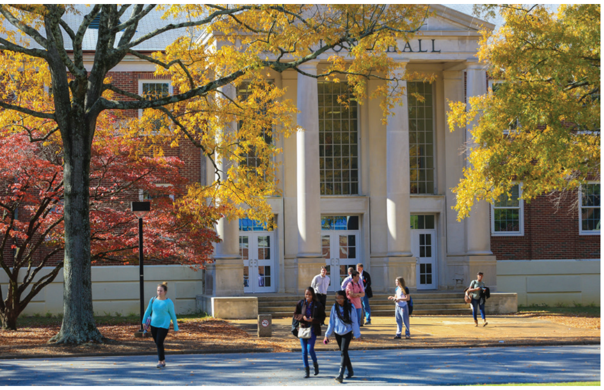
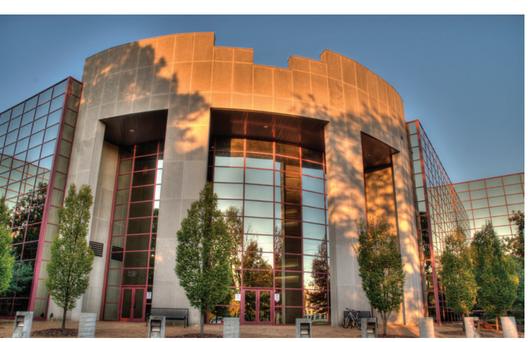
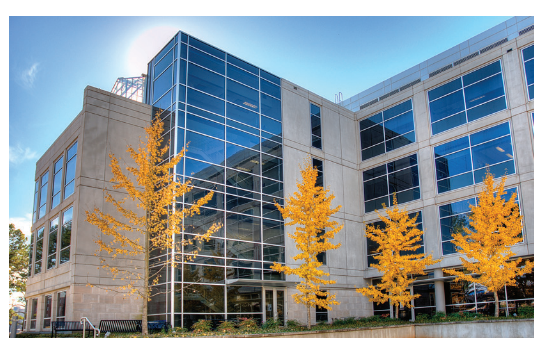
THE UNIVERSITY OF
ALABAMA IN HUNTSVILLE







FINANCIAL REPORT **2016 – 2017**

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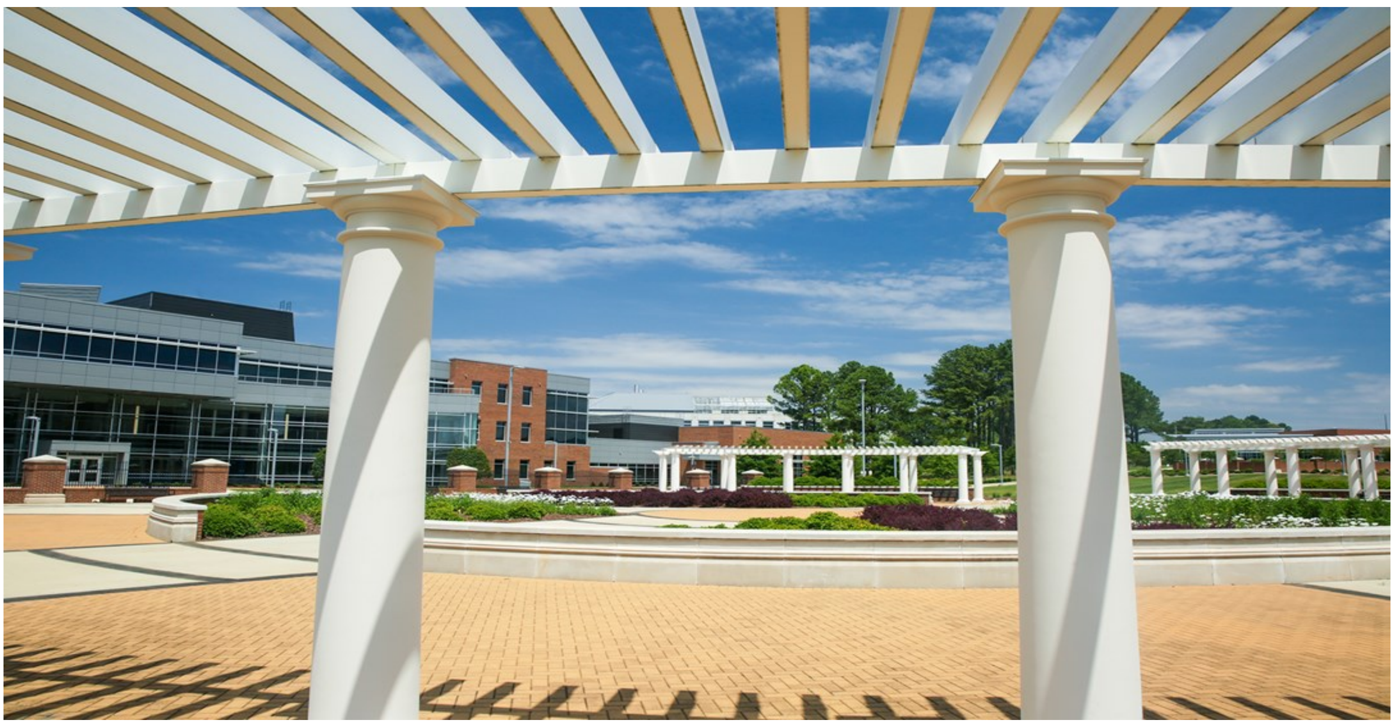

Requests for Information

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

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Report of Independent Auditors

To the Board of Trustees of the University of Alabama:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of The University of Alabama in Huntsville ("UAH"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, which comprise the statements of net position as of September 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and of cash flows (where applicable) for the years then ended, and the related notes to the financial statements, which collectively comprise UAH's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on the financial statements based on our audits. We did not audit the financial statements of The University of Alabama in Huntsville Foundation ("UAHF"), UAH's discretely presented component unit, as of and for the years ended September 30, 2017 and 2016. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for UAHF, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to UAH's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UAH's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based upon our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit of The University of Alabama in Huntsville as of September 30, 2017 and 2016 and the respective changes in financial position and, where applicable, cash

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flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of UAH are intended to present the financial position, the changes in financial position and the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of UAH. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2017 and 2016, its changes in financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

The accompanying management's discussion and analysis on pages 4 through 11 and the required supplementary information on page 50 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

January 22, 2018

The University of Alabama in Huntsville
Management's Discussion and Analysis (Unaudited)

The following discussion and analysis provides an overview of the financial performance and activities of The University of Alabama in Huntsville (the "University" or "UAH") during FY 2017 and FY 2016. This discussion and analysis has been prepared by University management and includes the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These statements should be read in conjunction with the Notes to Financial Statements.

Introduction

The University of Alabama in Huntsville is a public co-educational, state-supported research university and is classified by the Carnegie Foundation for the Advancement of Teaching as a "High Activity" research university, placing it among a select group of public universities in America. UAH has five research programs ranked in the top 20 in the nation, according to the National Science Foundation, including 6th in the United States in aeronautical and astronautical engineering. UAH is 13th in the nation in NASA-sponsored research and 25th in the nation in DOD research.

The University offers 85 degree-granting programs that meet the highest standards of excellence, including 41 bachelor's degree programs, 29 master's degree programs, and 15 doctoral programs through its nine colleges: Arts, Humanities and Social Sciences; Business, Education, Engineering, Graduate Studies, Honors, Nursing, Professional and Continuing Studies, and Science.

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

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

The University received $78.9 million for externally funded projects during FY 2017. Sponsors of research include federal and state agencies, academic institutions, industry and private foundations. Research is conducted within the nine individual colleges and through the University's ten independent research centers, laboratories and institutes.

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

Statements of Net Position

The statements of net position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal year. The purpose of the statements of net position is to present a fiscal snapshot of the University to the readers of the financial statements.

The statements of net position provide a summary of assets available to continue the operations of the University. The statements also show how much the University owes vendors and lending institutions. Finally, the statements of net position provide a picture of the net position and the availability of resources for expenditure by the University.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the University's equity in property, plant and equipment. The second asset category is restricted net position, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources, as it pertains to endowments, is only available for investment purposes. Donors have restricted income derived from these investments to primarily fund scholarships and fellowships. Expendable restricted net position is available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed a time or purpose restriction on the use of the assets. The final category is unrestricted net position, which is available to the University as needed.

A summarized comparison of the University's assets, liabilities, deferred inflows of resources, deferred outflows of resources and net position as of September 30 is as follows:

Condensed Statements of Net Position

	2017	2016	2015
Current assets	$ 120,081,297	$ 127,947,579	$124,846,241
Noncurrent assets:			
Endowment, life income and other investments	56,158,757	52,947,408	66,926,318
Capital assets, net	272,008,654	256,999,556	247,472,797
Legal settlement receivable	-	-	-
Other	2,786,707	3,193,812	3,004,808
Total assets	451,035,415	441,088,355	442,250,164
Deferred outflow from pension liability	29,180,939	26,849,143	17,639,710
Current liabilities	71,997,883	61,682,340	62,851,669
Noncurrent liabilities	255,732,726	255,958,429	245,193,520
Total liabilities	327,730,609	317,640,769	308,045,189
Deferred inflow from pension liability	9,472,000	6,963,000	10,965,000
Net position			
Net investment in capital assets	171,194,003	155,607,523	139,816,373
Restricted	26,059,266	26,004,706	23,224,738
Unrestricted	(54,239,524)	(38,278,500)	(22,161,426)
Total net position	$ 143,013,745	$ 143,333,729	$140,879,685

For FY 2017, the University's current assets decreased $7.9 million primarily due to a decrease in cash and cash equivalents. Endowment, life income and other investments increased $3.2 million due to an increase in endowment investments' favorable market activity. Capital assets, net of depreciation, increased $15 million primarily due to the purchase of Executive Plaza and construction of Charger Village II Residence Hall. Other assets decreased $407 thousand. Current liabilities increased $10.3 million. The majority of this increase is due to a $6.1 million increase in accounts payable and accrued liabilities, along with an increase in deferred revenues due to higher enrollment. Noncurrent liabilities decreased by approximately $226 thousand, primarily the result of recording a $5.1 million decrease to long-term debt, primarily a result of approximately $5.0 million in principal payments made, offset by an increase in the pension liability of $4.7 million. The University recorded deferred outflows of resources of $2.3 million primarily due to differences between projected and actual earnings of the pension plan. See Note 9 to the financial statements for additional information.

For FY 2016, the University's current assets increased $3.1 million primarily due to an increase in other current assets. Endowment, life income and other investments decreased $14.0 million due to a decrease in investments for capital activities. Capital assets, net of depreciation, increased $9.5 million primarily due to the construction of the Student Services Building. Other assets increased $0.2 million due to pledges received from third parties. Current liabilities decreased $1.2 million. The majority of this decrease is due to lower construction and payroll liabilities, offset by an increase in unearned revenues due to higher enrollment. Noncurrent liabilities increased by approximately $10.8 million, primarily the result of recording a $14.1 million increase to the pension liability, offset by a decrease in long-term debt of $4.6 million which was attributable to regularly scheduled principal payments, and the forgiveness of a note payable. The University recorded deferred outflows of resources of $9.2 million primarily due to differences between projected and actual earnings of the pension plan. See Note 9 to the financial statements for additional information.

