give, are recognized as revenues at their fair values in the period received. For financial reporting purposes, the Foundation distinguishes between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets. Contributions for which donors have not stipulated restrictions are reported as unrestricted support. Contributions for which donors have imposed restrictions that limit the use of the donated assets are reported as temporarily restricted support if the restrictions are not met in the same reporting period that the gift is reported. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions when the purpose or time restrictions are met. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for use, are classified as permanently restricted assets.

Unconditional promises to give with payments due in future periods are reported as restricted support, and are reported at their estimated fair value at the date of gift in the accompanying consolidated statement of financial position. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

# **The UAB Educational Foundation**

## **Notes to Consolidated Financial Statements**

### **Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

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#### **Investments**

The University of Alabama System Short Term Liquidity Pool Fund, Long Term Reserve Pool, and Pooled Endowment Funds (UAS Funds), investment pools sponsored by the University of Alabama System (the System), hold certain investment assets for the beneficial interest of the Foundation. Since the Foundation is organized for the sole benefit of UAB (which is operated by the System), these organizations are financially interrelated. Accordingly, the Foundation recognizes its interest in the net assets of the UAS Funds and adjusts that interest for its proportionate share of the changes in the net assets of the UAS Funds. Changes due to gifts and investment income are recognized as a component of Revenues, gains, other support, and reclassifications in the accompanying consolidated statements of activities and changes in net assets. The UAS Funds invest in various investment securities, including both marketable and nonmarketable securities. The UAS Funds value investments with readily determinable market values at fair value.

Investments held by the Foundation in debt securities, equity securities and mutual funds with readily determinable market values are reported at their fair values, other than the UAS Funds, based on published market prices.

Investments received by gift are stated at fair value at date of receipt. Changes in market values are reported as unrealized gains or losses in the consolidated statement of activities and changes in net assets. All interest income and realized gains and losses are reported in the consolidated statements of activities and changes in net assets.

#### **Investment in Limited Liability Company**

The Foundation accounts for its investment in Triton Health Systems, L.L.C. under the equity method of accounting.

#### **Note Receivable**

The Foundation received several private donations to aid the victims of the April 27, 2011 tornadoes in Alabama. A portion of these funds were restricted to aiding victims in the form of loans and the remaining amount for grants. During 2012, the Foundation loaned \$150,000 to Greater Birmingham Habitat for Humanity for a term of 25 years, payable in semiannual installments of \$3,000. This loan is noninterest bearing. The balance of the note receivable as of June 30, 2015 and September 30, 2014 was \$135,000 and \$138,000 respectively.

#### **Property and Equipment**

Property and equipment of the Foundation is recorded at cost at the date of acquisition or, in the case of donated property, at fair value at the date of donation. Depreciation of buildings, leasehold improvements, and equipment is provided on a straight-line basis over the estimated useful lives of the assets, ranging from 5 to 39 years. Depreciation expense for the nine months ended June 30, 2015 and the year ended September 30, 2014 was \$903,077 and \$1,114,645, respectively.

At the time management of the Foundation decides to sell property, the asset is classified as property held for sale and reflected at the lower of cost or estimated net realizable value; any loss is recognized in the consolidated statement of activities and changes in net assets. Gains, if any, are recognized in the consolidated statement of activities and changes in net assets upon final disposition of the asset.

# **The UAB Educational Foundation**

## **Notes to Consolidated Financial Statements**

### **Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

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#### **Gift Annuities**

The Foundation enters into agreements in which donors contribute to UAB via the Foundation in the form of charitable gift annuities. Under these agreements, the Foundation acts as a trustee and has the duty to hold and manage the assets for the benefit of UAB. An annuity is to be paid to the donor or their designee for a specified period of time. The assets received for an annuity are recorded by the Foundation at fair value at the date of the gift. The liabilities to the annuitants are recorded at the present value of expected future annuity payments. The difference between the asset and liability value is recorded as contribution revenue in the year the asset is received.

