

The UAB Educational Foundation

**Consolidated Financial Statements
June 30, 2018 and 2017**

The UAB Educational Foundation
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June 30, 2018 and 2017

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Report of Independent Auditors

The Board of Directors of
The UAB Educational Foundation

We have audited the accompanying consolidated financial statements of the UAB Educational Foundation and its subsidiaries (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2018 and 2017 and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended.

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.

Auditors' 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 subsidiaries as of June 30, 2018 and 2017, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Birmingham, Alabama
November 16, 2018

The UAB Educational Foundation
Consolidated Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 13,280,508	\$ 9,897,100
Investments	7,639,372	9,998,499
Accounts receivable	777,662	2,036,530
Inventory	28,713	21,984
Prepaid assets	90,397	99,176
Current portion of notes receivable	6,000	6,000
Total current assets	<u>21,822,652</u>	<u>22,059,289</u>
Noncurrent assets		
Fixed assets, net	53,308,611	41,450,260
Investment in limited liability company	2,290,461	2,140,047
Note receivable from affiliate	3,400,000	2,100,000
Other note receivable	111,000	295,755
Other assets	1,460,179	1,493,247
Total noncurrent assets	<u>60,570,251</u>	<u>47,479,309</u>
Total assets	<u>\$ 82,392,903</u>	<u>\$ 69,538,598</u>
Liabilities and Net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,673,014	\$ 2,089,230
Current gift annuity liability	52,179	52,179
Current portion of debt	1,633,026	1,020,897
Total current liabilities	<u>5,358,219</u>	<u>3,162,306</u>
Noncurrent liabilities		
Long-term debt	37,971,809	25,749,351
Long-term gift annuity liability	327,245	338,062
Deferred tax liability	79,415	99,082
Total noncurrent liabilities	<u>38,378,469</u>	<u>26,186,495</u>
Total liabilities	<u>43,736,688</u>	<u>29,348,801</u>
Net assets		
Without donor restrictions	34,123,838	35,719,261
With donor restrictions	4,532,377	4,470,536
Total net assets	<u>38,656,215</u>	<u>40,189,797</u>
Total liabilities and net assets	<u>\$ 82,392,903</u>	<u>\$ 69,538,598</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
Years Ended June 30, 2018 and 2017

	2018	2017
Changes in net assets without donor restrictions		
Revenues and gains		
Donation revenue	\$ 711,787	\$ 1,771,348
Revenue from the operation of:		
4th Avenue Parking Deck	3,147,872	3,320,255
Doubletree Birmingham	8,712,000	5,872,180
Medical Towers	1,707,558	1,691,637
Other rental properties	1,091,510	1,063,322
Interest and dividends	290,878	237,119
Realized and unrealized investment gains	596,107	505,234
Total revenues and gains without donor restrictions	<u>16,257,712</u>	<u>14,461,095</u>
Net assets released from satisfaction of program restrictions	<u>3,210,755</u>	<u>3,860,468</u>
Total revenues, gains, and other support without donor restrictions	<u>19,468,467</u>	<u>18,321,563</u>
Expenses and other losses		
Program activities		
General university support	2,020,894	2,169,914
Hospital/Health System support	791,833	1,014,169
Academic and scholarship support	2,639,781	1,379,229
UAB Athletics support	-	410,790
Fundraising and development support	247,173	213,058
Property contributed	1,490,313	-
Total program activities	<u>7,189,994</u>	<u>5,187,160</u>
Other activities		
General and administrative expenses	377,551	360,817
Expenses related to the operation of:		
4th Avenue Parking Deck	1,040,844	1,001,391
Doubletree Birmingham	8,187,780	5,304,372
Medical Towers	862,299	970,084
Other rental properties	230,491	252,255
Depreciation expense	1,898,075	1,620,382
Interest expense	1,276,856	780,154
Total expenses and other losses	<u>21,063,890</u>	<u>15,476,615</u>
(Decrease) increase in net assets without donor restrictions	<u>(1,595,423)</u>	<u>2,844,948</u>
Changes in net assets with donor restrictions		
Donation revenue	2,679,368	2,479,669
Vending revenue	493,423	592,597
Interest and dividends	76,266	86,194
Realized and unrealized investment gains	12,722	86,154
Changes in the value of split-interest agreements	10,817	20,833
Net assets released from restrictions	<u>(3,210,755)</u>	<u>(3,860,468)</u>
Increase (decrease) in net assets with donor restrictions	<u>61,841</u>	<u>(595,021)</u>
(Decrease) increase in net assets	<u>(1,533,582)</u>	<u>2,249,927</u>
Net assets		
Beginning of year	<u>40,189,797</u>	<u>37,939,870</u>
End of year	<u>\$ 38,656,215</u>	<u>\$ 40,189,797</u>