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

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

Capital Assets

For FY 2017, FY 2016, and FY 2015, the University had approximately $523.3 million, $493.8 million, and $469.4 million invested in capital assets and accumulated depreciation of $251.3 million, $236.8 million, $221.9 million, respectively. Depreciation charges for FY 2017, FY 2016, and FY 2015 were $16 million, $15.4 million, $14.4 million, respectively. The following table summarizes the University's capital assets, net of accumulated depreciation, as of September 30:

Capital Assets, Net

	2017	2016	2015
Land	$ 14,050,899	$ 8,046,641	$ 8,046,641
Land improvements and infrastructure, net	7,091,963	8,096,560	7,532,370
Buildings and building improvements, net	233,190,163	222,358,952	216,570,427
Equipment, net	15,089,126	15,765,993	12,502,996
Library books, net	1,380,570	1,466,083	1,486,339
Computer software, net	81,531	140,925	209,622
Collections	1,124,402	1,124,402	1,124,402
Total capital assets, net	$ 272,008,654	$ 256,999,556	$ 247,472,797

Major capital additions during FY 2017 included the purchase of Executive plaza and construction of the Charger Village addition, the Invention to Innovation Center, and a new sorority house.

Major capital additions during FY 2016 included completion of the Student Services Building.
Major capital additions during FY 2015 included construction of the Student Services Building, completion of the Severe Weather Institute and Radar & Lightning Laboratory, and completion of the expansion and renovation of the Nursing Building.

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

Debt

This table summarizes outstanding debt by type, as of September 30.

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

	2017	2016	2015
Bonds - Current	$3,941,000	$3,839,000	$4,502,000
Bonds - Long Term	89,414,000	93,355,000	97,194,000
Lease - Current	1,155,238	1,155,238	-
Lease - Long Term	-	1,155,238	-
Notes - Current	-	-	368,600
Notes - Long Term	-	-	737,200
Premium, net	806,396	848,025	895,436
Total debt outstanding	$ 95,316,634	$100,352,501	$ 103,697,236

Statements of Revenues, Expenses, and Changes in Net Position

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

State appropriations are classified as nonoperating, in accordance with GASB, because they are provided by the State Legislature to the University without the Legislature directly receiving commensurate goods and services in return for those revenues. Without the nonoperating revenues, in particular the state appropriations, the University would not be able to cover its costs of operations. These sources are critical to the University's financial stability and directly impact the quality of its programs. A summarized comparison of the University's revenues, expenses and changes in net position for the years ended September 30 is as follows:

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

	2017	2016	2015
Operating revenues:			
Tuition and fees	$ 94,548,475	$ 85,003,514	$ 76,258,430
Less: scholarship allowances	(32,151,181)	(27,185,681)	(22,515,168)
Tuition and fees, net	62,397,294	57,817,833	53,743,262
Federal, state and private grants and contracts	78,885,956	80,370,163	75,204,472
Sales and services of educational activities	4,422,511	4,111,462	4,159,834
Auxiliary, net of $1,921,947 in 2017, $1,597,528 in 2016, and $1,292,389 in 2015 of scholarship allowances	10,572,674	9,159,681	7,466,287
Total operating revenues	156,278,435	151,459,139	140,573,855
Operating expenses	223,569,910	212,907,733	206,082,157
Operating loss	(67,291,475)	(61,448,594)	(65,508,302)
Nonoperating revenues (expenses):			
State educational appropriations	47,833,247	44,959,223	43,997,235
Private gifts	3,289,744	5,515,288	6,175,489
Net investment income (loss)	10,240,992	9,334,432	(5,556,417)
Pell grant revenue	7,942,044	7,671,050	7,670,824
Loss on disposal of capital assets	(116,359)	(14,794)	(171,128)
Interest expense	(3,442,330)	(3,562,561)	(3,944,121)
Net nonoperating revenues	65,747,338	63,902,638	48,171,882
Other changes in net position	1,224,153	-	13,582
Increase/(Decrease) in net position	(319,984)	2,454,044	(17,322,838)
Net position, beginning of year (as previously reported)	143,333,729	140,879,685	296,528,523
Adoption of GASB 68	-	-	(138,326,000)
Net position, beginning of year (as restated)	143,333,729	140,879,685	158,202,523
Net position, end of year	$143,013,745	$143,333,729	$ 140,879,685

Approximately $48 million in state appropriations were received in FY 2017, an increase of 6% or $2.9 million from the prior year.

Gross tuition and fees increased approximately $9.5 million in FY 2017 due to a continued growth in total enrollment. Gross tuition and fees increased approximately $8.7 million in FY 2016.

The following is a summary of revenues by source (both operating and nonoperating) for the years ended September 30. Significant recurring sources of the University's revenues, such as state appropriations, are considered nonoperating, as defined by GASB Statement No. 35, *Basic Financial Statements-Management's Discussion and Analysis – for Public Colleges and Universities.*

Revenue Sources

	2017		2016		2015	
State educational appropriations	$47,833,247	21.1%	$44,959,223	20.5%	$43,997,235	22.8%
Net investment (loss) income	10,240,992	4.5%	9,334,432	4.3%	(5,556,417)	-2.9%
Grants and contracts	78,885,956	34.8%	80,370,163	36.7%	75,204,472	39.0%
Gifts	3,289,744	1.5%	5,515,288	2.5%	6,175,489	3.2%
Auxiliary	10,572,674	4.7%	9,159,681	4.2%	7,466,287	3.9%
Net tuition and fees	62,397,294	27.5%	57,817,833	26.4%	53,743,262	27.9%
Sales and services	4,422,511	1.8%	4,111,462	1.9%	4,159,834	2.1%
Capital gifts and grants	623,722	0.3%	-	0.0%	13,583	0.0%
Pell grants	7,942,044	3.5%	7,671,050	3.5%	7,670,824	4.0%
Additions to permanent endowments	600,431	0.3%	-	0.0%	-	0.0%
Total revenues	$226,808,615		$218,939,132		$192,874,569	

Investments produced gains for FY 2017 in the amount of $10.2 million, a $907 thousand increase over FY 2016. Investments produced gains for FY2016 in the amount of $9.3 million, a $14.9 million increase over FY 2015. Investments produced losses for FY 2015 in the amount of $5.6 million, a $12.5 million decrease over FY 2014. Fluctuation is due primarily to market conditions.

Grants and contracts revenues decreased $1.5 million in FY 2017 due primarily to decreases in state and private contracts of $450 thousand and $892 thousand, respectively. Grants and contracts revenues increased $5.2 million in FY 2016 due primarily to increases in federal contracts. Grants and contracts revenues decreased $15.8 million in FY 2015. The FY 2015 decline can be traced largely to a $ 9.8 million pass-through federal contract for FY 2014 that was not renewed in FY 2015.

The University received gifts of approximately $3.3 million in FY 2017. Gifts decreased $2.2 million due to forgiveness of a note payable in FY 2016. In FY 2016 gifts totaled $5.5 million, primarily from the University of Alabama Huntsville Foundation. FY 2015 was an exceptional year for gifts with the University receiving approximately $6.2 million due primarily to a single donor gift of $3.0 million from Bryant Bank for the Nursing program.

The University's auxiliary activities are comprised primarily of the Bevill Conference Center and Hotel, food service, housing, and bookstore. Auxiliary activities increased $1.4 million, $1.7 million and $780 thousand in FY 2017, FY 2016 and FY 2015, respectively.

Sales and services revenue stayed constant with an increase of $311 thousand in FY 2017. Sales and services revenue decreased by $48 thousand in FY 2016. As fees were held flat, sales and services revenue was stable for FY 2015.

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

Detail of Federal Grants & Contracts Revenue

	2017	2016	2015
National Aeronautics and Space Administration	$ 23,018,332	$ 20,842,244	$ 20,148,797
Department of Defense	39,727,624	42,320,727	40,260,133
National Science Foundation	4,242,082	4,169,421	3,602,857
Department of Education	573,339	625,761	582,024
Other	4,905,845	4,650,881	3,667,073
Total	$ 72,467,222	$ 72,609,034	$ 68,260,884

National Aeronautics and Space Administration (NASA) revenues increased $2.2 million in FY 2017. NASA revenues increased $693 thousand in FY 2016. NASA revenues decreased $992 thousand in FY 2015.

Department of Defense (DoD) revenues decreased $2.6 million in FY 2017 primarily due to federal pass-through contracts that were not renewed. DoD revenues increased $2.1 million in FY 2016 primarily due to new federal pass-through contracts. Department of Defense revenues decreased $9.9 million in FY 2015 primarily due to pass-through contracts for FY 2014 that were not renewed for FY 2015.

National Science Foundation revenues increased $73 thousand, $567 thousand and $375 thousand in FY 2017, FY 2016 and FY 2015, respectively. The following is a comparison of the University's operating expenses for the years ended September 30:

Operating expenses (by functional classification)

	2017	2016	2015
Instruction	$ 60,081,085	$ 58,220,362	$ 53,931,815
Research	66,897,171	67,422,410	64,651,852
Public service	6,988,818	4,044,377	5,765,716
Academic support	11,816,561	11,093,403	11,261,569
Student services	17,407,877	16,378,477	15,994,309
Institutional support	22,356,531	20,155,287	20,915,985
Operations and maintenance of plant	13,657,991	13,469,491	13,301,579
Scholarships and fellowships	2,544,291	2,139,731	1,128,515
Auxiliary enterprises	5,776,032	4,586,105	4,690,415
Depreciation	16,043,553	15,398,090	14,440,402
Total operating expenses	$ 223,569,910	$ 212,907,733	$ 206,082,157

Operating expenses (by natural classification)

Salaries, wages, and benefits	$ 160,210,876	$ 153,938,849	$ 150,457,933
Supplies and services	44,771,190	41,431,063	40,055,307
Depreciation	16,043,553	15,398,090	14,440,402
Scholarships and fellowships	2,544,291	2,139,731	1,128,515
Total operating expenses	$ 223,569,910	$ 212,907,733	$ 206,082,157

In FY 2017, instruction expenses increased $1.9 million due to an increase in compensation and benefits. FY 2016, instruction expenses increased $4.3 million due to a $2.9 million increase in compensation and benefits and a $1.3 million increase in supplies and services. In FY 2015, instruction expenses increased $1.9 million primarily due to compensation and benefits.

Research expenses decreased $525 thousand in FY 2017 due to a decrease in contracts and grants. Research expenses increased $2.8 million in FY 2016 due to an increase in contracts and grants. Research expenses decreased $10.1 million in FY 2015 primarily due to decreases in contracts and grants.

Public service expenses increased $2.9 million in FY 2017 due to increases in federal public service contracts and grants. Public service expenses decreased $1.7 million in FY 2016 due to decreases in federal public service contracts and grants. Public service expenses increased $128 thousand in FY 2015 due to increases in federal public service contracts and grants.

Academic support saw an increase of $723 thousand during FY 2017. Academic support decreased slightly during FY 2016 by $168 thousand. Academic support increased $431 thousand during FY 2015.

