

# **The University of Alabama in Huntsville**

**Report on Federal Awards in Accordance with the  
OMB Uniform Guidance**

**For the Year Ended September 30, 2019**

**EIN: 63-0520830**

# The University of Alabama in Huntsville

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September 30, 2019

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



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

To the Board of Trustees of The University of Alabama:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the 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, 2019, and the related statements of revenues, expenses, and changes in net position and of cash flows (where applicable) for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 22, 2020. Our report includes an emphasis of a matter regarding the presentation of the financial statements as discussed in Note 1 to the financial statements. Our report includes a reference to other auditors who audited the financial statements of The University of Alabama in Huntsville Foundation ("UAHF"), as described in our report on UAH's financial statements. The financial statements of UAHF were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with UAHF.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as finding number 2019-001 that we consider to be a significant deficiency.



### **Compliance and Other Matters**

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

### **The University of Alabama in Huntsville's Response to Findings**

The University of Alabama in Huntsville's response to the finding identified in our audit is described in the Schedule of Findings and Questioned Costs. UAH's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

*PricewaterhouseCoopers LLP*

Birmingham, Alabama  
January 22, 2020



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

To the Board of Trustees of the University of Alabama:

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

We have audited the University of Alabama in Huntsville's ("UAH"), a campus of the University of Alabama System, which is a component unit of the State of Alabama, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of UAH's major federal programs for the year ended September 30, 2019. UAH's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

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

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

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

In our opinion, The University of Alabama in Huntsville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.



### ***Other Matter***

As indicated in Part I to the accompanying Schedule of Findings and Questioned Costs, we have audited the Student Financial Assistance cluster as a major program. Also, as indicated in the first paragraph of this report, we performed our audit of compliance using the compliance requirements contained in the OMB Compliance Supplement, including those contained in Part V 5.3, Compliance Requirement N, Special Tests and Provisions, Section 10 “Gramm-Leach-Bliley Act-Student Information Security.” This section includes three suggested audit procedures with respect to verification that the institution (1) designated an individual to coordinate the information security program, (2) performed a risk assessment that addresses the three required areas in 16 CFR 314.4(b), and (3) documented a safeguard for each risk identified. Our procedures in relation to these three items were limited to inquiry of and obtaining written representation from management and obtaining and reading management’s documentation related to these three items. Our procedures did not include an analysis of the adequacy or completeness of the risk assessment performed or the safeguards for each risk identified by management.

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

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

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

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

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



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

We have audited the financial statements of the business-type activities and discretely presented component unit of The University of Alabama in Huntsville as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated January 22, 2020, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*PricewaterhouseCoopers LLP*

Birmingham, Alabama

June 26, 2020, except for the Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance, as to which the date is January 22, 2020.



# The University of Alabama in Huntsville

## Schedule of Expenditures of Federal Awards

### Year Ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity/Additional Identifying Number	Federal CFDA Number	Federal Expenditures	Passed to Subrecipients
<b>Research and Development Cluster:</b>				
U.S. Department of Defense:				
Department of Army	W911NF-16-2-0016	12.431	\$ 114,952	\$ -
Department of Army	W911NF-17-2-0143	12.431	481,942	
Department of Army	W911NF1920209	12.431	32,728	
Department of Air Force	FA9550-19-1-0027	12.800	18,077	
National Security Agency	H98230-17-1-0344	12.902	154,418	
National Security Agency	H98230-17-1-0385	12.902	41,732	
National Security Agency	H98230-18-1-0318	12.902	209,622	
National Security Agency	H98230-18-1-0354	12.902	157,696	
National Security Agency	H98230-19-1-0241	12.903	36,641	
Department of Army	IPA FOR THOMAS PUMPHREY FY18	12.RD	298,963	
Department of Army	IPA WILLIAM ROBERTS FY18	12.RD	233,760	
Department of Army	W31P4Q-15-D-0062	12.RD	10,117,359	
Department of Army	W9113M-12-C-0031	12.RD	262,885	
Department of Army	W9113M-18-C-0004	12.RD	9,005,801	
Department of Army	W912HZ180020	12.RD	365	
Missile Defense Agency	HQ0147-18-C-6001	12.RD	426,983	
Missile Defense Agency	HQ0147-15-C-6007	12.RD	289,635	
			<u>21,883,559</u>	<u>-</u>
<b>Pass-Through Funds:</b>				
University of Alabama	UA17048	12.002	(586)	
University of Alabama	A00-746-S009	12.002	63,980	
University of Central Florida	16246080-03	12.800	55,178	
Academy for Applied Science	2018 - HUNTSVILLE -1	12.431	819	
AASKI Technology Inc.	19-025 (TO 13)	12.RD	57,774	
Analysis & Applications Associates, Inc.	AAA 16-001	12.RD	61,292	
Aviation & Missile Solutions, LLC	AMS-SC-06-079	12.RD	792,990	
Booz Allen Hamilton Inc.	S900849BAH	12.RD	48,179	
The Boeing Company	17NS001	12.RD	5,700	
The Boeing Company	PO 1446563	12.RD	50,124	
The Boeing Company	PO 1629091	12.RD	77,706	
The Boeing Company	PO 1697891	12.RD	163,002	
Brockwell Technologies	2017-IBM-0001	12.RD	85,942	
CFD Research Corporation	CONTRACT NO. 20180067	12.RD	60,738	

The accompanying notes are an integral part of this schedule.