Interest income and realized and unrealized gains and losses on the underlying assets are recognized as changes in temporarily restricted net assets in the period earned. Payments made to annuitants reduce the liability. Upon termination of the agreements, the remaining investments are to be transferred to UAB as the ultimate beneficiary.

#### **Income Taxes**

The Foundation is exempt from federal income tax under Section 501(c)(3) and is an organization described in Section 170(c)(2) of the United States Internal Revenue Code (not a private foundation). However, certain of the Foundation's activities are considered by the Internal Revenue Service to provide unrelated business income and, accordingly, these activities are subject to federal income tax. In addition, Medical Towers, Inc. (Medical Towers) is not exempt from income taxes and files separate returns (Note 9). The Foundation's income tax (benefit) expense totaled \$(40,846) and \$222,581 for the nine months ended June 30, 2015 and the year ended September 30, 2014, respectively. Accrued income taxes (receivable) payable of \$(306,803) and \$53,759 are included in accounts receivable and accounts payable and accrued liabilities, within the accompanying consolidated statements of financial position as of June 30, 2015 and September 30, 2014.

#### **Change in Tax Laws Affecting Current and Future Periods**

In September of 2013 the IRS issued final regulations (T.D. 9636) providing guidance on the deduction and capitalization of expenditures related to capital property. These new regulations are generally applicable for tax years beginning on or after January 1, 2014 but can also be optionally implemented for tax years beginning after 2011. These new regulations broaden the ability for taxpayers to deduct as maintenance and repairs expense in the current period many items that were required to be capitalized and depreciated over 39 years under the former regulations.

The impact of these changes on Medical Towers is significant. Medical Towers elected to implement them on its federal and state returns for the year ended September 30, 2014, resulting in not only a combined refund of \$208,200 but a net operating loss carryforward of \$279,780.

This change has also resulted in the recognition of a deferred tax liability of \$160,319 as of June 30, 2015 due to GAAP rules requiring the continued capitalization and depreciation of fixed assets that were deducted as repairs for tax purposes.

**The UAB Educational Foundation**  
**Notes to Consolidated Financial Statements**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

**Risks and Uncertainties**

Marketable securities and other investments are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such change could materially affect the Foundation's net assets.

**Concentration of Credit Risk**

The UAB Health System, a related party, has agreed to allocate funds annually to the Foundation and various temporarily restricted funds held by the Foundation. These allocations are determined annually and paid monthly to the Foundation. They are recorded in the statement of activities and changes in net assets as unrestricted and temporarily restricted contributions. The following is a summary of these contributions and their corresponding percentage of overall revenue for the nine months ended June 30, 2015 and the year ended September 30, 2014:

	2015		2014	
	Contributions	Percentage of Overall Revenue	Contributions	Percentage of Overall Revenue
Unrestricted contributions	\$ 413,435	8%	\$ 700,000	10%
Temporarily restricted contributions	1,890,565	38%	2,372,000	34%
Combined total for all funds	\$ 2,304,000	46%	\$ 3,072,000	44%

**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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Investments**

The following is a summary of investments held by the Foundation as of June 30, 2015 and September 30, 2014:

	2015		2014	
	Cost or Amortized Cost	Reported Value	Cost or Amortized Cost	Reported Value
<b>University of Alabama System Funds</b>				
Short Term Liquidity Pool Fund	\$ 5,158,497	\$ 5,007,590	\$ 8,916,941	\$ 8,825,796
Long Term Reserve Pool Fund	2,357,162	2,649,999	2,307,812	2,676,021
Pooled Endowment Fund	2,334,302	2,425,007	2,422,303	2,552,399
<b>The UAB School of Business</b>				
Green and Gold Fund	254,516	548,776	284,461	570,047
Charitable Gift Annuity Fund Investment	499,498	446,305	513,155	488,426
San Diego Foundation Fund Investment	22,131	27,599	22,131	28,179
	\$ 10,626,106	\$ 11,105,276	\$ 14,466,803	\$ 15,140,868