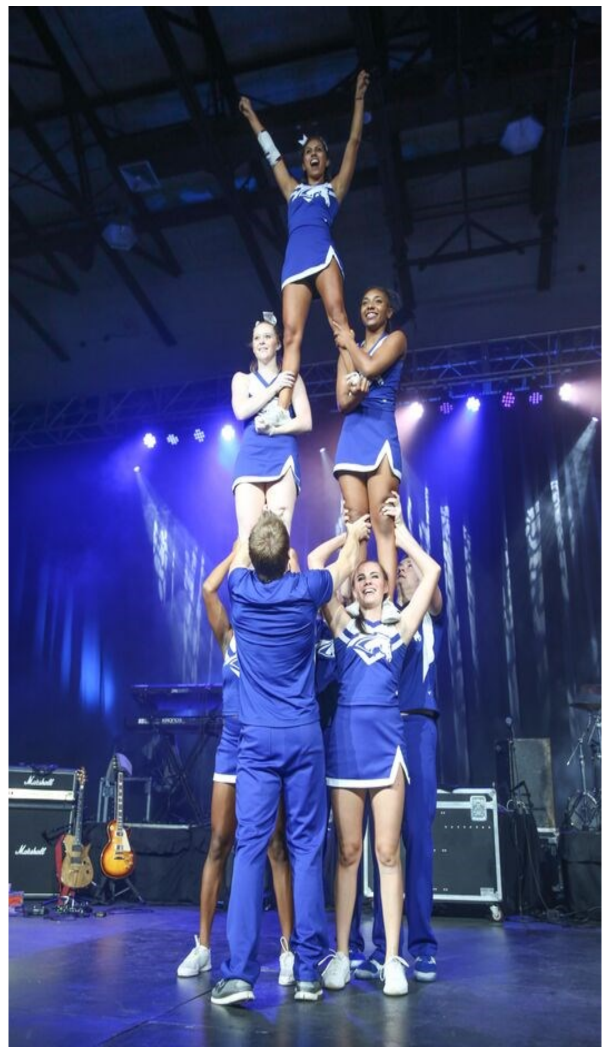
Operations and maintenance of plant increased $189 thousand during FY 2017. Operations and maintenance of plant increased $168 thousand during FY 2016. Operations and maintenance of plant increased $34 thousand during FY 2015 primarily due to increases in utilities costs and other services.

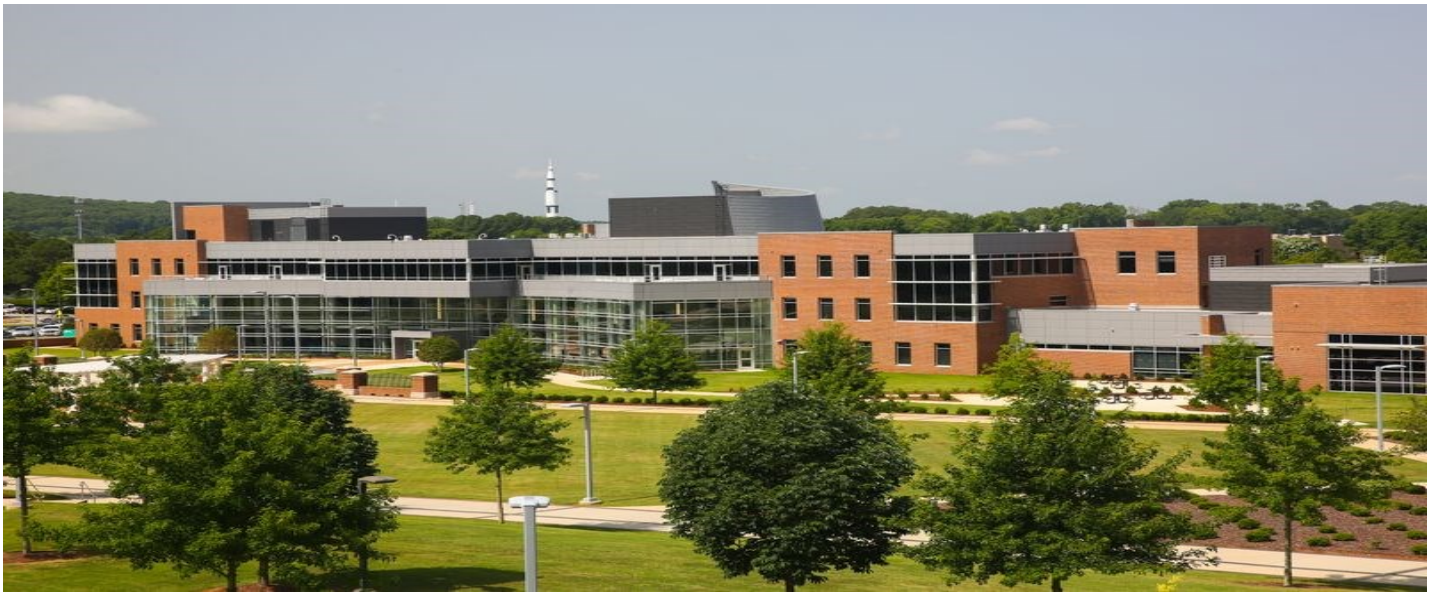
Compensation and benefits increased $6.3 million in FY 2017, due to a $4.3 million increase in pension expense. FY 2016 saw a $3.5 million increase, primarily due to a combination of increases in grants and contracts and health insurance and other benefit costs. FY 2015 saw a $635 thousand decrease in compensation and benefits.

Scholarships and fellowships expense increased $405 thousand for FY 2017. Scholarships and fellowships expense increased $1.0 million during FY 2016. Scholarships and fellowships expense increased $27 thousand for FY 2015. Scholarships and fellowships expenses represent the residual expense after applying the scholarship allowance to gross tuition and fees revenue.

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

Supplies and services expenses increased $3.3 million in FY 2017 due to the University's continued growth and related expenses. Supplies and services expenses increased $1.4 million in FY 2016 due to the University's continued growth. In FY 2015, supplies and services expenses decreased $3.6 million due to the decline in federal contracts and grants.





Economic Factors That Will Affect the Future

The University's state educational appropriations have not kept pace with the funding percentage as recommended by the Alabama Commission on Higher Education (ACHE). In FY 2016, the University was funded at 45.8% of the ACHE recommended funding. The funding percentage increased to 48.2% in FY 2017. State appropriations at the University have been reduced from $58.1 million in FY 2008 to $47.8 million in FY 2017. In FY 2008, the University was funded at 78% of what the ACHE recommended. The funding trend at UAH mirrors the trend across the nation and across the state for public institutions. Higher educational institutions are relying more upon tuition and fees revenues as opposed to support from the state appropriation to run their operations. This funding trend is expected to continue in the future.

Total enrollment for fall 2017 was at an all-time high at 9,101, an increase of 633 students over last fall and 7.5% growth. Freshman enrollment was also at an all-time high at 1,345, an increase of 10.6%. The average ACT for incoming freshmen was 27.9, an improvement from the prior year by 1.1%, and was the highest in the school's history.

UAH continues to expand its academic programs and degree offerings. The Honors College student population grew from 455 students in fall 2014 to approximately 800 students in fall 2017. The College of Education continues to expand its Early Learning Center. The relatively new Department of Kinesiology enrollment for fall 2017 grew by 10% from the previous fall. For fall 2017, the College of Engineering undergraduate enrollment was up 9% from the previous year, with Aerospace Engineering undergraduate enrollment up by 32%.

The University continues to broaden the research portfolio beyond the traditional core research strengths in NASA and DoD. National Science Foundation grant expenditures increased over 17% from FY 2015 to FY 2017, and the trend is expected to continue.

The University of Alabama in Huntsville
Statements of Net Position
September 30, 2017 and 2016

	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	$ 12,502,465	$ 31,638,074
Operating investments	65,786,136	59,595,149
Accounts receivable, net	25,651,203	22,959,641
Other current assets	16,141,493	13,754,715
Total current assets	120,081,297	127,947,579
Noncurrent Assets:		
Restricted cash and cash equivalents	637,878	617,147
Endowment investments	34,138,879	31,770,261
Investments for capital activities	21,382,000	20,560,000
Capital assets, net	272,008,654	256,999,556
Other noncurrent assets	2,786,707	3,193,812
Total noncurrent assets	330,954,118	313,140,776
Total Assets	**451,035,415**	**441,088,355**
Deferred Outflows of Resources		
Pension obligations	29,180,939	26,849,143
Total Deferred Outflows of Resources	**29,180,939**	**26,849,143**
Total Assets and Deferred Outflows of Resources	**$ 480,216,354**	**$ 467,937,498**
Liabilities		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 24,545,606	$ 18,435,391
Unearned revenues	38,136,944	34,478,616
Current portion of long-term debt	5,096,238	4,994,238
Deposits held for others	4,219,095	3,774,095
Total current liabilities	71,997,883	61,682,340
Noncurrent Liabilities:		
Long-term debt	90,220,396	95,358,263
Federal advances-loan funds	380,330	210,166
Pension liability	165,132,000	160,390,000
Total noncurrent liabilities	255,732,726	255,958,429
Total Liabilities	**327,730,609**	**317,640,769**
Deferred Inflows of Resources		
Pension obligations	9,472,000	6,963,000
Total Deferred Inflows of Resources	**9,472,000**	**6,963,000**
Net Position		
Net investment in capital assets	171,194,003	155,607,523
Restricted:		
Nonexpendable	9,944,805	9,286,245
Expendable	16,114,461	16,718,461
Unrestricted	(54,239,524)	(38,278,500)
Total Net Position	143,013,745	143,333,729
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 480,216,354**	**$ 467,937,498**

See accompanying notes to financial statements

The University of Alabama in Huntsville
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Operating Revenues		
Tuition and fees	$ 94,548,475	$ 85,003,514
Less: scholarship allowances	(32,151,181)	(27,185,681)
Tuition and fees, net	62,397,294	57,817,833
Grants and contracts		
Federal	72,467,222	72,609,034
State	4,117,407	4,567,601
Private	2,301,327	3,193,528
Sales and services of educational activities	4,422,511	4,111,462
Auxiliary, net of $1,921,947 in 2017 and $1,597,528 in 2016 of scholarship allowances	10,572,674	9,159,681
Total Operating Revenues	**156,278,435**	**151,459,139**
Operating Expenses		
Salaries, wages, and benefits	160,210,876	153,938,849
Supplies and services	44,771,190	41,431,063
Depreciation	16,043,553	15,398,090
Scholarships and fellowships	2,544,291	2,139,731
Total Operating Expenses	**223,569,910**	**212,907,733**
Operating loss	(67,291,475)	(61,448,594)
Nonoperating Revenues (Expenses)		
State educational appropriations	47,833,247	44,959,223
Private gifts	3,289,744	5,515,288
Net investment income	10,240,992	9,334,432
Grant revenue	7,942,044	7,671,050
Loss on disposal of capital assets	(116,359)	(14,794)
Interest expense	(3,442,330)	(3,562,561)
Net Nonoperating Revenues	65,747,338	63,902,638
(Loss)/income before other changes in net position	(1,544,137)	2,454,044
Other Changes in Net Position		
Capital gifts and grants	623,722	-
Additions to permanent endowments	600,431	-
Other changes in net position	1,224,153	-
Increase/(Decrease) in net position	(319,984)	2,454,044
Net Position, Beginning of Year	143,333,729	140,879,685
Net Position, End of Year	**$ 143,013,745**	**$ 143,333,729**

See accompanying notes to financial statements

The University of Alabama in Huntsville
Statements of Cash Flow
Years Ended September 30, 2017 and 2016