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2019**

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<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass-Through Entity/Additional Identifying Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Passed to Subrecipients</b>
Colsa Corporation	HS-170109	12.RD	388,459	
Colsa Corporation	HS-170137	12.RD	1,202,376	
CAS	CAS SC 564-16	12.RD	1,735,288	
CSRA LLC	4SKIT003LS	12.RD	85,563	
DESE Research, Inc.	ATP DATED 11/8/16	12.RD	27,225	
Digiflight Incorporated	DFI-16-AE-UAH-092916	12.RD	762,273	
Digiflight Incorporated	DFI-AE-UAH-20190418	12.RD	305,386	
Digiflight Incorporated	DFI-AE-UAH-20190718	12.RD	14,637	
Dynetics	DI-SC-19-35	12.RD	103,331	
DHPC Technologies	SD01722	12.RD	632,204	
ERC, Inc.	CC ORDER 8/9/19	12.RD	4,370	
ERC, Inc.	RWES170002	12.RD	846,779	
Frontier Technology Inc.	UAH-19-208755-283	12.RD	29,088	
Georgia Institute of Technology	D8432-S1	12.RD	516,981	
Intuitive Research and Technology Corporation	AE-P-UAH-001	12.RD	3,120,856	
Intuitive Research and Technology Corporation	AE-P-UAH-003	12.RD	2,140,379	
Iron Mountain Solutions, Inc.	AE-17-1012-001-S11	12.RD	601,046	
Macaulay-Brown Inc.	DSC9527	12.RD	85,201	
Management Technology Associates, Inc.	PAMC15-01-UAH	12.RD	835,136	
Millennium Corporation	LTR SUBCONTRACT NUMBER 1-002	12.RD	40,403	
Management Consulting & Research, Inc.	MCRF-18-1517-003-UAH	12.RD	159,413	
National Center for Defense Manufacturing and Machining	NCDMM-UAH-2019-01	12.RD	94,363	
Parsons Government Services Inc.	PO 0006663	12.RD	47,762	
Piasecki Aircraft Corporation	PO 83510	12.RD	82,460	
Piasecki Aircraft Corporation	PO 81647	12.RD	84,691	
Piasecki Aircraft Corporation	PO 82872	12.RD	153,294	
Science and Technology Applications, LLC	SC19-01	12.RD	18,632	
Polaris Sensor Technologies, Inc.	P.O. 17-186	12.RD	93,119	
Polaris Sensor Technologies, Inc.	P.O. NO. 18-292	12.RD	53,473	
PPT Solutions	AEDUAH-SUB-UAH01	12.RD	5,041	
Quantitech, Inc.	QT17-33112	12.RD	189,939	
Stevens Inst. of Technology	Agreement 2102961-05	12.RD	633	
Summit Information Solutions	SIS-18-11-08	12.RD	66,237	
Science Applications International Corporation	4600006511	12.RD	40,256	
Science Applications International Corporation	B00107	12.RD	53,606	
Science Applications International Corporation	P010214225	12.RD	(149)	

The accompanying notes are an integral part of this schedule.

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2019**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass-Through Entity/Additional Identifying Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Passed to Subrecipients</b>
Science Applications International Corporation	P010224912	12.RD	4,080	
Science Applications International Corporation	P010229572	12.RD	599,472	
Science Applications International Corporation	P010232893	12.RD	247,378	
Science Applications International Corporation	P010233852	12.RD	303,735	
Science Applications International Corporation	P010237012	12.RD	348,551	
Science Applications International Corporation	P010238204	12.RD	89,318	
Torch	T14S112	12.RD	2,188,302	
Torch	T19S046	12.RD	400,838	
TGV Rockets Inc.	2019-046	12.RD	6,921	
University of Florida	SUB00001807	12.RD	14,162	
University of North Dakota	SUBCONTRACT UND10769	12.RD	30,957	
Wichita State University	CL16290	12.RD	12,330	
			<u>20,388,633</u>	<u>-</u>
Total U.S. Department of Defense			<u>42,272,192</u>	<u>-</u>
Department of Health & Human Services:				
Discovery and Applied Research for Technological Innovations to Improve Human Health		93.286	161,650	53,950
Biomedical Research and Research Training		93.859	118,906	25,541
Aging Research		93.866	12,872	
			<u>293,428</u>	<u>79,491</u>
Pass-Through Funds:				
Hudson Alpha Institute of Biotech	20000.038.01	93.172	294,736	
University of Tennessee Health Science Center	ATP DTD 10/23/2017	93.855	90,949	
iXpressGenes, Inc.	IXPRESSGENES 2016-209	93.859	19,902	
			<u>405,587</u>	<u>-</u>
Total U.S. Department of Health & Human Services			<u>699,015</u>	<u>79,491</u>
Department of Interior:				
Endangered Species - Candidate Conservation		15.660	1,641	-
Pass-Through Funds:				
Tennessee Wildlife Resources Agency (TWRA)	EDISON 63382	15.634	632	
Southeastern Assoc. of Fish and Wildlife Agencies	SEAFWA 2018-2019 UAH	15.634	39,788	
American University	SUBAWARD 31484-A190052-S01	15.945	4,813	
			<u>45,233</u>	<u>-</u>
Total U.S. Department of the Interior			<u>46,874</u>	<u>-</u>

The accompanying notes are an integral part of this schedule.

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2019**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass-Through Entity/Additional Identifying Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Passed to Subrecipients</b>
National Science Foundation:				
Engineering Grants		47.041	1,265,518	
Mathematics		47.049	212,976	530
Geosciences		47.050	1,129,726	3,477
Computer and Information Science and Engineering		47.070	69,705	
Biological Science		47.074	201,364	135,469
Social, Behavioral, and Economic Sciences		47.075	25,017	
Education and Human Resources		47.076	1,823,475	151,618
Office of Integrative Activities		47.083	3,886,764	2,042,237
Intergovernmental Personnel Agreement	1939904	47.RD	29,339	
			<u>8,643,884</u>	<u>2,333,331</u>
Pass-Through Funds:				
National Science Foundation:				
University of Alabama	UA 16-056	47.076	46,436	
Auburn University	17-VP-200591-UAH	47.076	411	
Bay Area Environment Research Institute	1748910	47.050	113,864	
			<u>160,711</u>	<u>-</u>
Total National Science Foundation			<u>8,804,595</u>	<u>2,333,331</u>
National Aeronautics & Space Administration:				
Marshall Space Flight Center	IPA FOR MONA MILLER	43.RD	14,000	
Marshall Space Flight Center	PC# 117217140	43.RD	4,494	
Marshall Space Flight Center	PO# PC11756261	43.RD	3,213	
Science		43.001	3,550,699	222,936
Exploration		43.003	47,446	13,088
Space Operations		43.007	82,985	
Education		43.008	15,896,244	1,280,515
Cross Agency Support		43.009	20,299	
Space Technology		43.012	114,773	10,000
			<u>19,734,153</u>	<u>1,526,539</u>
Pass Through Funds:				
National Aeronautics & Space Administration:				
Florida Institute of Technology	SUBAWARD NO. 202332	43.001	13,785	
New Jersey Inst. of Technology	(NP) 996790	43.001	61,609	
Southwest Research Institute	K99055CT	43.001	24,634	
Dynetics Inc.	DI-SC-19-39	43.RD	98,691	

The accompanying notes are an integral part of this schedule.