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

The UAB Educational Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Cash received from donors	\$ 4,501,155	\$ 3,466,768
Cash received from tenants	2,698,593	2,667,511
Cash received from other service recipients	12,782,596	9,286,641
Cash paid for grants and other university support	(5,656,707)	(5,174,580)
Cash paid to suppliers	(10,844,972)	(7,357,810)
Cash paid for income taxes	(23,974)	(150,976)
Cash paid for interest	(1,188,483)	(781,389)
Interest & dividends received	642,074	391,055
Net cash provided by operating activities	<u>2,910,282</u>	<u>2,347,220</u>
Cash flows from investing activities		
Purchases of investments	(583,000)	(1,040,000)
Proceeds from sale of investments	3,020,189	1,269,000
Capital expenditures	(13,683,404)	(713,820)
Acquisition of Doubletree Birmingham, net of cash and cash equivalents	-	(6,924,958)
Franchise fee paid to Hilton	-	(125,000)
Issuance of notes receivable to affiliate	(1,300,000)	(1,100,000)
Issuance of other note receivable	-	(238,340)
Proceeds from repayment of other note receivable	184,755	65,585
Net cash used in investing activities	<u>(12,361,460)</u>	<u>(8,807,533)</u>
Cash flows from financing activities		
Proceeds from the issuance of long-term debt	13,892,436	13,000,000
Principal payments on debt	(1,057,850)	(928,082)
Net cash provided by financing activities	<u>12,834,586</u>	<u>12,071,918</u>
Net increase in cash and cash equivalents	3,383,408	5,611,605
Cash		
Beginning of year	<u>9,897,100</u>	<u>4,285,495</u>
End of year	<u>\$ 13,280,508</u>	<u>\$ 9,897,100</u>

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

The UAB Educational Foundation

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

1. Summary of Significant Accounting Policies

Organization and Relationship to University of Alabama at Birmingham

The UAB Educational Foundation (the Foundation) was organized primarily for the 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 year ended June 30, 2018.

Principles of Consolidation and Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiaries, Medical Towers, Inc., Campus Hospitality Services, LLC and UAB Diabetes Trust Foundation 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 two classes based on the existence or absence of donor-imposed restrictions, as follows:

Net Assets Without Donor Restrictions

Net assets without donor restrictions generally result from revenues derived from providing services and receiving contributions without donor-imposed restrictions, less expenses incurred in providing services, raising contributions, and performing administrative functions.

Net Assets With Donor Restrictions

Net assets with donor restrictions 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 net assets without donor restrictions when such restrictions are met or have expired.

Other net assets are restricted by donor-imposed stipulations that the assets be held in perpetuity. Income from these assets can be included in any of these net asset classifications depending on donor restrictions.

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

Subsequent events have been evaluated through September ____, 2018, which represents the date that these financials were available to be issued.

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.

The UAB Educational Foundation

Notes to Consolidated Financial Statements

June 30, 2018 and 2017

Donation 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 assets with and without donor restrictions. Contributions for which donors have not stipulated restrictions are reported as donation revenue without donor restrictions. Contributions for which donors have imposed restrictions that limit the use of the donated assets are reported as donation revenue with donor restrictions 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, donor-restricted net assets are reclassified to net assets without donor restrictions 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 in perpetuity, with only the income earned thereon available for use, are also classified as assets with donor restrictions.