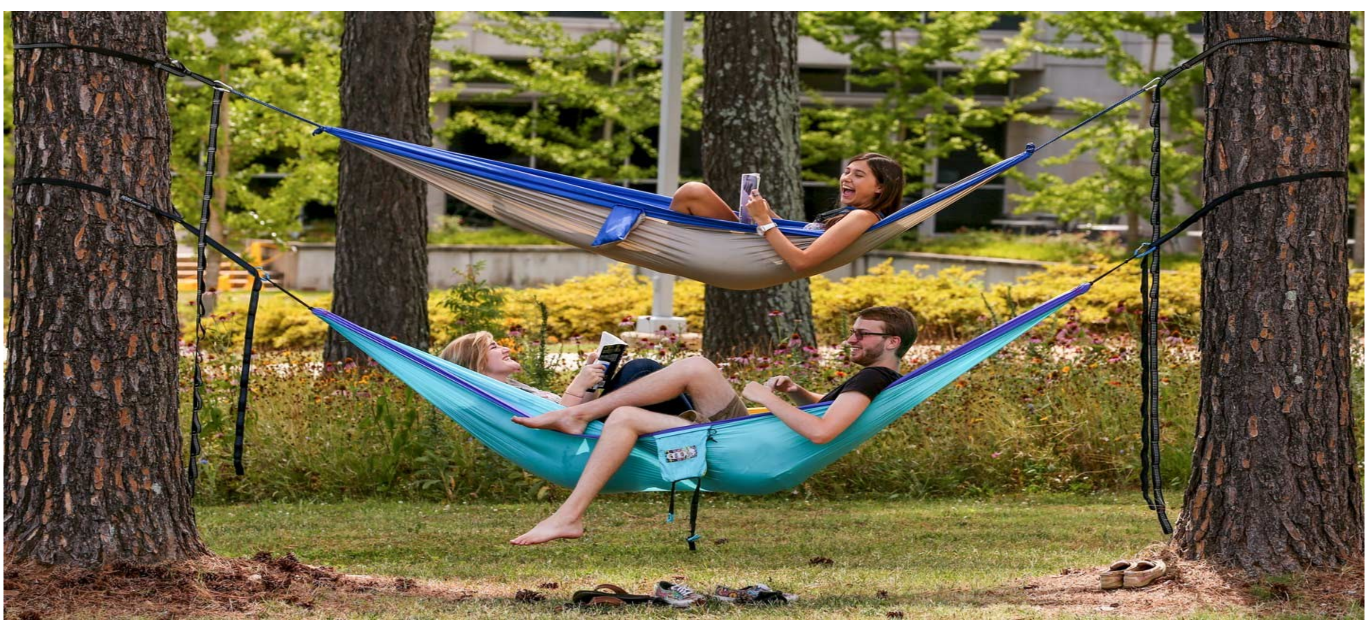
	2017	2016
Cash Flows from Operating Activities		
Student tuition and fees	$ 64,124,277	$ 59,843,243
Federal grants and contracts	71,554,571	70,051,410
State and local grants and contracts	4,077,715	4,451,084
Private grants and contracts	2,279,142	3,112,063
Sales and services of educational and other departmental activities	4,174,846	3,685,940
Auxiliary enterprises	11,074,707	10,020,254
Payments to suppliers	(43,769,500)	(41,370,412)
Payments to employees and related fringes	(154,860,588)	(153,921,203)
Payments for scholarships and fellowships	(4,697,705)	(4,777,535)
Net Cash Used in Operating Activities	**(46,042,535)**	**(48,905,156)**
Cash Flows from Noncapital Financing Activities		
State educational appropriations	47,833,247	44,959,223
Private gifts	4,288,242	4,211,421
Student direct lending receipts	31,881,939	30,017,708
Student direct lending disbursements	(31,884,318)	(29,565,058)
Amounts received from affiliates	594,636	387,537
Amounts paid to affiliates	(4,311)	(14,387)
Legal settlement	-	951,113
Pell grant revenue	7,942,044	7,671,050
Net Cash Provided by Noncapital Financing Activities	**60,651,479**	**58,618,607**
Cash Flows from Investing Activities		
Income distributions from System investment pool	1,537,597	1,471,817
Proceeds from sales and maturities of investments	15,537,549	15,003,100
Contributions to System investment pool	(16,228,598)	(1,377,534)
Net Cash Provided by Investing Activities	**846,548**	**15,097,383**
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(26,140,440)	(24,443,389)
Proceeds from sale of capital assets	21,005	-
Principal payments on capital debt	(4,994,238)	(5,657,238)
Interest payments on capital debt	(3,456,697)	(3,579,149)
Net Cash Used in Capital and Related Financing Activities	**(34,570,370)**	**(33,679,776)**
Net decrease in cash and cash equivalents	(19,114,878)	(8,868,942)
Cash and Cash Equivalents, Beginning of Year	32,255,221	41,124,163
Cash and Cash Equivalents, End of Year	**$ 13,140,343**	**$ 32,255,221**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents in current assets	12,502,465	31,638,074
Restricted cash and cash equivalents	637,878	617,147
Total Cash and Cash Equivalents	**$ 13,140,343**	**$ 32,255,221**

See accompanying notes to financial statements

The University of Alabama in Huntsville
Statements of Cash Flow -- Continued
Years Ended September 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (67,291,475)	$ (61,448,594)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	16,010,962	15,359,742
Pension expense	16,657,143	12,405,710
Changes in assets and liabilities:		
Accounts receivable, net	(2,651,505)	(2,311,980)
Other current assets	(2,386,778)	(2,846,104)
Pension obligations	(11,737,939)	(11,475,143)
Accounts payable and accrued liabilities	1,698,729	(605,622)
Unearned revenues	3,658,328	2,016,835
Net Cash Used in Operating Activities	**$ (46,042,535)**	**$ (48,905,156)**
Supplemental Noncash Activities Information		
Capital assets acquired with a liability at year end	5,465,384	1,039,531
Forgiveness of note payable	-	1,105,800
Capital assets acquired with a capital lease	-	3,465,714

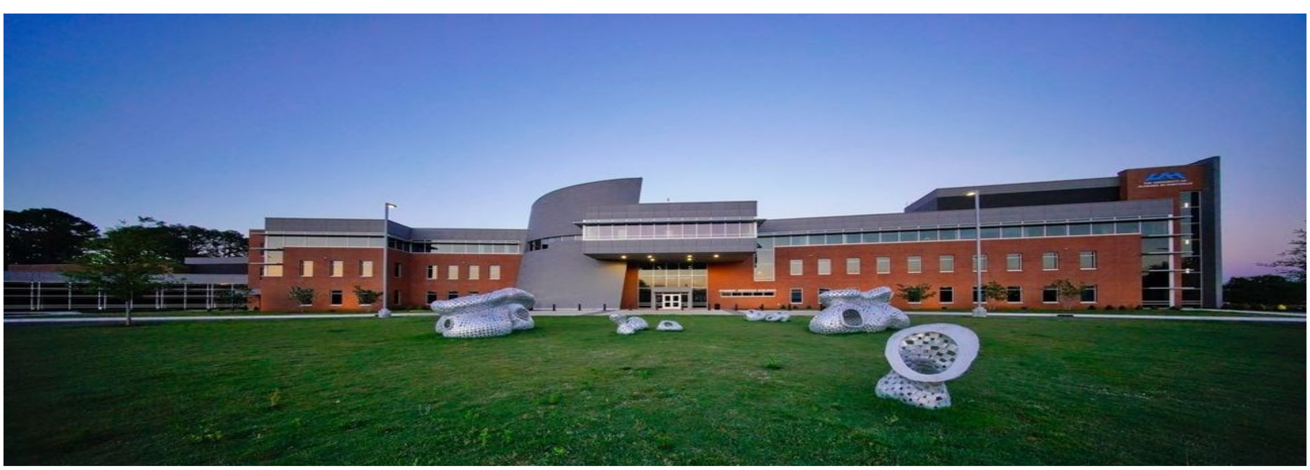
See accompanying notes to financial statements



University of Alabama Huntsville Foundation
Discretely Presented Component Unit
Statements of Net Position
September 30, 2017 and 2016

	2017	2016
Cash and cash equivalents	$ 1,842,765	$ 3,927,693
Investments	45,111,755	40,149,490
Investment real estate	2,757,376	2,757,376
Investment in trust	5,490,538	5,268,223
Accrued interest	512,882	445,443
Pledges receivable, net	4,885,144	92,732
Trust receivable	484,959	484,959
Other receivable	50,460	-
Total Assets	**$ 61,135,879**	**$ 53,125,916**
Accounts payable	$ 25,087	$ 6,057
Annuity payable	109,400	122,038
Payroll tax payable	298,067	596,134
Total Liabilities	**432,554**	**724,229**
Unrestricted net assets	22,748,198	21,518,833
Temporarily restricted net assets	15,352,284	9,528,814
Permanently restricted net assets	22,602,843	21,354,040
Total Net Assets	**60,703,325**	**52,401,687**
Total Liabilities and Net Assets	**$ 61,135,879**	**$ 53,125,916**

See Note 2



University of Alabama Huntsville Foundation
Discretely Presented Component Unit
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2017 and 2016

	2017	2016
Revenue, gains, and other support:		
Contributions	$ 6,661,970	$ 1,924,577
Rent income	33,570	33,870
Investment income	1,994,056	1,900,369
Realized gain on sale of investments	158,578	2,391,339
Unrealized gain of investments	2,047,130	-
Equity in earnings of trust	833,659	632,159
Other income	11,598	6,847
Change in value of split-interest agreement	8,205	-
Total Revenues	**11,748,766**	**6,889,161**
Expenses:		
Realized loss on investments	-	418,775
Contributions to UAH	1,505,321	3,642,518
Scholarships to UAH	1,588,530	1,452,577
Professional services	65,750	64,000
Income tax expense	190,300	106,826
Change in value of split-interest agreement	-	4,638
Other expenses	97,227	53,550
Total Expenses	**3,447,128**	**5,742,884**
Change in net assets	8,301,638	1,146,277
Net Assets, Beginning of Year	52,401,687	51,255,410
Net Assets, End of Year	**$ 60,703,325**	**$ 52,401,687**

See Note 2

Notes to Financial Statements
Years Ended September 30, 2017 and 2016

Note 1 – Organization and Summary of Significant Accounting Policies

Financial Reporting Entity - The University of Alabama in Huntsville (the "University") is one of three campuses of The University of Alabama System (the "System"), a discretely presented component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business type activities of the financial reporting entity of the System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the System, its changes in financial position or cash flows in accordance with accounting principles generally accepted in the United States of America. The financial statements include individual schools, colleges and departments, and certain affiliated operations determined to be a part of the University's financial reporting entity. The System is recognized as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code.

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

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

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

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

No modifications have been made to UAHF's financial information in the University's financial reporting entity for these differences; however, significant note disclosures (see Note 2) to UAHF's financial statements have been incorporated into the University's notes to the financial statements. During FY 2017 and FY 2016, UAHF distributed $3,093,851 and $5,095,095, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF are available by phoning (256) 824-6350.

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

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, an amendment of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

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

- **Net investment in capital assets**: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

- **Restricted**:

  Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the corpus of the University's permanent endowment funds.

  Expendable – Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

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

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

Investments: The University's investment portfolio is primarily invested in three separate investment pools maintained by The University of Alabama. Fair value for the investment pools is provided by the System, based on the fair value of the underlying investment securities held by each investment pool. Fair value of the underlying securities held in each investment pool is based on quoted market prices or dealer quotes, where available, or determined using net asset values provided by underlying investment partnerships or companies, which primarily invest in readily marketable securities. Fair value for investments held directly by the University is determined from quoted market prices or market prices of similar instruments. Net investment income or loss, including realized and unrealized gains and losses, is reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net position.

Investments are reported in three categories in the statement of net position. Investments recorded as endowment investments are those invested funds that cannot be used to fund current operations and thus are included in noncurrent assets. Investments for capital activities are included in noncurrent assets, except for amounts included in current assets to offset current construction-related payables. All other investments are included as operating investments.

Accounts Receivable: Accounts receivable consist primarily of tuition and fees charged to students, and amounts due from the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's contracts and grants. Accounts receivable are recorded net of estimated uncollectible amounts.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or acquisition value at date of donation in the case of gifts, less accumulated depreciation. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Implementation costs, which are capitalized, include consulting expenses and allocation of internal salaries and fringes for the core implementation team. Training costs are expensed as incurred. Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are capitalized and depreciated. Interest costs, net of any related investment earnings, for certain assets acquired with the proceeds of tax-exempt borrowings are capitalized as a component of the cost of acquiring those assets.