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2019**

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<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass-Through Entity/Additional Identifying Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Passed to Subrecipients</b>
Smithsonian Astrophysical Observatory	GO7-18089X	43.001	11,238	
Smithsonian Astrophysical Observatory	SUBCONTRACT NO. SV4-84017	43.001	169,081	
Smithsonian Astrophysical Observatory	GO7-18118X	43.001	29,647	
Smithsonian Astrophysical Observatory	GO6-17127X	43.001	28,437	
Smithsonian Astrophysical Observatory	AR7-18016X	43.001	15,603	
Smithsonian Astrophysical Observatory	GO6-17111X	43.001	84,842	
Smithsonian Astrophysical Observatory	GO6-17119B	43.001	(133)	
Montana State University	SUBAWARD NO. G192-18-W7153	43.001	18,684	
Princeton University	SUB0000167	43.001	24,495	
Princeton University	SUB0000217	43.001	17,501	
University of Alaska Fairbanks	UAF-18-0116	43.001	34,700	
Health Research Institute	SUBAWARD NO. 5218-01	43.001	9,595	
U.S. Space & Rocket Center	USSRC AGREEMENT DATED 10/15/20	43.002	60,284	
U.S. Space & Rocket Center	USSRC AGREEMENT DT 10/15/2018	43.002	634	
U.S. Space & Rocket Center	ATP VIA P.O. 64093	43.002	166,734	
San Jose State University	SUBAWARD NO 21-1505-5506-UAH	43.008	54,401	
California Institute of Technology	SUBCONTRACT # 1618614	43.001	84,123	
California Institute of Technology	SUBCONTRACT NO. 1572154	43.001	110,802	
C3 Propulsion	80NSSC18C0131	43.RD	45,786	
Harris Corporation	LETTER SUBCONTRACT 17-30128-91	43.RD	64	
Manufacturing Technical Solutions	#MTS-UAH-090718	43.RD	22,593	
Manufacturing Technical Solutions	#MTS_UAH_021717	43.RD	228,808	
BAER Institute	BAERI 18-001	43.RD	55,620	
Jacobs	ESSCA-UN-07	43.RD	166,690	
Lockheed Martin	8100001543	43.RD	16,401	
The Boeing Company	PO1643759	43.RD	74,456	
The Boeing Company	PO 1415101	43.RD	26,345	
The Boeing Company	PO 1445900	43.RD	742,054	
The Boeing Company	PO 1447270	43.RD	59,138	
CFDRC	20160245	43.RD	44,612	
Wyle Laboratories, Inc.	PO TXS0144082	43.RD	76,812	
Space Telescope Science Institute	HST-GO-15290-001-A	43.001	6,562	
Space Telescope Science Institute	HST-GO-15380.002-A	43.001	10,419	

The accompanying notes are an integral part of this schedule.

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2019**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity/Additional Identifying Number	Federal CFDA Number	Federal Expenditures	Passed to Subrecipients
Tec-Masters, Inc.	TMI-18-UAH-10135	43.RD	202,498	
Tec-Masters, Inc.	TMI-18-UAH-10145	43.RD	16,416	
			<u>2,914,661</u>	<u>-</u>
Total National Aeronautics & Space Administration			<u>22,648,814</u>	<u>1,526,539</u>
Department of Transportation:				
Federal Aviation Administration		20.109	630,040	20,129
			<u>630,040</u>	<u>20,129</u>
Pass Through Funds:				
Alabama Department of Transportation	18-03002	20.509	55,369	
Alabama Department of Transportation	AGR DT 08/2/2018	20.509	58,230	
Alabama Department of Transportation	AGREEMENT DT 09102018	20.509	1,230,116	
Alabama Department of Transportation	K-15-1636	20.509	39,824	
Alabama Department of Transportation	K-17-1639	20.RD	(1,158)	
Alabama Department of Transportation	ATP DTD 04/24/2018	20.RD	116,953	39,261
Alabama Department of Transportation	K-17-0366	20.RD	66,274	15,071
University of Alabama	UA 18-005	20.RD	35,623	
			<u>1,601,231</u>	<u>54,332</u>
Total Department of Transportation			<u>2,231,271</u>	<u>74,461</u>
Department of Commerce:				
Economic Development Administration		11.020	40,324	
National Oceanic and Atmosphere		11.459	80,587	
National Institute of Standards and Technology		11.609	145,855	92,273
			<u>266,766</u>	<u>92,273</u>
Pass-Through Funds:				
Mississippi State University	191001.363513.04A	11.432	349	
Mississippi State University	191001.363513.04B	11.432	99,462	
Mississippi State University	191001.363513.04C	11.432	37,325	
Mississippi State University	191001.363513.04D	11.432	319,816	
Mississippi State University	191001.363513.04E	11.432	80,906	
Mississippi State University	191001.363513.04F	11.432	51,802	
University of Maryland	Z7813005	11.432	1,904	
			<u>591,564</u>	<u>-</u>
Total Department of Commerce			<u>858,330</u>	<u>92,273</u>

The accompanying notes are an integral part of this schedule.