Unconditional promises to give with payments due in future periods are reported as donor-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 support without donor restrictions 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 donor-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.

Investments

The University of Alabama System Short Term Liquidity Pool Fund, Long Term Reserve Pool, and Pooled Endowment Funds (collectively the 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 benefit of UAB (which is a campus of 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 all investments with readily determinable market values at fair value.

Investments held directly by the Foundation in debt securities, equity securities and mutual funds with readily determinable market values are reported at their fair values 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 and are presented net of any investment-related expenses.

Investment in Limited Liability Company

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

The UAB Educational Foundation

Notes to Consolidated Financial Statements

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In 2016, the Foundation entered into a 50% ownership joint venture with INTO USA, LP, a company specializing in international student recruiting. The joint venture, INTO UAB, LLC, will administer English Language Courses and a "Pathway Program" for international students that provide English language and academic courses designed to transition the students into the general student population. The joint venture collects tuition revenue and reimburses UAB and INTO USA for all related costs. For UAB this includes costs associated with instruction and facilities, and for INTO USA this includes recruiting expenses, administrative charges, and a management fee.

The initial capital contribution from the Foundation to the LLC was \$50,000. Subsequent transfers to the joint venture will be through member loans in the form of promissory notes.

The Foundation accounts for its investment in INTO UAB LLC under the equity method of accounting.

Other 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, 2018 and 2017 was \$117,000 and \$123,000 respectively.

Note Receivable From Affiliate

In conjunction with the establishment of the INTO UAB, LLC joint venture, the Foundation issued a promissory note to provide member loans to the LLC in an amount not to exceed \$4 million, bearing an interest rate of 4%. Principal and interest payments will be made until paid in full before any profit distributions are made to the LLC members. The balance of the note receivable, all of which was still outstanding, was \$3,400,000 and \$2,100,000 at June 30, 2018 and 2017, respectively. Accrued interest receivable related to this note was \$170,014 and \$69,589 as of June 30, 2018 and 2017, respectively, and is included in accounts receivable within the accompanying consolidated statements of financial position.

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 years ended June 30, 2018 and 2017 was \$1,898,075 and \$1,620,382, respectively.

At the time management of the Foundation decides to sell property and all requisite criteria are met, 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

June 30, 2018 and 2017

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. These liabilities are calculated using assumptions from the 2012 IAR mortality table. 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 net assets with donor restrictions 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.

The following is a summary of these assets and their related liabilities for the years ended June 30, 2018 and 2017:

	2018	2017
Charitable Gift Annuities		
Total assets	\$ 453,345	\$ 487,459
Total liabilities	379,424	390,241

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. 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. and Campus Hospitality Services, LLC are not exempt from income taxes and file separate tax returns (Notes 10 and 11). The Foundation's income tax expense totaled \$105,017 and \$121,161 for the years ended June 30, 2018 and 2017, respectively. Accrued income taxes receivable of \$36,787 and \$15,963 are included in accounts receivable within the accompanying consolidated statements of financial position as of June 30, 2018 and 2017, respectively.

The UAB Educational Foundation

Notes to Consolidated Financial Statements

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Allocation of Expenses

The table below presents expenses by both their nature and their function for years ended June 30, 2018 and 2017:

2018	Program Activities					Other Activities		Total Expenses
	General University Support	Hospital/ Health System	Academic/ Scholarship	Fundraising/ Development	Management & General	Rental & Other Properties		
Contributions in support of UAB	\$ 2,016,544	\$ 789,783	\$ 2,637,331	\$ 245,573	\$ -	\$ -	\$ 5,689,231	
Property contributed	1,490,313	-	-	-	-	-	1,490,313	
Salaries, wages & benefits	-	-	-	-	283,860	3,342,781	3,626,641	
Depreciation	-	-	-	-	-	1,898,075	1,898,075	
Other operating expenses	-	-	-	-	-	1,256,343	1,256,343	
Repairs & maintenance	-	-	-	-	-	930,921	930,921	
Utilities	-	-	-	-	-	1,194,978	1,194,978	
Interest expense	-	-	-	-	-	1,276,856	1,276,856	
Marketing	-	-	-	-	-	667,962	667,962	
Other administration & general	1,750	1,200	1,600	750	31,212	534,193	570,705	
Professional and management fees	2,600	850	850	850	52,950	337,562	395,662	
Income and other taxes	-	-	-	-	-	579,676	579,676	
Security	-	-	-	-	-	296,203	296,203	
Franchise fees	-	-	-	-	-	343,090	343,090	
Bank & Credit card fees	-	-	-	-	9,529	300,258	309,787	
Cost of sales	-	-	-	-	-	370,261	370,261	
Insurance	-	-	-	-	-	167,186	167,186	
Total expenses	\$ 3,511,207	\$ 791,833	\$ 2,639,781	\$ 247,173	\$ 377,551	\$ 13,496,345	\$ 21,063,890	

2017	Program Activities					Other Activities		Total Expenses
	General University Support	Hospital/ Health System	Academic/ Scholarship	Athletics	Fundraising/ Development	Management & General	Rental & Other Properties	
Contributions in support of UAB	\$ 2,165,814	\$ 980,277	\$ 1,376,879	\$ 410,790	\$ 212,558	\$ -	\$ -	\$ 5,146,318
Salaries, wages & benefits	-	-	-	-	-	273,257	2,004,385	2,277,642
Depreciation	-	-	-	-	-	-	1,620,382	1,620,382
Other operating expenses	-	-	-	-	-	-	1,013,753	1,013,753
Repairs & maintenance	-	-	-	-	-	-	911,700	911,700
Utilities	-	-	-	-	-	-	903,659	903,659
Interest expense	-	-	-	-	-	-	780,154	780,154
Marketing	-	-	-	-	-	-	489,008	489,008
Other administration & general	1,500	1,000	1,500	-	500	34,245	447,644	486,389
Professional and management fees	2,600	32,892	850	-	-	47,473	282,725	366,540
Income and other taxes	-	-	-	-	-	(69)	307,527	307,458
Security	-	-	-	-	-	-	295,768	295,768
Franchise fees	-	-	-	-	-	-	240,863	240,863
Bank & Credit card fees	-	-	-	-	-	5,911	224,275	230,186
Cost of sales	-	-	-	-	-	-	221,425	221,425
Insurance	-	-	-	-	-	-	185,370	185,370
Total expenses	\$ 2,169,914	\$ 1,014,169	\$ 1,379,229	\$ 410,790	\$ 213,058	\$ 360,817	\$ 9,928,638	\$ 15,476,615

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, professional fees and technology fees which are all allocated on the basis of estimates of time, effort, and usage.

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.

The UAB Educational Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

Concentration of Credit Risk

The UAB Health System, a related party, has agreed to allocate funds annually to the Foundation and various 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 donation revenue. The following is a summary of these contributions and their corresponding percentage of overall revenue for the years ended June 30, 2018 and 2017:

	2018		2017	
	Contributions	Percentage of Overall Revenue	Contributions	Percentage of Overall Revenue
Without donor restrictions	\$ 880,934	5%	\$ 826,877	5%
With donor restrictions	2,191,066	11%	2,245,123	13%
Combined total for all funds	<u>\$ 3,072,000</u>	<u>16%</u>	<u>\$ 3,072,000</u>	<u>18%</u>

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.

Recent Revisions to Authoritative Guidance

In February 2016, the FASB issued ASU 2016-02, Leases. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. The Foundation is currently evaluating the effect of adoption to the financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 606"). ASC 606 outlines a five-step framework that intends to clarify the principles for recognizing revenue and eliminate industry-specific guidance. In addition, ASC 606 revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. ASC 606 will be effective for annual reporting periods beginning after December 15, 2018. ASC 606 may be applied retrospectively to each period presented or on a modified retrospective basis with the cumulative effect recognized as of the date of adoption. The Foundation is currently evaluating the effect of adoption on the financial statements.