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

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

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

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

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

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

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

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

Compensated Absences: The University accrues annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and years worked.

Endowment Spending: For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Alabama, permits The Board of Trustees of the University of Alabama (the Board) to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. UPMIFA also prescribes the guidelines for the expenditure of donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. UPMIFA focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA includes a robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The University's policy is to retain the endowment realized and unrealized appreciation with the endowment after the spending rate distributions in a manner consistent with the standards of prudence prescribed by UPMIFA.

The Board approved a spending rate for the fiscal years September 30, 2017 and 2016 of 5.0%, which is based on a moving three-year average of the market (unit) value. However, effective October 1, 2017, the Board adopted a spending rate of 4.5%, based on a moving five-year average of the market (unit) value, and return of gains for underwater endowments.

Federal Refundable Loans: Certain loans to students are administered by UAH with funding primarily supported by the federal government. UAH's statements of net position include both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2 – Discretely Presented Component Unit-UAH Foundation

Basis of Accounting- The financial statements of UAHF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

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

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

- **Permanently Restricted**- Net assets subject to donor-imposed stipulations to be maintained permanently by UAHF. Generally, the donors of these assets restrict UAHF to use all or a part of the income earned on the related investments for specific purposes. Unrealized and realized gains and losses and dividends and interest from investing in income producing assets may be included in any of these net asset classifications depending on donor-imposed stipulations.

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

Investments – The following are the cost and reported value of investments as of September 30, 2017 and 2016 :

	2017		2016	
	Reported Value	Cost	Reported Value	Cost
Certificates of deposit	$ 523,613	$ 523,613	$ 518,338	$ 518,338
Pooled Endowment Fund	39,252,296	36,618,858	36,953,830	36,110,389
Marketable debt securities	2,499,704	2,488,721	76,364	76,088
Marketable equity securities	1,500,077	1,159,820	1,396,001	1,205,303
Mutual funds	1,336,065	1,295,675	1,204,957	1,261,434
Total	$ 45,111,755	$ 42,086,687	$ 40,149,490	$ 39,171,552

UAHF invests certain amounts in a commingled investment pool (“Pooled Endowment Fund”) sponsored by The University of Alabama System. The value recognized for the investment pool is determined by the System and is based on UAHF’s proportionate share of the net asset value of the investment pool. The System has no variance power over the funds. Instead, the funds are distributed by the System to the Foundation upon its request. The investment pool invests in various investment securities, including both marketable and non-marketable securities.

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

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

During 2008, one of the income interests terminated, and a pro-rata distribution of the ownership interests held by the trust was transferred to UAHF. As a result of the satisfaction of a pro-rata share of the pledge, UAHF recognized a gain of $4,375,835 representing the increase in fair value of the noncash assets between the date the assets were promised in 1974 and their values upon actual receipt in 2008. As a result of the receipt of these equity interests, UAHF currently holds approximately 21% and 19.5% of Big Springs and Chambers, respectively. These equity interests allow UAHF to exercise significant influence over Big Springs and Chambers, and accordingly, UAHF accounts for these interests using the equity method of accounting. During the years ended September 30, 2017 and 2016, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of $833,659 and $632,159, respectively. In addition, UAHF received distributions from Chambers of $611,345 and $601,750 in FY 2017 and FY 2016, respectively. Big Springs did not make any distributions in either FY 2017 or FY 2016.

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

This table summarizes the combined financial position and results of operations of Big Springs and Chambers (on a consolidated basis) for the years ended September 30, 2017 and 2016:

	2017	2016
Current Assets	$ 18,571,467	$ 17,151,598
Noncurrent Assets	16,909,249	12,137,004
Current Liabilities	(4,171,093)	(3,693,565)
Noncurrent Liabilities	(4,693,977)	(100,000)
Equity	$ 26,615,646	$ 25,495,037
Net Sales	$ 46,126,981	$ 43,648,211
Operating Income	$ 3,470,540	$ 3,103,196
Net Income	$ 4,224,267	$ 3,280,128

Income Taxes-The Foundation is a nonprofit corporation that is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue code for activities related to its exempt purpose. Certain of the Foundation's activities are considered by the Internal Revenue Service to provide unrelated business income and, accordingly, income from these activities is subject to federal income tax. The Foundation's income tax expense totaled $190,300 and $106,826 for the years ended September 30, 2017 and 2016, respectively.

Endowments-The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the State Legislature and signed into law effective January 1, 2009. UPMIFA prescribes new guidelines for the expenditure of a donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. Its predecessor, UMIFA, focused on the prudent spending of the net appreciation of the fund. UPMIFA instead focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount and net appreciation. UPMIFA eliminates UMIFA's historic-dollar-value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. UAHF adopted guidance provided by the FASB relevant to endowments of not-for-profit organizations and the related net asset classification of endowment funds subject to an enacted version of UPMIFA and enhanced disclosures for all endowment funds. The impact of this guidance on the classification of net assets for UAHF was not material to UAHF and is disclosed in UAHF's financial statements. The earnings distributions are appropriated for expenditure by the governing Board of Trustees of UAHF in a manner consistent with the standard of prudence prescribed by UPMIFA. In order to conform to the standards for prudent fiduciary management of investments, UAHF's Board of Trustees has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets.

Restricted Net Assets-Restricted net assets are classified as either temporarily restricted net assets and available for the following purposes, or permanently restricted net assets, which are restricted to investment in perpetuity, the income from which is expendable for the following purposes at September 30, 2017 and 2016:

	Temporarily Restricted		Permanently Restricted	
	2017	2016	2017	2016
Student support	$ 4,829,608	$ 4,121,500	$ 12,329,772	$ 11,946,865
Faculty support	2,711,644	2,276,421	6,909,350	6,043,455
Academic support	3,369,767	2,774,750	3,313,293	3,313,293
Facilities renovation	4,183,736	136,059	-	-
Research	187,464	156,953	-	-
Library	70,065	63,131	50,428	50,427
Total	$ 15,352,284	$ 9,528,814	$ 22,602,843	$ 21,354,040

Note 3 – Cash and Cash Equivalents

The Board approves, by resolution, all banks or other financial institutions utilized as depositories for University funds. Prior to approval, each proposed depository must provide evidence of its designation by the Alabama State Treasurer as a qualified public depository under the Security of Alabama Funds Enhancement Act (SAFE). From time to time, the Board may request that the depository provide evidence of its continuing designation as a qualified public depository. Under the mandatory SAFE program, each qualified public depository (QPD) is required to hold collateral for all its public depositories on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss.

For FY 2017 and FY 2016, the University had cash and cash equivalents totaling $13,140,343 and $32,255,221 respectively. Included in the amounts are deposits with trustees held for reserves, which totaled $637,878 in FY 2017 and $617,147 in FY 2016.

Note 4 – Investments

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

The Board has the responsibility for the establishment of the investment policy and the oversight of the investments for the System and related entities. In order to facilitate System-wide investment objectives and achieve economies of scale, the Board has established three distinct investment pools based primarily on the projected investment time horizons for System funds. These investment pools are the Endowment Fund (PEF), the Long Term Reserve Pool (LTRP) and the Short Term Liquidity Pool (STLP) (collectively, the "System Pools"). Pursuant to Board investment policies, each System or related entity may include all or a portion of their investments within the System-sponsored investment pools. These investment funds are considered 'internal' investment pools under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with the assets pooled on a market value basis. Separately managed funds that reside with each entity are to be invested consistent with the asset mix of the corresponding System investment pool. The following disclosures relate to both the System Pools, which include the investments of other System entities and other affiliated entities, and the University-specific investment portfolio.

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

Long Term Reserve Pool (LTRP): The LTRP is a longer-term fund used as an investment vehicle to manage operating reserves with a time horizon of three to seven years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid, semi-liquid, and illiquid securities. This fund can invest no more than 10% in illiquid assets.

Short Term Liquidity Pool (STLP): The STLP serves as an investment vehicle to manage operating reserves with a time horizon of one to three years. This fund is also used to balance the other funds when looking at the System's entire asset allocation of operating reserves relative to its investment objectives. The STLP has an investment objective of income with preservation of capital and is invested in intermediate-term fixed income securities. The fund holds at least one large mutual fund to provide liquidity.

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

Fair Value Measurements: GASB 72 sets forth the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under GASB 72 are described as follows:

- **Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.

- **Level 2** – Inputs to the valuation methodology include:

    - Quoted prices for similar assets or liabilities in active markets;
    - Quoted prices for identical or similar assets or liabilities in inactive markets;
    - Inputs other than quoted prices that are observable for the assets or liabilities;
    - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- **Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the University's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the University's own data.

GASB 72 allows for the use of net asset value ("NAV") as a practical expedient for valuation purposes. Investments that use NAV in determining fair value are disclosed separately from the valuation hierarchy as presented herein.

The level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The determination of what constitutes observable requires judgment by the University's management. University management considers observable data to be that market data which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to University management's perceived risk of that investment.

The following is a description of the valuation methods and assumptions used by the University to estimate the fair value of its investments. There have been no changes in the methods and assumptions used at September 30, 2017. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. University management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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

At September 30, 2017 and 2016, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

	2017				
	Level 1	Level2	Level 3		Total
Cash & Receivables:					
Compass	$ 135,724	-	-	$	135,724
Wind Trust	42,878	-	-		42,878
Durkee Trust	347,434				347,434
	526,036	-	-		526,036
			UAH Portion of System Pool Investments:		
			Pooled Endowment Fund		34,138,879
			Long Term Reserve Fund		78,172,586
			Short Term Liquidity Fund		5,886,049
			Eminent Scholar Fund		2,583,465
			Total Net Asset Value with System Pooled	$	121,307,015

	2016				
	Level 1	Level2	Level 3		Total
Cash & Receivables:					
Compass	$ 135,601	-	-	$	135,601
Wind Trust	40,329	-	-		40,329
Durkee Trust	308,483				308,483
	484,413	-	-		484,413
			UAH Portion of System Pool Investments:		
			Pooled Endowment Fund		31,770,261
			Long Term Reserve Fund		71,398,091
			Short Term Liquidity Fund		5,820,554
			Eminent Scholar Fund		2,452,091
			Total Net Asset Value with System Pooled	$	111,925,410

At September 30, 2017 and 2016, the fair value of investments for the System Pools based on the inputs used to value them is summarized as follows:

Endowment Fund					
	2017				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	$ -	$ -	$ -	$ -	$ 737,344
Total Receivables	-	-	-	-	737,344
Cash Equivalents:					
Money Market Funds	79,594,084	-	-	-	79,594,084
Total Cash Equivalents	79,594,084	-	-	-	79,594,084
Equities:					
U.S. Common Stock	94,939,223	-	-	-	94,939,223
Foreign Stock	34,902,583	-	-	-	34,902,583
Total Equities	129,841,806	-	-	-	129,841,806
Fixed Income Securities:					
U.S. Government Obligations	-	8,498,567	-	-	8,498,567
Mortgage Backed Securities	-	6,136,259			6,136,259
Corporate Bonds	-	21,041,058	-	-	21,041,058
Non-U.S. Bonds	-	3,038,650	-	-	3,038,650
Total Fixed Income Securities	-	38,714,534	-	-	38,714,534
Commingled Funds:					
Non-U.S. Equity Funds	-	224,559,339	-	-	224,559,339
U.S. Bond Funds	-	58,363,636	-	-	58,363,636
Non-U.S. Bond Funds	-	29,063,500	-	-	29,063,500
Hedge Funds	-	-	-	506,943,088	506,943,088
Private Equity Funds	-	-	-	123,786,463	123,786,463
Real Estate Funds	-	-	-	203,564,413	203,564,413
Total Commingled Funds	-	311,986,475	-	834,293,964	1,146,280,439
Total Fund Investments	209,435,890	350,701,009	-	834,293,964	1,394,430,863
Total Fund Assets	209,435,890	350,701,009	-	834,293,964	1,395,168,207
Total Fund Liabilities	-	-	-	-	(223,940)
Affiliated Entity Investments in Funds	-	-	-	-	(222,871,294)
Total Net Asset Value	$ 209,435,890	$ 350,701,009	$ -	$ 834,293,964	$ 1,172,072,973