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2019**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass-Through Entity/Additional Identifying Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Passed to Subrecipients</b>
Department of Energy:				
Office of Science Financial Assistance Program		81.049	311,178	
Pass-Through Funds:				
University of Michigan	SUBAWARD NO. 3001421626	81.049	48,096	
HyperV	SUB. NO. H2015-02	81.135	25,640	
Consolidated Nuclear Security	4300102067	81.RD	(31)	
National Security Technologies	184153	81.RD	38,118	
			<u>111,823</u>	<u>-</u>
Total Department of Energy			<u>423,001</u>	<u>-</u>
Department of Agriculture:				
Partnership Agreements		10. 699	101,848	
National Institute of Food and Agriculture		10.310	21,504	9,865
			<u>123,352</u>	<u>9,865</u>
Pass-Through Funds:				
Auburn University	18-ACES-374468-UAH	10.904	113,653	
Total Department of Agriculture			<u>237,005</u>	<u>9,865</u>
Department of Justice:	PROP # 2019-755	16.RD	12,039	
Total Department of Justice			<u>12,039</u>	<u>-</u>
U.S. Agency of International Development:				
Pass-Through Funds:				
Cornell University	SUBAWARD 85521-11139	98.001	22,635	
Total U.S. Agency of International Development			<u>22,635</u>	<u>-</u>
<b>Total Research and Development</b>			<u>78,255,771</u>	<u>4,115,960</u>
<b>Highway Planning and Construction Cluster</b>				
Department of Transportation:				
Pass-Through Funds:				
Alabama Department of Transportation	HSIP-NR16(901):CPMS NO. 100064	20.205	26,169	
Alabama Department of Transportation	SPR-0001(058)	20.205	233,621	
<b>Total Highway Planning and Construction</b>			<u>259,790</u>	<u>-</u>
<b>Economic Development Cluster</b>				
Department of Commerce:				
Economic Development Administration		11.307	980,025	-
<b>Student Financial Assistance Cluster:</b>				

The accompanying notes are an integral part of this schedule.

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2019**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass-Through Entity/Additional Identifying Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Passed to Subrecipients</b>
U.S. Department of Education:				
Federal Supplemental Educational Opportunity Grants	P007A170081	84.007	32,801	
Federal Supplemental Educational Opportunity Grants	P007A180081	84.007	139,187	
Federal Supplemental Educational Opportunity Grants	P007A190081	84.007	110,438	
Federal PELL Grant Program	P063P170009	84.063	(4,916)	
Federal PELL Grant Program	P063P180009	84.063	7,353,161	
Federal PELL Grant Program	P063P190009	84.063	1,545,228	
Federal Work Study	P033A180081	84.033	227,406	
Federal Work Study	P033A190081	84.033	12,777	
Federal Direct Student Loans	P268K190009	84.268	17,686,049	
Federal Direct Student Loans	P268K200009	84.268	16,282,353	
Total U.S. Department of Education			43,384,484	-
Department of Health & Human Services:				
Nursing Faculty Loan Program (NFLP)				
Outstanding Loans as of October 1, 2018		93.264	434,976	
New Loans Issued		93.264	95,898	
Administrative Cost Allowances			-	
			530,874	-
<b>Total Student Financial Assistance</b>			43,915,358	-
<b>Other Programs:</b>				
Department of Defense:				
Office of Economic Adjustment		12.614	236,965	
National Security Agency		12.902	166,960	
National Security Agency		12.903	355,966	
National Security Agency		12.905	1,516	
Missile Defense Agency	HQ0147-18-C-6001	12.U01	149,319	
Total Department of Defense			910,726	-
National Aeronautics & Space Administration:		43.008	332,506	
Pass-Through Funds:				
California Institute of Technology	SUBCONTRACT# 1619301	43.001	203,093	
			203,093	-
Total National Aeronautics & Space Administration			535,599	-
Small Business Administration:				

The accompanying notes are an integral part of this schedule.



**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended September 30, 2019**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Pass-Through Entity/Additional Identifying Number</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>	<b>Passed to Subrecipients</b>
Pass-Through Funds:				
The University of Alabama	SBA-UA18-014	59.037	7,337	
The University of Alabama	SBA-SBDC-UA19	59.037	93,666	
Total Small Business Administration			101,003	-
Department of Transportation:				
Pass-Through Funds:				
Alabama Department of Transportation	19-01906	20.U01	35	
			35	-
Department of Homeland Security:				
Pass-Through Funds:				
State of Alabama (Alabama Emergency Management)	FEMA 4426-DR-AL	97.036	361,561	-
Department of Commerce:				
Pass-Through Funds:				
Alabama Technology Network	AGR DT 10012018	11.611	275,603	
Alabama Technology Network	AGR DTD 10/1/2017	11.611	7,493	
			283,096	-
Total Department of Commerce			283,096	-
<b>Total Other Federal Awards</b>			2,192,020	-
<b>Total Expenditures of Federal Awards</b>			<b>\$ 125,602,964</b>	<b>\$ 4,115,960</b>

The accompanying notes are an integral part of this schedule.

# **The University of Alabama in Huntsville**

## **Notes to Schedule of Expenditures of Federal Awards**

### **September 30, 2019**

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#### **1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the expenditures of The University of Alabama in Huntsville (the "University"), a campus of the University of Alabama System, under programs of the federal government for the year ended September 30, 2019. Other campuses of the University of Alabama System are presented in separate reports. The information presented in this Schedule is presented on the accrual basis of accounting, which is in accordance with the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only the federal award activity of the University, it is not intended to and does not present the financial position, changes in net position and cash flows of the University.

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

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

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

#### **2. Summary of Significant Accounting Policies**

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

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

The University has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The University operates under predetermined fixed F&A cost rates which are effective from October 1, 2016 through September 30, 2020. The predetermined fixed rates were based on 2011 financial information. For the fiscal year ended September 30, 2019, the base rate for on-campus research is 48% and 50% for Department of Defense contracts and subcontracts. Base rates for other F&A cost recoveries range from 10.0% to 50.0%.