# The UAB Educational Foundation

## Notes to Consolidated Financial Statements

### Nine Months Ended June 30, 2015 and Year Ended September 30, 2014

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The Foundation invests its funds in the University of Alabama System Short Term Liquidity Pool Fund, Long Term Reserve Pool, and Pooled Endowment Funds (UAS Funds), which are sponsored by the System. Assets of the Short Term Liquidity Pool Fund consist of intermediate investment grade fixed income investments that are indexed to the Barclays 1-3 year government credit bond index. Assets of the Long Term Reserve Pool and Pooled Endowment Funds consist of U.S. Treasury and agency obligations, corporate debt securities, corporate equity securities, international equity securities, mutual funds, real estate funds, hedge funds, and private equity funds. The remainder of the Foundation's investments are reported at fair value.

### 3. Fair Value Measurements

United States generally accepted accounting principles require the entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value of financial assets and liabilities. The guidance establishes a 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 are described below:

Level 1      Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity 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 asset or liability; Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3      Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**The UAB Educational Foundation**  
**Notes to Consolidated Financial Statements**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

The following table sets forth, by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2015 and September 30, 2014:

	<b>Assets at Fair Value as of June 30, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investment in the UAB School of Business</b>				
Green and Gold Fund				
Cash, money funds, and FDIC deposits	\$ 125,090	\$ -	\$ -	\$ 125,090
Fixed income	10,802	-	-	10,802
Equities	180,073	-	-	180,073
Mutual funds	47,195	-	-	47,195
Exchange-traded products	185,616	-	-	185,616
<b>Charitable Gift Annuity Fund Investment</b>				
Cash, money funds, and FDIC deposits	179	-	-	179
Fixed income	268,408	-	-	268,408
Mutual funds	79,398	-	-	79,398
Exchange-traded products	98,320	-	-	98,320
Investment in the San Diego Foundation Fund designated balanced pool endowment	-	-	27,599	27,599
	<u>\$ 995,081</u>	<u>\$ -</u>	<u>\$ 27,599</u>	<u>\$ 1,022,680</u>

	<b>Assets at Fair Value as of September 30, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Investment in the UAB School of Business</b>				
Green and Gold Fund				
Cash, money funds, and FDIC deposits	\$ 32,033	\$ -	\$ -	\$ 32,033
Fixed income	11,040	-	-	11,040
Equities	229,535	-	-	229,535
Mutual funds	77,331	-	-	77,331
Exchange-traded products	220,108	-	-	220,108
<b>Charitable Gift Annuity Fund Investment</b>				
Cash, money funds, and FDIC deposits	15,092	-	-	15,092
Fixed income	277,328	-	-	277,328
Mutual funds	83,912	-	-	83,912
Exchange-traded products	112,094	-	-	112,094
Investment in the San Diego Foundation Fund designated balanced pool endowment	-	-	28,179	28,179
	<u>\$ 1,058,473</u>	<u>\$ -</u>	<u>\$ 28,179</u>	<u>\$ 1,086,652</u>

**The UAB Educational Foundation**  
**Notes to Consolidated Financial Statements**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

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The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the nine months ended June 30, 2015 and the year ended September 30, 2014:

	<b>Level 3 Assets</b>
<b>Balance at September 30, 2013</b>	\$ 25,589
Unrealized gain on investment	<u>2,590</u>
<b>Balance at September 30, 2014</b>	28,179
Unrealized loss on investment	<u>(580)</u>
<b>Balance at June 30, 2015</b>	<u>\$ 27,599</u>

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used in 2015 or 2014.

***Cash, Money Fund, and FDIC Deposits***

Valued at quoted market prices for securities traded on an active exchange.

***Fixed Income***

Valued at quoted market prices for securities traded on an active exchange.

***Equities***

Valued at quoted market prices for securities traded on an active exchange.