The UAB Educational Foundation
Notes to Consolidated Financial Statements
June 30, 2018 and 2017

2. Financial Assets

The following reflects the Foundation's financial assets as of June 30, 2018 and 2017, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Additionally, the amount of liquidity available for general expenditures has been reduced by any board-designated net assets.

	2018	2017
Financial assets, at year-end	\$ 20,919,880	\$ 19,895,599
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	(4,838,538)	(4,737,242)
Restricted by lender to meet debt-service requirements	(1,904,055)	(1,904,055)
Board designated net assets	-	(75,000)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,177,287</u>	<u>\$ 13,179,302</u>

The Foundation is substantially supported by restricted contributions, and these restrictions require resources to be used in a particular manner. The most common restriction on the use of these contributions is that the expenditures be for the benefit of and at the direction of a certain UAB school or department. Because of the uncertainty regarding the timing of expenditures for these restricted funds, the Foundation generally invests 70% of the financial assets of a given restricted fund into cash and short-term investments and 30% into equity investments, with rebalancing occurring on a quarterly basis.

The Foundation also rebalances its unrestricted financial assets on a quarterly basis, and after reserving cash for specific large outlays expected in the next 90 days, invests 25% of the unreserved balance into cash and short-term investments and 75% into equity investments. Substantially all investments are made with the University of Alabama System funds and can be accessed for liquidity needs with minimal notice.

3. Investments

The following is a summary of investments held by the Foundation as of June 30, 2018 and 2017:

	2018		2017	
	Cost or Amortized Cost	Reported Value	Cost or Amortized Cost	Reported Value
University of Alabama System Funds				
Short Term Liquidity Pool Fund	\$ 2,588,498	\$ 2,363,177	\$ 3,859,497	\$ 3,675,632
Long Term Reserve Pool Fund	3,517,161	3,903,877	3,188,162	3,502,529
Pooled Endowment Fund	246,303	344,754	1,715,302	1,783,815
The UAB School of Business Green and Gold Fund	172,720	574,219	198,909	549,063
Charitable Gift Annuity Fund Investment	395,504	453,345	431,533	487,460
	<u>\$ 6,920,186</u>	<u>\$ 7,639,372</u>	<u>\$ 9,393,403</u>	<u>\$ 9,998,499</u>

The UAB Educational Foundation

Notes to Consolidated Financial Statements

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The Foundation invests substantially all of its funds in the University of Alabama System Short Term Liquidity Pool Fund, Long Term Reserve Pool, and Pooled Endowment Funds (collectively the 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.

4. 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.

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The following table sets forth, by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2018 and 2017:

Assets at Fair Value as of June 30, 2018				
	Level 1	Level 2	Level 3	Total
Investment in the UAB School of Business				
Green and Gold Fund				
Cash, money funds, and FDIC deposits	\$ 31,528	\$ -	\$ -	\$ 31,528
Equities	174,406	-	-	174,406
Mutual funds	106,422	-	-	106,422
Exchange-traded products	261,863	-	-	261,863
Charitable Gift Annuity Fund Investment				
Cash, money funds, and FDIC deposits	1,981	-	-	1,981
Fixed income	258,909	-	-	258,909
Mutual funds - Equity	97,498	-	-	97,498
Exchange-traded products - Equity	94,957	-	-	94,957
	<u>\$ 1,027,564</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,027,564</u>

Assets at Fair Value as of June 30, 2017				
	Level 1	Level 2	Level 3	Total
Investment in the UAB School of Business				
Green and Gold Fund				
Cash, money funds, and FDIC deposits	\$ 32,629	\$ -	\$ -	\$ 32,629
Equities	180,823	-	-	180,823
Mutual funds	30,248	-	-	30,248
Exchange-traded products	305,363	-	-	305,363
Charitable Gift Annuity Fund Investment				
Cash, money funds, and FDIC deposits	4,954	-	-	4,954
Fixed income	275,464	-	-	275,464
Mutual funds - Equity	107,241	-	-	107,241
Exchange-traded products - Equity	99,801	-	-	99,801
	<u>\$ 1,036,523</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,036,523</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.