# The University of Alabama in Huntsville

## Notes to Schedule of Expenditures of Federal Awards

### September 30, 2019

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#### 4. Federal Student Loan Programs

The Nurse Faculty Loan Program (NFLP) is administered directly by the University, and balances and transactions relating to these programs are included in the University's financial statements. NFLP loans outstanding at the beginning of the year, the administrative cost allowance and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at September 30, 2019 consists of:

	CFDA.#	Federal Portion	Institutional Portion	Total
Nurse Faculty Loans Receivable, September 30, 2019	93.264	\$ 530,874	\$ 70,137	\$ 601,011

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 Federal direct loan to pay for the student's cost of attendance directly through the University rather than through private lenders. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. The FDSLP loans issued during fiscal year 2019 are included in the federal expenditures presented in the Schedule.

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

**The University of Alabama in Huntsville**  
**Schedule of Findings and Questioned Costs**  
**Year Ended September 30, 2019**

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

**Financial Statements**

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

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

**Federal Awards**

Internal control over major programs:

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

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

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

**Identification of Major Programs**

**CFDA Number**

Various

**Name of Federal Program or Cluster**

Student Financial Assistance

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

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

# **The University of Alabama in Huntsville**

## **Schedule of Findings and Questioned Costs**

### **Year Ended September 30, 2019**

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## **Section II – Financial Statement Findings**

2019-001: Net Position Classification of Unspent Bond Proceeds.

### **Criteria**

GASB Implementation Guide No. 2015-1—Question 7.23.2 states that if a governmental entity issues bonds, and at the end of the reporting period there are significant unspent related debt proceeds, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of the net investment in capital assets component of net position. Rather, that portion of the debt should be included in the same net position component as the unspent proceeds—for example, restricted for capital projects. Generally, the effect on net position will be negligible—restricted cash will approximate related debt outstanding. Reporting both within the same classification of net position prevents one classification from being overstated while another is understated by a similar amount.

### **Condition**

During 2019, an error was identified in the financial statements whereby management initially recorded unspent bond proceeds incorrectly in the line item restricted expendable net position with an offset to unrestricted net position. Management erroneously recorded a top-side entry between unrestricted net position and restricted expendable net position for the amount of unspent bond proceeds (without giving effect to the related debt), therefore inappropriately overstating the restricted expendable net position category and understating unrestricted net position. The error had no impact on total net position or the change in net position as of and for the year ended September 30, 2019.

### **Cause**

The infrequency and unusual nature of the transaction contributed to the error which resulted from a deficiency in the execution of financial reporting controls during preparation of the 2019 financial statements.

### **Effect**

The error resulted in an overstatement of the restricted expendable net position line item and an understatement of unrestricted net position. We consider this deficiency to be a significant deficiency given the quantitative impact to certain line items of the 2019 financial statements. This internal control deficiency did not affect the administration of federal awards or the Schedule of Expenditure of Federal Awards.

### **Recommendation**

We recommend that management review the current financial reporting controls and policies to ensure unusual or infrequent transactions are appropriately reviewed for proper presentation and disclosure within the financial statements in accordance with generally accepted accounting principles.

### **Management's View and Corrective Action Plan**

Management's response is reported in "Management's View and Corrective Action Plan" included at the end of this report.

**The University of Alabama in Huntsville**  
**Schedule of Findings and Questioned Costs**  
**Year Ended September 30, 2019**

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

No findings to be reported.

June 15, 2020

Finding 2019-001: Net Position Classification of Unspent Bond Proceeds

#### **MANAGEMENT VIEW**

The University concurs with this finding. The University has revised controls and procedures around bond offerings to ensure that unspent bond proceeds will be classified correctly in accordance with the GASB's prescribed guidance for net position classification of unspent bond proceeds. We have revised the current financial close process to include a detailed review of the inputs to the calculation of each of the categories of net position.

#### **CORRECTIVE ACTION PLAN**

The University has evaluated its procedures and has implemented controls around bond offerings to ensure the appropriate classification of the net position associated with unspent bond proceeds. Effective January 27, 2020 the University's Director of Accounting has revised the current financial close process to include a detailed review of the inputs to the calculation of each of the categories of net position to ensure that future calculations are accurately recorded and reviewed.

Respectfully,



Robert C. Leonard, Controller  
Associate Vice President for Finance and Business Services



**Part III**  
**Summary Schedule of Prior Audit Findings**

**The University of Alabama in Huntsville**  
**Summary Schedule of Prior Audit Findings**  
**Year Ended September 30, 2019**

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

**Part IV**  
**2019 Financial Report**

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**The Invention to Innovation Center (I<sup>2</sup>C) opened in the summer of 2019 and is a regional initiative that fosters, promotes, and accelerates the commercialization of technology-based ventures through incubation, co-working, mentorship, funding, and strategic support.**

## 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.



## **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, 2019 and 2018, 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, 2019 and 2018. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UAHF, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of UAHF were not audited in accordance with *Government Auditing Standards*.

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

### ***Opinions***

In our opinion, based upon our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of The University of Alabama in Huntsville as of September 30, 2019 and 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of UAH are intended to present the financial position, the changes in financial position and the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of UAH. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2019 and 2018, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

The accompanying management's discussion and analysis on pages 4 through 12 and the required supplementary information on pages 58 and 59 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2020 on our consideration of UAH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended September 30, 2019. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering UAH's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

January 22, 2020

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

The following discussion and analysis provides an overview of the financial performance and activities of The University of Alabama in Huntsville (the "University" or "UAH") for the fiscal years ended September 30, 2019 and 2018. This discussion and analysis has been prepared by University management along with the financial statements and related note disclosures, and should be read in conjunction with the financial statements and related note disclosures. The financial statements, notes and this discussion are the responsibility of management.

### Introduction

The University of Alabama in Huntsville is a public co-educational, state-supported research university and is classified as a 'higher' research institution by the Carnegie Foundation for the Advancement of Teaching, placing it among a select group of public universities in America. UAH has five research programs ranked in the top 25 in the nation, according to the National Science Foundation, including 5<sup>th</sup> in the United States in aeronautical and astronautical engineering. UAH is 11<sup>th</sup> in the nation in NASA-sponsored research and 28<sup>th</sup> in the nation in DOD research.