***Mutual Funds***

Valued at quoted market prices for securities traded on an active exchange.

***Exchange-Traded Products***

Valued at the net asset value ("NAV") of shares held by the Foundation at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation 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.

# The UAB Educational Foundation

## Notes to Consolidated Financial Statements

### Nine Months Ended June 30, 2015 and Year Ended September 30, 2014

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#### 4. Investment in Limited Liability Company

During fiscal 1997, the Foundation purchased a 1% share of all outstanding membership units of Triton Health Systems, L.L.C. (Triton), for \$800 from UAB. UAB and the Foundation are the sole members of Triton. Triton was formed in 1995 to advance the educational and research mission of UAB and to educate and train physicians and other healthcare professionals. The Foundation's equity position was \$1,763,609 and \$1,658,992 per Triton's audited financial statements as of December 31, 2014 and December 31, 2013, respectively. Earnings on the investment were \$111,029 and \$346,119 and are included in changes in unrestricted net assets under realized and unrealized investment (losses) gains, within the accompanying consolidated statements of activities and changes in net assets for the nine months ended June 30, 2015 and year ended September 30, 2014, respectively.

#### 5. The UAB Diabetes Trust Foundation

On October 6, 2006, the UAB Diabetes Trust Foundation (UABDTF) was established as a successor organization (in interest and purpose) to the now dissolved Diabetes Trust Foundation (DTF). The mission of the UABDTF is to support research and other charitable activities at the UAB Comprehensive Diabetes Center. A substantial portion of the DTF assets were transferred directly to UAB upon dissolution of the organization. The UABDTF, however, received all life insurance policies held by the DTF, a designated balanced pool endowment held by the San Diego Foundation, both an irrevocable and revocable charitable remainder trust, and a small amount of cash to fund operations of the new entity.

All directors of the UABDTF must be directors of the UAB Educational Foundation.

##### **Charitable Remainder Trusts**

The revocable remainder trust for which the UABDTF is the only beneficiary is not recognizable as contribution revenue under FASB ASC 958-30-25-2 (due to variance power over the amount and timing of distributions to the income beneficiary by the third-party trustee, Regions Bank), and is accounted for as an intention to give.

The irrevocable remainder trust for which the UABDTF is one of several beneficiaries distributes net income to the surviving spouse of the donor until her death, after which the UABDTF will receive 47 ½% of the trust assets for its remainder interest. Fair market value is the basis for the valuation of the UABDTF's remainder interest, which was \$238,364 and \$245,840 as of June 30, 2015 and September 30, 2014, respectively, and presented as temporarily restricted other assets.

**The UAB Educational Foundation**  
**Notes to Consolidated Financial Statements**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

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**6. Property and Equipment**

Property and equipment was as follows as of June 30, 2015 and September 30, 2014:

	<b>2015</b>	<b>2014</b>
Land	\$ 9,113,844	\$ 7,796,788
Buildings and leasehold improvements	40,317,700	37,720,829
Equipment	<u>1,947,916</u>	<u>1,649,980</u>
	51,379,460	47,167,597
Less: Accumulated depreciation	<u>(16,187,224)</u>	<u>(15,308,080)</u>
	<u>\$ 35,192,236</u>	<u>\$ 31,859,517</u>

On December 18, 2013, the Foundation's Board approved the donation of land located at 900 17<sup>th</sup> Street South (the University Court Parking Lot) to UAB for the purposes of construction of a new student residence hall. The book value of the property was \$1,245,000 and this amount has been recorded as Property contributed in the accompanying 2014 consolidated statement of activities and changes in net assets.

**7. Description of Leasing Arrangements**

The Foundation's leasing operations consist principally of the leasing of various types of office buildings and other real property. The Foundation leases substantially all of its property to UAB and others under operating leases. These leases are all cancelable with a 60, 90 or 180-day notice.