All Level 1 investments are valued using quoted market prices for securities traded on an active exchange. There have been no changes in the methodologies used in 2018 or 2017.

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.

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5. 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 \$2,240,461 and \$2,090,047 per Triton's audited financial statements as of December 31, 2017 and December 31, 2016, respectively. Earnings on the investment were \$530,768 and \$304,516 and are included in changes in net assets without donor restrictions under realized and unrealized investment (losses) gains, within the accompanying consolidated statements of activities and changes in net assets for the years ended June 30, 2018 and 2017, respectively.

6. 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 was recognized as contribution revenue in the amount of \$1,060,000 for the year ending June 30, 2017. This recognition occurred following the passing of the lone remaining income beneficiary.

7. Property and Equipment

Property and equipment were as follows as of June 30, 2018 and 2017:

	2018	2017
Land	\$ 9,788,340	\$ 10,335,839
Buildings and leasehold improvements	37,285,419	38,080,749
Equipment	<u>25,783,934</u>	<u>11,841,705</u>
	72,857,693	60,258,293
Less: Accumulated depreciation	<u>(20,273,044)</u>	<u>(18,808,033)</u>
Total property and equipment, net	<u>\$ 52,584,649</u>	<u>\$ 41,450,260</u>

8. 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.

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The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes as of June 30, 2018 and 2017:

	2018	2017
Buildings and leasehold improvements	\$ 22,383,246	\$ 22,049,993
Land	<u>9,788,340</u>	<u>10,335,839</u>
	32,171,586	32,385,832
Less: Accumulated depreciation	<u>(11,578,555)</u>	<u>(11,311,275)</u>
Total property and equipment, net	<u>\$ 20,593,031</u>	<u>\$ 21,074,557</u>

9. Major Properties

The Foundation, either directly or through one of its subsidiaries, owns several properties that comprise substantially all of its rental activity and fixed assets. These properties are the 4th Avenue Parking Deck, Medical Towers, and the DoubleTree Birmingham Hotel.

In September, 2016 the Foundation entered into an agreement to acquire the DoubleTree Birmingham Hotel located at 808 20th Street South on the UAB campus for total consideration of \$6.7 million. Subsequently, a single-member LLC was established named Campus Hospitality Services, LLC (CHS) for the purpose of owning and operating the hotel. The Foundation entered into a financing agreement (Note 11) in order to finance both the initial purchase and the property improvement plan required to upgrade the hotel to a Hilton. The hotel was acquired on November 1, 2016.

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The results of operations of these major properties for the years ended June 30, 2018 and 2017, which are included in the accompanying statements of activities and changes in net assets, are summarized as follows:

	2018		
	Double Tree Hotel	4th Avenue Parking Deck	Medical Towers
Operating revenue	\$ 8,722,385	\$ 3,157,160	\$ 1,637,970
Operating expenses			
Salaries, wages & benefits	3,098,302	306,481	100,000
Other operating expenses	1,841,947	163,178	338
Depreciation	555,394	640,020	376,439
Other Administration & General	1,159,455	63,177	37,049
Interest expense	934,171	331,372	89,072
Utilities	722,320	162,947	263,081
Repairs & Maintenance	263,369	184,216	377,976
Income and other taxes	398,014	1,453	109,130
Professional & Management fees	292,701	24,460	16,865
Security	41,412	196,932	57,859
Cost of Sales	370,261	-	-
Total expenses	<u>9,677,346</u>	<u>2,074,236</u>	<u>1,427,809</u>
Net income	<u>\$ (954,961)</u>	<u>\$ 1,082,924</u>	<u>\$ 210,161</u>
	2017		
	Double Tree Hotel	4th Avenue Parking Deck	Medical Towers
Operating revenue	\$ 5,875,198	\$ 3,320,992	\$ 1,750,158
Operating expenses			
Salaries, wages & benefits	1,783,862	280,322	100,200
Other operating expenses	1,367,025	214,816	742
Depreciation	318,320	641,658	312,053
Other Administration & General	903,388	59,569	44,672
Interest expense	373,858	376,414	68,309
Utilities	452,396	138,629	275,953
Repairs & Maintenance	168,528	134,288	468,226
Income and other taxes	116,587	1,453	125,273
Professional & Management fees	250,277	22,000	10,450
Security	40,884	210,314	44,569
Cost of Sales	221,424	-	-
Total expenses	<u>5,996,549</u>	<u>2,079,463</u>	<u>1,450,447</u>
Net income	<u>\$ (121,351)</u>	<u>\$ 1,241,529</u>	<u>\$ 299,711</u>