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

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

UAH was listed as very competitive by *Barron's Profiles in American Colleges* and was one of only two public universities in Alabama to earn this designation. *U.S. News & World Report* consistently ranks UAH among the magazine's Tier 1 national universities, placing it among the top four percent of public universities in the nation. According to the Brookings Institution, UAH ranks first among all Alabama schools based on the economic outcome of graduates.

The University received \$95 million for externally funded projects for the year ended September 30, 2019. Sponsors of research include federal and state agencies, academic institutions, industry and private foundations. Research is conducted within the nine individual colleges and through the University's ten independent research centers, laboratories and institutes.

Major interdisciplinary research thrusts include: modeling and simulation; cybersecurity; systems

engineering; rotorcraft and aerospace engineering; propulsion; optics; space physics and astrophysics; earth and atmospheric system science; information technology; materials science; biotechnology; nanotechnology; humanities; and lean supply chain, acquisition, and logistics.

### Statements of Net Position

The statements of net position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal years ended September 30, 2019 and 2018. The purpose of the statements of net position is to present a fiscal snapshot of the University to the readers of the financial statements.

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

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

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

Condensed Statements of Net Position

	September 30		
	2019	2018	2017
Current assets	\$ 115,007,493	\$ 120,009,299	\$ 120,081,297
Noncurrent assets:			
Endowment, life income and other investments	94,232,008	64,671,314	56,158,757
Capital assets, net	310,234,994	295,483,325	272,008,654
Other	2,568,634	2,677,672	2,786,707
Total assets	522,043,129	482,841,610	451,035,415
Deferred outflows of resources	35,809,718	32,894,090	29,180,939
Current liabilities	90,508,497	71,564,101	71,997,883
Noncurrent liabilities	355,755,364	324,923,772	255,732,726
Total liabilities	446,263,861	396,487,873	327,730,609
Deferred inflows of resources	25,324,831	26,728,420	9,472,000
Net position			
Net investment in capital assets	165,385,148	168,455,369	171,194,003
Restricted	22,201,086	28,294,108	26,059,266
Unrestricted	(101,322,079)	(104,230,070)	(54,239,524)
Total net position	\$ 86,264,155	\$ 92,519,407	\$ 143,013,745

For the year ended September 30, 2019, the University's current assets decreased \$5 million primarily due to a decrease in operating investments. Endowment, life income and other investments increased \$29.6 million due to increases in restricted cash and investments for capital activities. Capital assets, net of depreciation, increased \$14.8 million primarily due to the completion of the Invention to Innovation Center. Other assets decreased \$109 thousand. Current liabilities increased \$18.9 million. The majority of this increase is due to an \$11.5 million increase in accounts payable and accrued liabilities, along with a \$6.7 million increase in deferred revenues due to higher enrollment. Noncurrent liabilities increased by approximately \$30.8 million, primarily the result of a \$24.6 million increase to long-term debt related to debt issuance and an additional liability of \$6.1 million for Pension and Other Post Employee Benefits (OPEB) as required by GASB No. 68 and No. 75. The University recorded deferred outflows of resources of \$2.9 million primarily due to differences between projected and actual earnings of the pension and OPEB plans. Deferred inflows of resources decreased \$1.4 million due to the net differences between projected and actual

earnings of the pension and OPEB plans.

GASB Statements No. 68 and 75 require governmental employers participating in multi-employer cost-sharing pension and healthcare benefit plans to recognize liabilities for their proportionate share of the unfunded liability for plans whose actuarial liabilities exceed the plan's net assets. As required by Alabama statute, all eligible employees of a qualifying public educational employer must be a member of the Teacher's Retirement System of Alabama (TRS). As a qualifying employer, the University is required to make certain employer contributions on behalf of its employees participating in TRS's defined benefit pension plan. Additionally, Alabama statutes permitted the University to opt-in to provide its eligible retirees with healthcare benefits through the Public Education Employees' Health Insurance Plan (PEEHIP).



The employer contribution rates for both plans are established annually by TRS and PEEHIP, and adopted by the Alabama Legislature. Both the TRS employer contribution rate and the employer's PEEHIP cost for retiree coverage are based upon the actuarial valuations performed by TRS and PEEHIP, respectively. Although the liabilities recognized under GASB 68 and 75 meet GASB's definition of a liability within GASB's framework for accounting standards, UAH does not believe that the associated recorded liabilities constitute legal liability for the University, nor do they open the University to other claims on its resources. See Note 9 and Note 10 to the financial statements for additional information.

For the year ended September 30, 2018, the University's current assets decreased \$72 thousand primarily due to a decrease in operating investments. Endowment, life income and other investments increased \$8.5 million due to increases in restricted cash and investments for capital activities. Capital assets, net of depreciation, increased \$23.5 million primarily due to the completion of the Charger Village Residence Hall addition. Other assets decreased \$109 thousand. Current liabilities decreased \$434 thousand. The majority of this decrease is due to a \$4.5 million decrease in accounts payable and accrued liabilities, along with an increase in deferred revenues due to higher enrollment. Noncurrent liabilities increased by approximately \$69.2 million, primarily the result of a \$32.9 million increase to long-term debt related to a new debt issuance and an additional liability of \$53.8 million for the Other Post Employee Benefits (OPEB) as required by GASB Statement No. 75. The University recorded deferred outflows of resources of \$3.7 million primarily due to differences between projected and actual earnings of the pension and OPEB plans. Deferred inflows of resources increased \$17.3 million due to the net differences between projected and actual earning of the pension and OPEB plans.

For the year ended September 30, 2019, the University's total net position decreased \$6.3 million. The University's net investment in capital assets decreased approximately \$3.1 million. Restricted net position decreased approximately \$6.1 million. Unrestricted net position increased approximately \$2.9 million. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designed for capital projects, as well as various academic and research programs and initiatives.