The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes for as of June 30, 2015 and September 30, 2014:

	<b>2015</b>	<b>2014</b>
Buildings and leasehold improvements	\$ 21,121,614	\$ 18,524,744
Land	<u>9,113,844</u>	<u>7,796,787</u>
	30,235,458	26,321,531
Less: Accumulated depreciation	<u>(10,294,459)</u>	<u>(9,856,341)</u>
	<u>\$ 19,940,999</u>	<u>\$ 16,465,190</u>

**The UAB Educational Foundation**  
**Notes to Consolidated Financial Statements**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

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**8. Fourth Avenue Parking Deck**

The results of operations of the Fourth Avenue Parking Deck for the nine months ended June 30, 2015 and the year ended September 30, 2014 are summarized as follows:

	<b>2015</b>	<b>2014</b>
<b>Revenue</b>		
Parking	\$ 2,441,670	\$ 2,976,429
Other	9,711	14,376
	<u>2,451,381</u>	<u>2,990,805</u>
<b>Expenses</b>		
Interest	302,268	360,675
Depreciation	461,423	612,972
Management fees	9,000	14,625
Utilities	118,599	131,310
Overhead allocation	55,000	52,000
Operating	392,374	419,966
Other	231,654	323,503
	<u>1,570,318</u>	<u>1,915,051</u>
Net income	881,063	1,075,754
<b>Elimination of intercompany expenses paid by the foundation</b>		
Overhead allocation	55,000	52,000
Net income	<u>\$ 936,063</u>	<u>\$ 1,127,754</u>

**9. Medical Towers, Inc.**

During 1975, the Foundation received as a donation all of the outstanding capital stock of Medical Towers, Inc. (Towers) and certain property owned by individual shareholders and leased to Towers. The principal assets of the donated corporation consisted of an office building and related land which had a total appraised value of \$5,689,450 at the date of the donation and which were subject to a first mortgage loan. The assets received, at appraised values, and liabilities assumed were included in the Foundation's statement of financial position, and the difference of \$2,139,847 was recorded as a donation in the year ended September 30, 1976.

**The UAB Educational Foundation**  
**Notes to Consolidated Financial Statements**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

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A substantial portion of the office space in Towers' building is leased to UAB. The results of operations of Towers for the nine months ended June 30, 2015 and the year ended September 30, 2014 are summarized as follows:

	<b>2015</b>	<b>2014</b>
<b>Rental and other income</b>	<u>\$ 1,303,433</u>	<u>\$ 1,732,941</u>
<b>Expenses</b>		
Interest	72,713	110,089
Depreciation	212,084	265,899
Maintenance and cleaning	282,816	387,962
Utilities	193,825	247,123
Overhead allocation	70,000	70,000
Income tax (benefit) expense	(40,845)	222,580
Other	113,458	114,550
	<u>904,051</u>	<u>1,418,203</u>
Net income	399,382	314,738
<b>Elimination of intercompany expenses paid to the Foundation</b>		
Interest	26,319	36,884
Overhead allocation	70,000	70,000
Net income	<u>\$ 495,701</u>	<u>\$ 421,622</u>

**10. Other Properties**

Net income from the operation of other properties includes rental income related to various smaller properties including the Burlison Building, Pita Stop Building, 506 10th Street Warehouse and the 508 8th Street Warehouse, as well as rental income from a master ground lease for retail space in the Fourth Avenue Parking Deck.