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Effective November 1, 2016, the Foundation acquired all ownership interests in the DoubleTree Hotel for a purchase price of approximately \$6.7 million. This acquisition was made to fulfill the purpose of the Foundation by providing additional financial resources to support UAB. This transaction qualified as a business combination pursuant to ASC 805. The acquisition was financed with proceeds from the debt acquired from the Foundation's bank and accounted for under the purchase method of accounting. Results are included in the consolidated financial statements since the date of acquisition. The purchase price was allocated based on the fair value of assets acquired and liabilities assumed. The DoubleTree Hotel resides on a ground lease for which the Foundation is now the lessee and UAB is identified as the lessor and is now considered a related party transaction. The related ground lease which was assumed by the Foundation upon acquisition has associated favorable or below market rental terms which have been identified as an intangible asset and is amortized over the remaining useful life of the lease (17 years). The following is a summary of assets acquired in connection with the Foundation's acquisition of the DoubleTree Hotel.

Asset	Allocation
Site improvements	\$ 35,298
Building improvements	5,231,778
Furniture, fixtures & equipment	635,176
Favorable ground lease	<u>797,748</u>
Total fair value	<u>\$ 6,700,000</u>

10. Other Properties

Rental income and expense from the operation of other properties includes activity related to various smaller properties including the Burselson Building, Pita Stop Building, 506 10th Street Warehouse, the Davita Clinic 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 years ended June 30, 2018 and 2017:

	2018	2017
Revenue Bond, the UAB Educational Foundation Project, due serially through 2032	\$ 12,793,600	\$ 13,358,600
Regions Commercial Equipment Finance - Hotel Project, due serially through 2026	25,918,799	13,000,000
Compass Bank - \$2,000,000 nonrevolving line of credit to Medical Towers, Inc.	-	411,648
UAB construction loan to Medical Towers Inc.	<u>892,436</u>	<u>-</u>
Total Long term debt	39,604,835	26,770,248
Less: Amounts due in less than one year	<u>(1,633,026)</u>	<u>(1,020,897)</u>
Long-term debt, net of current amounts	<u>\$ 37,971,809</u>	<u>\$ 25,749,351</u>

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On February 1, 2014 the Foundation refinanced the bonds issued in 2002 (and previously refinanced in 2009) by the City of Birmingham Downtown Redevelopment Authority (the "Authority") which financed the construction of the 4th Avenue Parking Deck (the "2014 bond"). The 2014 Bond was issued to Regions Capital Advantage as the sole bondholder.

As additional security for the payment of the Bonds, the Foundation entered into a Bond Guaranty Agreement (the Guaranty) with Regions Bank dated February 1, 2014, whereby the Foundation guaranteed payment when due of debt service on the 2014 Bond and the purchase price of the bonds tendered for purchase under the trust indenture. The Guaranty on the 2014 Bond contains a "put" option where Regions Bank can have tendered the 2014 Bond for purchase on December 1, 2023, effectively giving the Guaranty a term just under 10 years. The rate on the bonds is fixed at 2.77%. Accrued interest related to the bonds was \$29,532 and \$30,836 as June 30, 2018 and 2017, 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 2014 Bond, the Foundation entered into a capital lease agreement with the Authority dated February 1, 2014 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 2014 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. The note was paid in full on June 30, 2018.

In June 2018, UAB loaned Medical Towers \$892,436 for a building envelope upgrade project that the university has served as project manager for. The loan is interest-free and matures in February, 2020 with monthly installments of \$45,000.