Endowment Fund

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

Long Term Reserve Pool Fund

	2017				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	$ -	$ -	$ -	$ -	$ 2,371,886
Total Receivables	-	-	-	-	2,371,886
Cash Equivalents:					
Money Market Funds	58,259,515	-	-	-	58,259,515
Total Cash Equivalents	58,259,515	-	-	-	58,259,515
Equities:					
U.S. Common Stock	176,807,415	-	-	-	176,807,415
Foreign Stock	50,575,577	-	-	-	50,575,577
Total Equities	227,382,992	-	-	-	227,382,992
Fixed Income Securities:					
U.S. Government Obligations	-	14,142,677	-	-	14,142,677
Mortgage Backed Securities	-	11,840,312			11,840,312
Corporate Bonds	-	35,515,741	-	-	35,515,741
Non-U.S. Bonds	-	5,479,805	-	-	5,479,805
Total Fixed Income Securities	-	66,978,535	-	-	66,978,535
Commingled Funds:					
Non-U.S. Equity Funds	-	425,447,446	-	-	425,447,446
U.S. Bond Funds	-	67,342,316	-	-	67,342,316
Non-U.S. Bond Funds	-	47,096,969	-	-	47,096,969
Hedge Funds	-	-	-	754,979,975	754,979,975
Real Estate Funds	-	-	-	112,894,275	112,894,275
Total Commingled Funds	-	539,886,731	-	867,874,250	1,407,760,981
Total Fund Investments	285,642,507	606,865,266	-	867,874,250	1,760,382,023
Total Fund Assets	285,642,507	606,865,266	-	867,874,250	1,762,753,909
Total Fund Liabilities	-	-	-	-	(378,908)
Affiliated Entity Investments in Funds	-	-	-	-	(119,531,938)
Total Net Asset Value	$ 285,642,507	$ 606,865,266	$ -	$ 867,874,250	$ 1,642,843,063

Long Term Reserve Pool Fund

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

Short Term Liquidity Pool Fund

	2017				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	$ -	$ -	$ -	$ -	$ 3,222,354
Total Receivables	-	-	-	-	3,222,354
Cash Equivalents:					
Money Market Funds	100,227,735	-	-	-	100,227,735
Total Cash Equivalents	100,227,735	-	-	-	100,227,735
Fixed Income Securities:					
U.S. Government Obligations	-	244,194,221	-	-	244,194,221
Mortgage Backed Securities	-	149,207,687	-	-	149,207,687
Collateralized Mortgage Obligations	-	11,990,320	-	-	11,990,320
Corporate Bonds	-	165,646,257	-	-	165,646,257
Non-U.S. Bonds	-	61,129,470	-	-	61,129,470
Total Fixed Income Securities	-	632,167,955	-	-	632,167,955
Commingled Funds:					
U.S. Bond Funds	-	205,630,016	-	-	205,630,016
Total Commingled Funds	-	205,630,016	-	-	205,630,016
Total Fund Investments	100,227,735	837,797,971	-	-	938,025,706
Total Fund Assets	100,227,735	837,797,971	-	-	941,248,060
Total Fund Liabilities	-	-	-	-	(243,098)
Affiliated Entity Investments in Funds	-	-	-	-	(62,963,316)
Total Net Asset Value	$ 100,227,735	$ 837,797,971	$ -	$ -	$ 878,041,646

Short Term Liquidity Pool Fund

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

Investment Risk Factors: There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk: Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have significant credit risk. A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standard and Poor's (S&P). The lower the rating, the greater the chance— in the rating agency's opinion—that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Board policy recognizes that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark. Credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. Fixed income holdings in a single entity (excluding obligations of the U.S. government and its agencies) may not exceed 5% of a manager's portfolio measured at market value.

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and LTRP, which are tracked against the Barclays U.S. High Yield Index for U.S. investments and the JPM Non-U.S. GBI Index for international investment benchmarks for the fixed income portion of these pools. Fixed income investments within the Endowment and LTRP include corporate and U.S. Treasury and/or agency bonds. In addition, approximately $18,000,000 and $1,200,000 in the Endowment and LTRP at September 30, 2017 and 2016, respectively, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately $339,700,000 and $279,200,000 in the Endowment and LTRP at September 30, 2017 and 2016, respectively.

The STLP is benchmarked against the 1-3 year Barclays Government Credit Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. Treasury and/or agency bonds. At September 30, 2017 and 2016, respectively, approximately $79,400,000 and $78,100,000 was invested by the STLP in unrated fixed income securities, excluding commingled bond funds, and money market funds. Fixed income commingled funds and money market funds totaled approximately $305,900,000 and $310,200,000 at September 30, 2017 and 2016, respectively.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2017 and 2016 are as follows:

	Endowment Fund		LTRP Fund		STLP Fund	
	2017	2016	2017	2016	2017	2016
Fixed or Variable Income Securities						
U.S. Government Obligations	$ 8,498,567	$ 11,635,633	$ 14,142,677	$ 13,315,542	$ 244,194,221	$ 206,021,290
Other U.S. and Non-U.S. Denominated:						
AAA	-	-	-	-	57,770,342	66,722,557
AA	2,827,897	4,935,622	4,895,316	5,902,771	45,669,400	62,277,161
A	8,297,086	11,351,391	14,267,929	13,602,107	98,995,277	94,456,013
BBB	9,469,093	9,710,555	15,722,458	11,642,153	94,842,218	96,922,375
BB	2,472,128	396,562	4,358,741	581,625	3,200,172	12,178,203
B	1,013,505	-	1,751,103	-	5,216,578	6,109,639
C and < C	-	-	-	-	2,868,608	3,388,143
Unrated	6,136,259	549,764	11,840,312	674,710	79,411,138	78,100,343
Commingled Funds:						
U.S. Bond Funds: Unrated	58,363,636	59,563,636	67,342,316	65,616,121	205,630,016	199,067,054
Non-U.S. Bond Funds: Unrated	29,063,500	26,423,526	47,096,969	42,818,930	-	-
Money Market Funds: Unrated	79,594,084	37,501,965	58,259,515	47,260,189	100,227,735	111,156,636
Total	$ 205,735,755	$ 162,068,654	$ 239,677,336	$ 201,414,148	$ 938,025,705	$ 936,399,414

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a corporate failure of a custodian, the System's investment securities may not be returned. Investment securities in the System Pools are registered in the Board's name by the custodial bank as an agent for the System. Other types of investments (i.e. open-ended mutual funds, money market funds) represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Concentration of Credit Risk: Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. As previously mentioned, credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2017 and 2016, there was no investment in a single issuer that represents 5% or more of total investments held by any single investment manager of the System Pools, except for investments issued by the U.S. government and money market fund investments.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time. The Board does not have a specific policy relative to interest rate risk. As such, there are no restrictions on weighted average maturity for each investment pool as they are managed relative to the investment objectives and liquidity demands of the investors.

The effective durations for fixed or variable income securities held by the System Pools at September 30, 2017 and 2016 are as follows:

	Endowment Fund		LTRP Fund		STLP Fund	
	2017	2016	2017	2016	2017	2016
U.S. Government Obligations	8.7	8.1	8.4	8.4	1.9	1.9
Corporate Bonds	4.8	4.7	5.0	4.6	1.9	2.1
Non-U.S. Bonds	4.8	4.7	5.0	4.6	1.9	2.1
Commingled Bond Funds	2.4	1.8	2.1	1.5	2.8	2.8

The information presented does not take into account the relative weighting of the portfolio components to the total portfolio.

Investments may also include mortgage pass through securities and collateralized mortgage obligations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. As of September 30, 2017 and 2016, the fair market value of these investments held by the System Pools are as follows:

	Endowment Fund		LTRP Fund		STLP Fund	
	2017	2016	2017	2016	2017	2016
Mortgage Backed Securities	$ 6,136,259	$ -	$ 11,840,312	$ -	$ 149,207,687	$ 166,643,153
Collateralized Mortgage Obligations	-	-	-	-	11,990,320	12,035,018
Total Fixed	$ 6,136,259	$ -	$ 11,840,312	$ -	$ 161,198,007	$ 178,678,171

Mortgage Backed Securities: These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying assets reduce the total expected rate of return.

Collateralized Mortgage Obligations: Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

As of September 30, 2017 and 2016, the effective durations for these securities are as follows:

	Endowment Fund		LTRP Fund		STLP Fund	
	2017	2016	2017	2016	2017	2016
Mortgage Backed Securities	3.5	-	3.3	-	1.0	0.9
Collateralized Mortgage Obligations	-	-	-	-	2.2	1.7

Foreign Currency Risk: The strategic asset allocation policy for the Endowment Fund and the LTRP includes an allocation to non-United States equity securities and fixed income securities. Currency hedging of foreign bonds and stocks is allowed under System Policy. As of September 30, 2017 and 2016, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately $61.1 million and $64.9 million of foreign bonds denominated in U.S. dollars and held by the STLP at September 30, 2017 and 2016 respectively.

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

At September 30, 2017 and 2016, there were no securities on loan from the investment pools.

Note 5 – Receivables

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

The composition of accounts receivable for FY 2017 and FY 2016 is summarized as follows:

	2017	2016
Tuition and fees (net of allowance for doubtful accounts of $1,313,180 in 2017 and $1,239,053 in 2016)	$ 7,488,262	$ 5,860,688
Auxiliary enterprises and other operating activities	80,858	65,047
Federal, state, and private grants and contracts (net of allowance for doubtful accounts of $344,460 in 2017 and $342,787 in 2016)	16,937,264	16,136,752
Other	1,144,819	897,154
Net accounts receivable	$ 25,651,203	$ 22,959,641

Note 6 – Capital Assets

Capital assets activity for FY 2017 and FY 2016 is summarized as follows:

	October 1, 2016	Additions	Retirements	Adjustments	September 30, 2017
Land	$ 8,046,641	$ 6,004,258	-	$ -	$ 14,050,899
Land improvements and infrastructure	20,056,620	366,144	-	-	20,422,764
Buildings and building improvements	364,185,061	2,923,234	-	-	367,108,295
Construction in progress	382,341	18,396,775	-	-	18,779,116
Equipment	70,782,216	3,336,662	(1,608,896)	-	72,509,982
Library books	26,215,530	162,942	(49,428)	-	26,329,044
Computer software	3,006,245	-	-	-	3,006,245
Collections	1,124,402	-	-	-	1,124,402
Total cost of capital assets	493,799,056	31,190,015	(1,658,324)	-	523,330,747
Less accumulated depreciation	236,799,500	16,043,553	(1,520,960)	-	251,322,093
Capital assets, net	$ 256,999,556	$ 15,146,462	$ (137,364)	$ -	$ 272,008,654

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

Note 7 – Long-term Debt

Long-term debt activity for FY 2017 and FY 2016 is summarized as follows:

Type/Supported by	October 1, 2016	New Debt	Principal Repayment	September 30, 2017
Bonds:				
Student housing revenue	$ 27,261,000	$ -	$ 620,000	$ 26,641,000
General fee revenue	69,933,000	-	3,219,000	66,714,000
Lease obligations	2,310,476	-	1,155,238	1,155,238
Total debt	99,504,476	$ -	$ 4,994,238	94,510,238
Less current portion	(4,994,238)			(5,096,238)
Premium, net	848,025			806,396
Total long-term debt	$ 95,358,263			$ 90,220,396

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

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

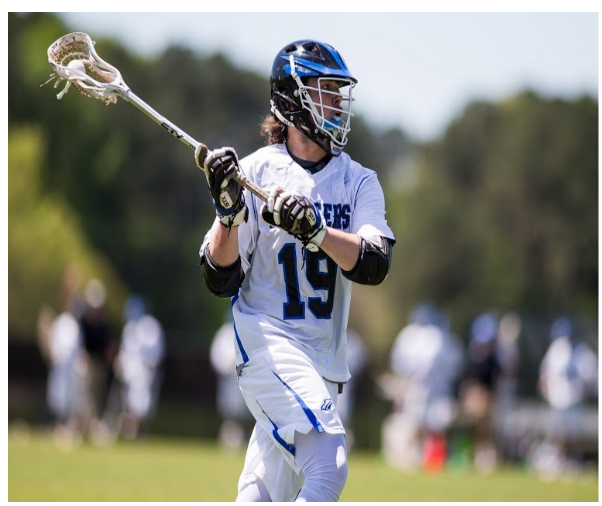
	Principal	Interest	Total
2018	$ 5,096,238	$ 3,370,431	$ 8,466,669
2019	4,038,000	3,276,500	7,314,500
2020	4,164,000	3,173,386	7,337,386
2021	4,265,000	3,058,739	7,323,739
2022	4,307,000	2,932,446	7,239,446
2023-2027	23,985,000	13,968,598	37,953,598
2028-2032	16,740,000	8,232,661	24,972,661
2033-2037	14,030,000	5,173,489	19,203,489
2038-2042	16,155,000	2,231,316	18,386,316
2043	1,730,000	34,600	1,764,600
	$ 94,510,238	$ 45,452,166	$ 139,962,404

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

Description and Purpose	Date Issued	Final Maturity	Interest Rate - %	Original Indebtedness	Outstanding Indebtedness September 30, 2017	Outstanding Indebtedness September 30, 2016
Bonds Payable:						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	$ 2,180,000	$ 275,000	$ 360,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	396,000	496,000
Revenue Bonds-Series 2009A	8/4/2009	7/1/2029	3.00-4.50	8,115,000	5,570,000	5,920,000
Student Housing Revenue Bonds-Series 2010-A	7/14/2010	6/1/2042	2.85-6.125	27,990,000	25,970,000	26,405,000
General Fee Revenue Bonds-Series 2012-A	4/3/2012	10/1/2031	0.73-4.28	11,170,000	8,695,000	9,260,000
General Fee Revenue Bonds-Series 2012-B	9/5/2012	12/1/2026	0.74-3.84	13,700,000	9,915,000	10,630,000
General Fee Revenue Bonds-Series 2013-A-1	4/4/2013	4/1/2023	1.57	7,550,000	4,665,000	5,400,000
General Fee Revenue Bonds-Series 2013-A-2	4/4/2013	4/1/2043	4.00	24,455,000	24,455,000	24,455,000
General Fee Revenue Bonds-Series 2014-A	12/15/2014	9/1/2034	3.00-5.00	11,860,000	9,195,000	9,565,000
General Fee Revenue Bonds-Series 2015-A	3/25/2015	6/1/2025	1.96	5,175,000	4,219,000	4,703,000
Total Bonds Payable				114,797,000	93,355,000	97,194,000
Lease Obligation:						
Brocade Communications	10/1/2015	1/15/2018		3,465,714	1,155,238	2,310,476
Total Lease Obligation				3,465,714	1,155,238	2,310,476
Total Debt				$ 118,262,714	$ 94,510,238	$ 99,504,476

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

The University's general fee bonds and student housing bonds are subject to certain covenants. These covenants, among other things, require the University to establish and maintain reasonable fees, rates, and other charges to ensure pledged revenues are sufficient for debt service coverage; to maintain books and records pertaining to the pledged revenues; to furnish annual audits and other periodic reports that reflect the financial condition of the Borrower, the project, other pledged facilities, and other pledged assets; and to comply with certain restrictions as to additional indebtedness. The University is in compliance with all restrictive financial covenants as of September 30, 2017.



Note 8 – Self-Insurance

The University participates with other campuses in the System in a self-insurance program for general liability risks. The Board established a separate revocable trust fund for payment of these self-insurance claims under its risk retention program. Annual contributions are made to the consolidated trust fund, at an actuarially determined rate, to provide funding for the retained risk. The accompanying statements of net position include a reserve of $300,394 and $282,547 for general liability for FY 2017 and FY 2016, respectively.

The University also maintains a self-insured health plan. For FY 2017, the University paid $23.75 and $7.97 per month per health insurance contract for administrative charges and stop loss coverage, respectively. The accompanying statements of net position include a self-insurance reserve of $1,644,620 and $1,480,585 for health insurance for FY 2017 and FY 2016, respectively. Annual contributions are made to the health plan, utilizing an actuarially determined rate, to provide funding for the reserve. The changes in the total reported self-insurance liabilities are summarized as follows:

	2017	2016
Balance, beginning of year	$ 1,763,132	$ 1,633,480
Claims paid	(13,156,960)	(11,844,683)
Contributions and adjustments	13,338,842	11,974,335
Balance, end of year	$ 1,945,014	$ 1,763,132

Note 9 – Employee Benefits

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

Defined Benefit Plan – TRS

Plan description. The Teacher's Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama ("RSA"). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits provided. State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Members of the TRS are classified as either Tier 1 or Tier 2 plan members, contingent upon if their eligible service began prior to January 1, 2013. Benefits for TRS members vest after 10 years of creditable service. Tier 1 members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life unless there is a return to full-time employment with a TRS or Employees' Retirement System ("ERS") agency, or to temporary employment in excess of specified limits. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 1 members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of last 10 years) for each year of service.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life unless there is a return to full-time employment with a TRS or ERS agency, or to temporary employment in excess of specified limits. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty.

Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

Contributions. Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.5% of earnable compensation. Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. All regular employees of the University are members of the TRS with the exception of temporary employees.

The University's contractually required contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% of annual pay for Tier 2 members. The University's contribution rate for the year ended September 30, 2016 was 11.94% of annual pay for Tier 1 members and 10.84% of annual pay for Tier 2 members.

These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. The following is a comparative presentation of contributions:

	2017	2016
University contributions	$ 11,711,569	$ 11,474,249
Employee contributions	7,137,398	7,059,838
Total contributions	$ 18,848,967	$ 18,534,087

	2017 Tier 1	2017 Tier 2	2016 Tier 1	2016 Tier 2
University contribution regular rate	12.01%	10.82%	11.94%	10.84%
Employee contribution rate	7.50%	6.00%	7.50%	6.00%
Employee contribution law enforcement rate	8.50%	7.00%	8.50%	7.00%

Salaries and wages for covered employees participating in TRS were approximately $100.4 million during FY 2017 and $98.7 million during FY 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2017, the University reported a liability of $165,132,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015.

The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016 the University's proportion was 1.525333% which was a decrease of 0.007196% from its proportion measured as of September 30, 2015.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 4,253,000
Changes of assumptions	11,659,000	-
Net difference between projected and actual earnings on pension plan investments	2,387,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	3,397,000	5,219,000
Employer contributions subsequent to the measurement date	11,737,939	-
Total	$ 29,180,939	$ 9,472,000

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

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 869,000.00
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	10,501,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	4,873,000	6,094,000
Employer contributions subsequent to the measurement date	11,475,143	-
Total	$ 26,849,143	$ 6,963,000

$11,737,939 of the amount reported as deferred outflows of resources resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2018	$1,999,000
2019	$1,999,000
2020	$3,565,000
2021	($115,000)
2022	$523,000
Thereafter	-

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2015 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment rate of return*	7.75%
Projected salary increases	3.25% - 5.00%

*Net of pension plan investment expense, including inflation

The actuarial assumptions used in the September 30, 2015 valuation were based on the results of an actuarial experience study for the period October 1, 2010—September 30, 2015. Post-Retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disability Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

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

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	3.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.5%.

Discount rate. The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate. The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
University's proportionate share of collective net pension liability (Dollar amounts in thousands)	$219,993	$165,132	$118,687

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2016. The auditor's report dated September 22, 2017 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Defined Contribution Plans

As previously noted, some employees participate in the optional TIAA-CREF and VALIC programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All regular full-time and regular part-time employees are eligible to participate from the date of employment. The University contributes a matching amount up to 5% of the employee's monthly contribution for regular, full-time exempt employees. The University's contribution is funded as it accrues and, along with that of employees, is immediately and fully vested. The contribution for FY 2017 and FY 2016, excluding amounts not eligible for matching, are summarized as follows:

	2017	2016
University contributions	$ 3,018,061	$ 2,991,075
Employee contributions	5,740,903	5,542,020
Total contributions	$ 8,758,964	$ 8,533,095

The University's total salaries and wages subject to benefit plan participation for FY 2017 and FY 2016 are summarized in the table below:

	2017	2016
Total Salaries and Wages	$ 116,383,027	$ 116,033,297
Salaries and Wages of employees participating in:		
TRS	$ 100,416,137	$ 98,670,645
TIAA - CREF	$ 64,535,829	$ 65,290,361

Compensated Absences

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. The statement of net position includes vacation pay and salary-related payments associated with vacation pay accruals of $4,787,778 and $4,745,829 for FY 2017 and FY 2016, respectively. There is no such accrual recognized for sick leave benefits because no terminal cash benefit is available to employees for accumulated sick leave.

Note 10 – Post-Employment Benefits

Post-employment health care benefits are offered to all employees who officially retire from the University through the Alabama Retired Education Employees' Health Care Trust with TRS. TRS offers health care benefits through a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board ("PEEHIP"). Retired employees age sixty-five or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer and PEEHIP becomes the secondary insurer. Most retirees elect to participate in the PEEHIP with TRS, in which case the retirees pay a portion of the PEEHIP premium and the University pays an allocation toward the cost of retiree coverage.

PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. The Code of Alabama 1975, Section16-25A-8 provides the authority to set the contribution requirements for retirees and employers.

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

As of September 30, 2017, the required rates of retirees are as follows:

Individual Coverage/Non-Medicare Eligible	$166
Family Coverage/Non-Medicare Eligible Retired Member and Non Medicare Eligible Non-Spousal Dependents	$421
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) w ith Non Medicare Eligible Spouse	$521
Family Coverage/Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	$280
Family Coverage/Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	$310
Individual Coverage/Medicare Eligible Retired Member	$25
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)—No Spouse	$280
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)—with Non-Medicare eligible Spouse	$380
Family Coverage/Medicare Eligible Retired Member and Non-spousal Dependent Medicare Eligible	$139
Family Coverage/Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	$169
Tobacco surcharge per month	$50
Wellness premium w aiver per month	$50
PEEHIP Supplemental Plan	$0

Optional plans (Hospital Indemnity, Cancer, Dental, Vision) – Up to two optional plans can be taken by retirees at no cost if the retiree is not also enrolled in one of the Hospital Medical Plans. Otherwise, retirees can purchase the Optional Plans at the normal monthly rate of $38 or $50 for family dental.