For the year ended September 30, 2018, the University's total net position decreased \$50.5 million. The University's net investment in capital assets decreased approximately \$2.7 million. Restricted net position increased \$2.2 million. Unrestricted net position decreased approximately \$50 million, primarily due to the implementation of GASB Statement No. 75.

### Capital Assets

For the years ended September 30, 2019, 2018, and 2017, the University had approximately \$592.1 million, \$561.1 million, and \$523.3 million, invested in capital assets and accumulated depreciation of \$281.8 million, \$265.7 million, and \$251.3 million, respectively. Depreciation charges for the years ended September 30, 2019, 2018, and 2017, were \$17.2 million, \$17.1 million, and \$16 million, respectively. The following table summarizes the University's capital assets, net of accumulated depreciation, as of September 30:

Capital Assets, Net			
	2019	2018	2017
Land	\$ 14,050,899	\$ 14,050,899	\$ 14,050,899
Land improvements and infrastructure, net	6,334,408	6,868,834	7,091,963
Buildings and building improvements, net	270,843,749	255,951,402	233,190,163
Equipment, net	16,373,046	15,903,359	15,089,126
Library books, net	1,289,185	1,317,725	1,380,570
Computer software, net	219,305	266,704	81,531
Collections	1,124,402	1,124,402	1,124,402
Total capital assets, net	\$ 310,234,994	\$ 295,483,325	\$ 272,008,654

Major capital additions in 2019 included the completion of the Invention to Innovation Center and construction of the Madison Hall Building addition. Major capital additions for the year ended September 30, 2018 included completion of the Charger Village addition, a new sorority house, and construction of the Invention to Innovation Center. Major capital additions for 2017 included the purchase of Executive Plaza and construction of the Charger Village addition, the Invention to Innovation Center, and a new sorority house.

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.

	2019	2018	2017
Bonds - Current	\$ 5,114,000	\$ 4,528,000	\$ 3,941,000
Bonds - Long Term	139,397,000	117,401,000	89,414,000
Lease - Current	194,149	194,149	1,155,238
Lease - Long Term	33,856	228,005	-
Premium, net	8,343,050	5,516,435	806,396
Total debt outstanding	<u>\$153,082,055</u>	<u>\$ 127,867,589</u>	<u>\$ 95,316,634</u>

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

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

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

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

	Years ended September 30		
	2019	2018	2017
Operating revenues:			
Tuition and fees	\$114,566,974	\$106,800,049	\$ 94,548,475
Less: scholarship allowances	(45,053,028)	(39,161,060)	(32,151,181)
Tuition and fees, net	69,513,946	67,638,989	62,397,294
Federal, state and private grants and contracts	94,876,156	82,978,323	78,885,956
Sales and services of educational activities	5,650,645	5,465,339	4,422,511
Auxiliary, net of \$2,698,871 in 2019, \$2,488,236 in 2018, and \$1,921,947 in 2017 of scholarship allowances	14,474,450	11,353,348	10,572,674
Total operating revenues	184,515,197	167,435,999	156,278,435
Operating expenses	250,384,130	235,395,096	223,569,910
Operating loss	(65,868,933)	(67,959,097)	(67,291,475)
Nonoperating revenues (expenses):			
State educational appropriations	52,365,051	48,352,459	47,833,247
Private gifts	2,791,768	3,067,873	3,289,744
Net investment income	186,866	4,849,274	10,240,992
Grant revenue	9,416,081	9,021,580	7,942,044
Loss on disposal of capital assets	(18,507)	(281,092)	(116,359)
Interest expense	(6,165,545)	(4,223,715)	(3,442,330)
Net nonoperating revenues	58,575,714	60,786,379	65,747,338
Other changes in net position	1,037,967	2,559,163	1,224,153
Decrease in net position	(6,255,252)	(4,613,555)	(319,984)
Net position, beginning of year (as previously reported)	92,519,407	143,013,745	143,333,729
Adoption of GASB 75 adjustment (see Note 10)	-	(45,880,783)	-
Net position, beginning of year, as restated as of October 1, 2017	92,519,407	97,132,962	143,333,729
Net position, end of year	\$ 86,264,155	\$ 92,519,407	\$ 143,013,745

Approximately \$52.4 million in state appropriations were received for the year ended September 30, 2019, an increase of 8.3% or \$4.0 million from the prior year.

Gross tuition and fees increased approximately \$7.8 million for the year ended September 30, 2019 due to a continued growth in total enrollment coupled with moderate tuition increases. Gross tuition and fees increased approximately \$12.3 million for the year ended September 30, 2018.

Significant recurring sources of the University's revenues, such as state appropriations, are considered nonoperating, as defined by GASB Statement No. 35, *Basic Financial Statements-Management's Discussion and Analysis – for Public Colleges and Universities*. In fiscal year 2018, the University received an Intergovernmental transfer at the request of the University of Alabama System Office, for oversight and

management of the University of Alabama System Regional Optical Network (UAS-RON) to all three campuses effective October 2017. It was determined that each campus would record 1/3 ownership in the UAS-RON Asset. The total asset amount is \$1,192,646, and each campus will record \$397,548 in assets.

The following is a summary of revenues by source (both operating and nonoperating) for the years ended September 30.

## Revenue Sources for the years ended September 30

	2019		2018		2017	
State educational appropriations	\$ 52,365,051	20.9%	\$ 48,352,459	20.6%	\$ 47,833,247	21.1%
Net investment income	186,866	0.1%	4,849,274	2.1%	10,240,992	4.5%
Grants and contracts	94,876,156	37.9%	82,978,323	35.3%	78,885,956	34.8%
Gifts	2,791,768	1.1%	3,067,873	1.3%	3,289,744	1.5%
Auxiliary	14,474,450	5.8%	11,353,348	4.8%	10,572,674	4.7%
Net tuition and fees	69,513,946	27.8%	67,638,989	28.7%	62,397,294	27.5%
Sales and services	5,650,645	2.2%	5,465,339	2.2%	4,422,511	1.8%
Capital gifts and grants	1,037,967	0.4%	2,161,614	0.9%	623,722	0.3%
Grant Revenue	9,416,081	3.8%	9,021,580	3.8%	7,942,044	3.5%
Intergovernmental transfers	-	0.0%	397,549	0.2%	-	0.0%
Additions to permanent endowments	-	0.0%	-	0.0%	600,431	0.3%
Total revenues	<u>\$ 250,312,930</u>		<u>\$ 235,286,348</u>		<u>\$ 226,808,615</u>	

Investments produced income and gains for 2019 in the amount of \$187 thousand, a \$4.7 million decrease over the prior year. Investments produced income and gains for the year ended September 30, 2018 in the amount of \$4.8 million, a \$5.4 million decrease over fiscal year 2017. Investments produced income and gains for fiscal year 2017 in the amount of \$10.2 million.