**11. Debt**

Debt consists of the following as of June 30, 2015 and September 30, 2014:

	<b>2015</b>	<b>2014</b>
Revenue Bond, the UAB Educational Foundation Project, due serially through 2032	\$ 14,403,600	\$ 14,813,600
Compass Bank - \$2,000,000 nonrevolving line of credit to Medical Towers, Inc.	1,179,380	1,385,202
	<u>\$ 15,582,980</u>	<u>\$ 16,198,802</u>

# **The UAB Educational Foundation**

## **Notes to Consolidated Financial Statements**

### **Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

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On September 30, 2009 the City of Birmingham Downtown Redevelopment Authority (the "Authority") issued its "Revenue Bond, the UAB Educational Foundation Project" (the "2009 Bond"). The 2009 Bond replaced the original 2002 financing of the construction of the Fourth Avenue Parking Deck. The 2009 Bond was issued to Regions Bank as the sole bondholder, and bears interest at a variable rate equal to 65% of 1-month LIBOR, plus 178 basis points. For the first five months of fiscal year 2014, the average rate of interest on the 2009 Bond was 1.89%.

As additional security for the payment of the Bonds, the Foundation entered into a Bond Guaranty Agreement (the Guaranty) with Regions Bank dated September 30, 2009, whereby the Foundation guaranteed payment when due of debt service on the 2009 Bond and the purchase price of the bonds tendered for purchase under the trust indenture. The Guaranty on the 2009 Bond contained a "put" option where Regions Bank could have tendered the 2009 Bond for purchase on October 1, 2014, effectively giving the Guaranty a five-year term. In anticipation of this, on February 20, 2014 the Foundation refinanced these bonds (2014 Bond) with Regions Capital Advantage, retaining essentially the same structure as the 2009 Bonds except the rate is now fixed at 2.77% and the put option date is December 1, 2023. Accrued interest related to the bonds was \$33,248 and \$136,779 as of June 30, 2015 and September 30, 2014, respectively. The 2014 Bond matures serially through December 1, 2032, in annual installments ranging from \$410,000 to \$1,178,600.

In conjunction with the issuance of the 2009 Bond, the Foundation entered into a capital lease agreement with the Authority dated September 30, 2009 pursuant to which the Foundation will lease certain real property and facilities from the Authority. The real property and facilities were acquired by the Authority pursuant to the provisions of the lease agreement. Rental payments due under the lease agreement are to be sufficient in amounts to pay the principal and interest on the Bonds when due. The Bond is a limited obligation of the Authority payable solely from amounts payable by the Foundation pursuant to the lease agreement with respect to debt service on the Bonds and any other revenues, rentals and receipts derived by the Authority from the leasing or sale of the Fourth Avenue Parking Deck. The Foundation will gain title to the facilities and equipment from the Authority when the project lease expires. The 2009 Bond is collateralized by the assignment of the Authority's interest in the lease agreement, a pledge by the Authority of the revenues received under the lease.

In July 2011, Medical Towers Inc. issued a promissory note to secure a \$2,000,000 line of credit from BBVA Compass Bank to fund a building improvement project for the Medical Towers office building. The scope of the project included replacing all the original windows with energy efficient windows and improving the structural integrity of the building exterior. The promissory note bears a fixed interest rate of 4.74%. The term of the note is 7 years, with scheduled principal redemptions based on a 15 year amortization period, requiring principal and interest payments totaling \$15,546 per month (\$186,556 annually) beginning July 9, 2012. Additional collateral for the note includes an assignment of rents and leases and a negative pledge agreement prohibiting any mortgages or liens on the property until the note is paid in full, and the Foundation serves as guarantor on the note. All remaining principal and interest amounts are due and payable on July 8, 2018.

**The UAB Educational Foundation**  
**Notes to Consolidated Financial Statements**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

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The aggregate contractual maturities of debt for each of the years ending June 30 are as follows:

	<b>Parking Deck Bond Principal</b>	<b>Medical Towers Loan Payable Principal</b>	<b>Total</b>
2016	\$ 510,000	\$ 108,075	\$ 618,075
2017	535,000	113,310	648,310
2018	565,000	957,995	1,522,995
2019	590,000	-	590,000
Thereafter	12,203,600	-	12,203,600
	<u>\$ 14,403,600</u>	<u>\$ 1,179,380</u>	<u>\$ 15,582,980</u>