The required contribution rate of the employer was $373 per retiree per month for FY 2017. The University paid $1,758,374 and $1,866,406 for 392 and 394 retirees for FY 2017 and FY 2016, respectively. The required contribution rate is determined by PEEHIP in accordance with State statute. The complete financial report for PEEHIP can be obtained at the Retirement Systems of Alabama Members PEEHIP website under the PEEHIP Financial Reports/Financial Statements.

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

Note 11 – Federal Direct Lending

The Federal Direct Student Loan Program ("FDSLP") was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. For FY 2017 and FY 2016, the University disbursed $31,884,318 and $29,565,058, respectively, under the FDSLP.

Note 12 – Contracts and Grants

As of FY 2017 and FY 2016, the University was awarded approximately $66.9 million and $58.2 million, respectively, in contracts and grants which have not been expended. These awards, which represent commitments of sponsors to provide funds for specific research, training, and service projects, have not been reflected in the financial statements.

Note 13 – Operating Expenses by Function

Operating expenses by functional classification for FY 2017 and FY 2016 are summarized as follows:

	Year Ended September 30, 2017					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 39,430,315	$ 15,441,787	$ 5,208,983	$ -	$ -	$ 60,081,085
Research	42,888,686	15,041,730	8,966,755	-	-	66,897,171
Public service	2,487,082	961,830	3,539,906	-	-	6,988,818
Academic support	6,408,216	2,386,441	3,021,904	-	-	11,816,561
Student services	7,237,255	2,928,906	7,241,716	-	-	17,407,877
Institutional support	12,388,574	4,746,766	5,221,191	-	-	22,356,531
Operations and maintenance of plant	4,321,495	1,932,569	7,403,927	-	-	13,657,991
Scholarships and fellowships	-	-	-	-	2,544,291	2,544,291
Auxiliary enterprises	1,221,404	387,820	4,166,808	-	-	5,776,032
Depreciation	-	-	-	16,043,553	-	16,043,553
Total Operating Expenses	$ 116,383,027	$ 43,827,849	$ 44,771,190	$ 16,043,553	$ 2,544,291	$ 223,569,910

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

Note 14 – Contingencies and Commitments

The University has sovereign immunity and is therefore, in the opinion of System Counsel, immune to ordinary tort actions. The University has consistently been dismissed from lawsuits on the basis of the sovereign immunity doctrine. That doctrine also protects the University from vicarious liability arising from the negligence of its employees. As a matter of policy, the University has chosen to indemnify its employees through a self-insured trust fund against liability arising from the performance of their official duties. There are some exceptions to the sovereign immunity doctrine, most notably in federal court cases arising under the federal constitution or federal statutes. The University is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of those actions will have a material adverse effect on the financial statements. However, the settlement of legal actions is subject to inherent uncertainties and it is possible that such outcomes could differ materially from management’s current expectations.

The University has contracted for the construction of a new Charger Village addition, The D.S. Davidson Invention to Innovation Center and a new sorority house. At September 30, 2017, the estimated remaining cost to complete the construction of these facilities was $21.1 million, $15.8 million and $1.5 million, respectively, and is expected to be funded from a combination of future University bond proceeds, donations and state sources.

Note 15 - Segment Information

The University constructed Southeast Housing and issued bonds in 1980 and 1981. The bonds were payable from revenues received by the University for the use and occupancy of the facility. Condensed financial information of the University’s segment for FY 2017 and FY 2016, is as follows:

Condensed Statements of Position

	Dorm Revenue Bonds 1980 2017	Dorm Revenue Bonds 1980 2016	Dorm Revenue Bonds 1981 2017	Dorm Revenue Bonds 1981 2016
Assets				
Current assets	$ 180,182	$ 179,299	$ 155,136	$ 154,898
Capital assets, net of accumulated depreciation	604,858	732,737	575,791	710,134
Total assets	785,040	912,036	730,927	865,032
Liabilities				
Current liabilities	1,104,045	995,693	2,176,599	1,959,339
Noncurrent liabilities	185,000	275,000	519,316	640,518
Total liabilities	1,289,045	1,270,693	2,695,915	2,599,857
Net assets				
Net investment in capital assets	329,858	372,737	179,791	214,134
Restricted				
Expendable	232,000	212,000	280,000	280,000
Unrestricted	(1,065,863)	(943,394)	(2,424,779)	(2,228,959)
Total net position	(504,005)	(358,657)	(1,964,988)	(1,734,825)
Total liabilities and net position	$ 785,040	$ 912,036	$ 730,927	$ 865,032

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Dorm Revenue Bonds 1980 2017	Dorm Revenue Bonds 1980 2016	Dorm Revenue Bonds 1981 2017	Dorm Revenue Bonds 1981 2016
Operating revenues	$ 647,923	$ 505,632	$ 845,944	$ 698,003
Operating expenses	(674,490)	(706,868)	(924,246)	(827,867)
Depreciation expense	(130,297)	(130,169)	(136,761)	(136,633)
Operating loss	(156,864)	(331,405)	(215,063)	(266,497)
Nonoperating expenses	11,516	5,770	(15,100)	(18,010)
Transfers from general funds	-	130,088	-	130,088
Changes in net position	(145,348)	(195,547)	(230,163)	(154,419)
Net position, beginning of year	(358,657)	(163,110)	(1,734,825)	(1,580,406)
Net position, end of year	$ (504,005)	$ (358,657)	$ (1,964,988)	$ (1,734,825)

Condensed Statements of Cash Flows

	Dorm Revenue Bonds 1980 2017	Dorm Revenue Bonds 1980 2016	Dorm Revenue Bonds 1981 2017	Dorm Revenue Bonds 1981 2016
Cash flows from				
Operating activities	$ (5,178)	$ (178,615)	$ (98,398)	$ (121,429)
Capital and related financing activities	5,178	178,615	98,398	121,429
Net increase (decrease) in cash	-	-	-	-
Cash, beginning of year	-	-	-	-
Cash, end of year	$ -	$ -	$ -	$ -

Note 16 – Recently Issued Pronouncements

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

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, ("GASB 75"), in June 2015. The objective of this statement is to improve accounting and financial reporting by state and local governments for OPEB. This statement is effective for fiscal years beginning after June 15, 2017. The University is currently evaluating the impact that GASB 75 will have on its financial statements, but notes that the adoption of this standard will likely result in the recognition of a material liability and a corresponding material reduction of the University's unrestricted net position.

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

The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*, in March 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This statement is effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. The University has determined that there was no material impact from its adoption of GASB 81.

The GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, in March 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The University determined that there was not a material impact from its adoption of GASB 82.

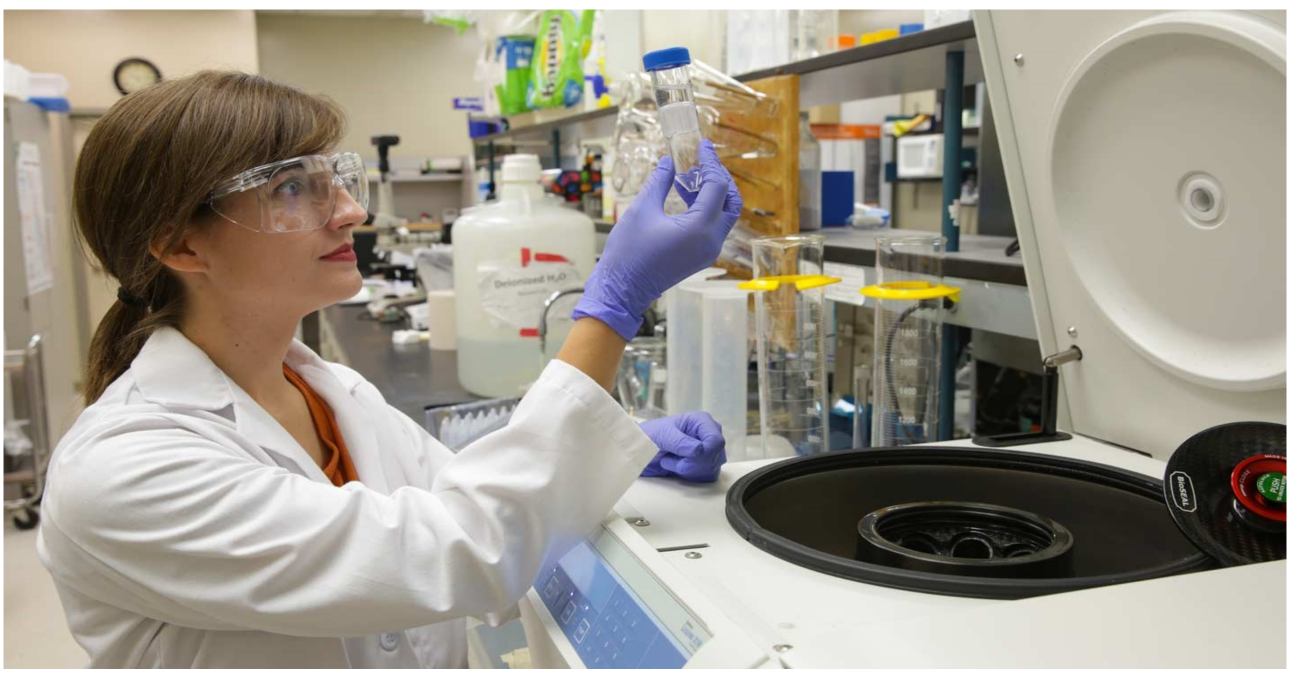
The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, in November 2016. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement is effective for reporting periods beginning after June 15, 2018. The University is evaluating whether there will be any material impact from its adoption of GASB 83.

The GASB issued Statement No. 84, *Fiduciary Activities*, in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement is effective for reporting periods beginning after December 15, 2018. The University is evaluating whether there will be any material impact from its adoption of GASB 84.

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

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, in May 2017. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This statement is effective for reporting periods beginning after June 15, 2017. The University is evaluating whether there will be any material impact from its adoption of GASB 86.

The GASB issued Statement No. 87, *Leases*, in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement is effective for reporting periods beginning after December 15, 2019. The University is evaluating whether there will be any material impact from its adoption of GASB 87.



The University of Alabama in Huntsville
Required Supplementary Information (Unaudited)

Schedule of the University's Proportionate Share of the Collective Net Pension Liability

Teachers' Retirement Systems of Alabama

	2017	2016	2015
Employer's proportion of the collective net pension liability	1.525333%	1.532529%	1.609851%
Employer's proportionate share of the collective net pension liability	$165,132,000	$160,390,000	$146,248,000
Employer's covered payroll during measurement period	$98,670,645	$97,998,750	$97,032,526
Employer's proportionate share of the collective net pension liability as percentage of its covered payroll	167.36%	163.67%	150.72%
Plan fiduciary net position as a percentage of the total collective pension liability	67.93%	67.51%	71.01%

Schedule of University Contributions

Teachers' Retirement System of Alabama

	2017	**2016**	**2015**
Contractually Required Contribution	$11,711,569	$11,474,249	$11,311,261
Contributions in relation to the contractually required contribution	($11,711,569)	($11,474,249)	($11,311,261)
Contribution deficiency (excess)	-	-	-
University's covered payroll	$100,416,137	$98,670,645	$97,998,750
Contributions as a percentage of covered payroll	11.66%	11.63%	11.54%

Notes to Schedules

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

Measurement period: For fiscal year 2017, the measurement period is October 1, 2015 - September 30, 2016.

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

Measurement period: For fiscal year 2015, the measurement period is October 1, 2013 - September 30, 2014.

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