On November 1, 2016, Regions Commercial Equipment Finance, LLC ("Regions") issued two taxable bank loans totaling \$26 million (\$13 million each) to Campus Hospitality Services (CHS) for the purpose of acquiring and renovating the Doubletree Hotel (the "CHS notes"). The first promissory note (Note A) for \$13 million was funded at closing and bears a fixed interest rate of 4.93%. The second \$13 million note (Note B) was funded on March 13, 2018 and bears a fixed interest rate of 6.11%. The loans are amortized based on a 25-year term and have a 10 year maturity. The notes are secured by a mortgage on the property.

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As additional security for payment of the CHS notes, the Foundation entered into a guaranty agreement. Under this agreement, the Foundation gave an unconditional guaranty for all obligations to Regions (including the bonds for the 4th Avenue Parking Deck), including the cross-collateralization of these obligations. Furthermore, the Foundation is required to maintain a global debt-service coverage ratio of 1.25, a requirement that was met in both years ended June 30, 2018 and 2017.

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

	Parking Deck Bonds Principal	Hotel Project Loan Payable Principal	Medical Towers UAB Loan Payable Principal	Total
2019	\$ 590,000	\$ 503,026	\$ 540,000	\$ 1,633,026
2020	625,000	531,242	352,436	1,508,678
2021	650,000	561,062	-	1,211,062
2022	685,000	592,575	-	1,277,575
2023	720,000	625,880	-	1,345,880
Thereafter	9,523,600	23,105,014	-	32,628,614
	<u>\$ 12,793,600</u>	<u>\$ 25,918,799</u>	<u>\$ 892,436</u>	<u>\$ 39,604,835</u>

12. Net Assets with Donor Restrictions

University Funds

These net assets are provided by proceeds from vending machines and contributions received from the UAB Health System, and any interest income earned on these funds. These net assets are to be used for the benefit of administrative departments at the university.

Hospital Funds

These net assets are provided by proceeds from vending machines and any interest earned on such funds. These net assets are to be used for the benefit of UAB Hospital and UAB Health System.

Academic Funds

These net assets are provided by a combination of private contributions and contributions received from the UAB Health System and any interest income earned on these funds. These net assets are to be used for the benefit of academic units, including the School of Medicine.

Development Funds

These net assets are provided by a combination of private contributions and contributions received from the UAB Health System and any interest income earned on these funds. These net assets are to be used to support the university's development and fundraising activities, including the charitable gift annuity program.

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Total net assets consisted of the following as of June 30, 2018 and 2017:

	2018		
	Without donor restrictions	With donor restrictions	Total
Net assets			
Without donor restrictions			
Unappropriated	\$ 34,123,838	\$ -	\$ 34,123,838
With donor restrictions			
University funds	-	198,396	198,396
Hospital funds	-	826,396	826,396
Academic funds	-	2,664,859	2,664,859
Development funds	-	842,726	842,726
Total net assets	<u>\$ 34,123,838</u>	<u>\$ 4,532,377</u>	<u>\$ 38,656,215</u>

	2017		
	Without donor restrictions	With donor restrictions	Total
Net assets			
Without donor restrictions			
Designated	\$ 75,000	\$ -	\$ 75,000
Unappropriated	35,644,261	-	35,644,261
With donor restrictions			
University funds	-	161,722	161,722
Hospital funds	-	906,771	906,771
Academic funds	-	2,670,239	2,670,239
Development funds	-	731,804	731,804
Total net assets	<u>\$ 35,719,261</u>	<u>\$ 4,470,536</u>	<u>\$ 40,189,797</u>

13. Subsequent Events

On August 29, 2018, Regions Commercial Equipment Finance, LLC (“Regions”) issued an additional taxable bank loan totaling \$4 million to Campus Hospitality Services (CHS) to fund additional improvements related to the the Doubletree Hotel renovation project. The note bears a fixed interest rate of 6.48%. The loan is amortized based on a 25-year term and has a 10 year maturity, with principal payments due beginning on September 1, 2019. All other terms from the original debt issued in 2016 remain in effect.