**12. Net Assets Released From Restrictions**

Net assets were released from donor restrictions during the nine months ended June 30, 2015 and the year ended September 30, 2014 by incurring expenses and/or due to the passage of time, satisfying the restricted purposes specified by donors as follows:

	<b>2015</b>	<b>2014</b>
Purpose restrictions accomplished	<u>\$ 2,920,958</u>	<u>\$ 4,080,849</u>
Total restrictions released	<u>\$ 2,920,958</u>	<u>\$ 4,080,849</u>

**13. Temporarily Restricted and Permanently Restricted Net Assets**

**Temporarily Restricted Net Assets**

***Common Fund***

These temporarily restricted net assets arose from contributions received from the UAB Health System and any interest earned on such funds. These net assets are to be used for the benefit of UAB.

***University/Hospital Funds***

These temporarily restricted net assets are provided by proceeds from vending machines, other temporarily restricted contributions, and any interest income earned on these funds. These net assets are to be used for the benefit of UAB.

***Charitable Gift Annuity Program***

These temporarily restricted net assets are provided by private contributions which are invested and used to fund annuities for the original donor(s) for their lifetime, after which the remaining value of the investment is contributed to UAB for the specific purpose outlined by the donor in the original gift agreement.

***Athletics Support Funds***

These temporarily restricted net assets are for the support of UAB Athletics and are funded by a combination of private contributions and contributions received from the UAB Health System. The funds are used for a variety of support areas, including ensuring long-term contracts for Men's Head Basketball Coach, general support for the UAB Football and Golf programs, as well as the overall Athletic Department.

**The UAB Educational Foundation**  
**Notes to Consolidated Financial Statements**  
**Nine Months Ended June 30, 2015 and Year Ended September 30, 2014**

***UAB Tornado Relief Fund***

These temporarily restricted net assets were provided by \$250,000 in private contributions and restricted for the purpose of providing aid to victims of the April 27, 2011 tornadoes in Alabama. A portion of the initial contribution was used to provide \$1,000 grants to individuals needing assistance. The remaining \$150,000 was loaned interest-free to Habitat for Humanity for providing assistance to victims, with loan payments being used to fund student scholarships in the School of Business.

**Permanently Restricted Net Assets**

***Newsome Fund***

These permanently restricted net assets are restricted to investment in perpetuity, the investment income from which is expendable for student scholarships in the School of Medicine.

Total net assets consisted of the following as of June 30, 2015 and September 30, 2014:

	<b>2015</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>Net assets</b>				
Unrestricted				
Designated	\$ 75,000	\$ -	\$ -	\$ 75,000
Unappropriated	31,872,297	-	-	31,872,297
Temporarily restricted				
Common fund	-	2,928,422	-	2,928,422
University/Hospital funds	-	2,175,587	-	2,175,587
Charitable gift annuity program	-	176,146	-	176,146
Athletics support funds	-	(387,616)	-	(387,616)
UAB Tornado relief fund	-	138,000	-	138,000
Permanently restricted to investment				
Newsome fund	-	-	56,332	56,332
Total net assets	<u>\$ 31,947,297</u>	<u>\$ 5,030,539</u>	<u>\$ 56,332</u>	<u>\$ 37,034,168</u>

	<b>2014</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
<b>Net assets</b>				
Unrestricted				
Designated	\$ 75,000	\$ -	\$ -	\$ 75,000
Unappropriated	30,414,529	-	-	30,414,529
Temporarily restricted				
Common fund	-	2,909,757	-	2,909,757
University/Hospital funds	-	2,289,193	-	2,289,193
Charitable gift annuity program	-	201,519	-	201,519
Athletics support funds	-	(87,665)	-	(87,665)
UAB Tornado relief fund	-	138,000	-	138,000
Permanently restricted to investment				
Newsome fund	-	-	56,372	56,372
Total net assets	<u>\$ 30,489,529</u>	<u>\$ 5,450,804</u>	<u>\$ 56,372</u>	<u>\$ 35,996,705</u>