For the year ended September 30, 2019 grants and contracts revenues increased \$11.9 million due primarily to increases in federal and private contracts. For the year ended September 30, 2018, grants and contracts revenue increased \$4.1 million due primarily to increases in federal contracts of \$4.8 million. Grants and contracts revenues decreased \$1.5 million in 2017 due primarily to decreases in state and private contracts of \$450 thousand and \$892 thousand, respectively.

The University received gifts of approximately \$2.8 million for fiscal year 2019 and \$3.1 million in 2018. This slight decrease was due to a reduction in corporate gifts to the University. In 2017, gifts decreased \$2.2 million due to forgiveness of a note payable. In 2017, gifts totaled \$3.3 million, primarily from the University of Alabama Huntsville Foundation.

The University's auxiliary activities are comprised primarily of the Bevill Conference Center and Hotel, food service, housing, and bookstore. Auxiliary activities increased \$3.1 million, \$781 thousand, and \$1.4 million for the years ended September 30, 2019, 2018 and 2017, respectively.

For the year ended September 30, 2019, sales and services revenue stayed constant with a slight increase of \$186 thousand. Sales and services revenue

increased \$1 million in 2018 due to increased student activity on campus. Sales and services revenue increased by \$311 thousand in 2017.

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 &amp; Contracts Revenue

	Years ended September 30		
	2019	2018	2017
National Aeronautics and Space Administration	\$ 24,641,552	\$ 24,322,285	\$ 23,018,332
Department of Defense	49,359,419	40,866,195	39,727,624
National Science Foundation	8,804,595	7,427,626	4,242,082
Department of Education	-	313,449	573,339
Other	6,380,126	4,388,378	4,905,845
Total	<u>\$ 89,185,692</u>	<u>\$ 77,317,933</u>	<u>\$ 72,467,222</u>

National Aeronautics and Space Administration (NASA) revenues increased \$319 thousand for the year ended September 30, 2019. NASA revenues increased \$1.3 million in 2018. NASA revenues decreased \$2.2 million in 2017.

For the year ended September 30, 2019, Department of Defense (DOD) revenues increased \$8.5 million primarily due to a new multi-year Space and Missile Defense Command (SMDC) contract. DOD revenues increased \$1.1 million in 2018 primarily due to new federal pass-through contracts. DOD revenues decreased \$2.6 million in 2017 primarily due to federal pass-through contracts that were not renewed.

increased \$1.4 million, \$3.2 million, and \$73 thousand for the years ended September 30, 2019, 2018 and 2017, respectively. The NSF increase in 2019 is from receiving the EPSCoR CPU2AL: Connecting the Plasma Universe to Plasma Technology in Alabama federal grant. For the year ended September 30, 2019, the Department of Education revenues decreased \$313 thousand in 2019 primarily due to federal pass-through contracts that were not renewed.

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

## National Science Foundation (NSF) revenues

## Operating expenses (by functional classification)

	Years ended September 30		
	2019	2018	2017
Instruction	\$ 65,064,208	\$ 62,356,254	\$ 60,081,085
Research	80,082,153	73,077,887	66,897,171
Public service	7,362,241	6,566,199	6,988,818
Academic support	12,129,052	12,175,608	11,816,561
Student services	18,246,691	17,535,813	17,407,877
Institutional support	22,619,041	21,799,636	22,356,531
Operations and maintenance of plant	13,396,185	13,532,266	13,657,991
Scholarships and fellowships	3,474,084	3,332,226	2,544,291
Auxiliary enterprises	10,843,462	7,875,393	5,776,032
Depreciation	17,167,013	17,143,814	16,043,553
Total operating expenses	<u>\$ 250,384,130</u>	<u>\$ 235,395,096</u>	<u>\$ 223,569,910</u>

## Operating expenses (by natural classification)

Salaries, wages, and benefits	\$ 169,949,845	\$ 164,700,313	\$ 160,210,876
Supplies and services	59,793,188	50,218,743	44,771,190
Depreciation	17,167,013	17,143,814	16,043,553
Scholarships and fellowships	3,474,084	3,332,226	2,544,291
Total operating expenses	<u>\$ 250,384,130</u>	<u>\$ 235,395,096</u>	<u>\$ 223,569,910</u>

In the year ended September 30, 2019, instruction expenses increased \$2.7 million due to an increase in salaries, wages and benefits and a slight increase in supplies and services. In 2018, instruction expenses increased \$2.3 million due to an increase in salaries, wages and benefits. For fiscal year 2017, instruction expenses increased \$1.9 million due to an increase in salaries, wages and benefits.

Research expenses increased \$7.0 million in 2019 due to an increase in contracts and grants. Research expenses increased \$6.2 million in fiscal year 2018 due to an increase in contracts and grants. Research expenses decreased \$525 thousand in 2017 due to a decrease in contracts and grants.

For the year ended September 30, 2019, public service expenses increased \$796 thousand due to increases in federal public service contracts and grants. Public service expenses decreased \$423 thousand due to decreases in federal public service contracts and grants in 2018. Public service expenses increased \$2.9 million in 2017 due to increases in federal public service contracts and grants.

Academic support decreased slightly during 2019 by \$47 thousand. Academic support increased during for the year ended September 30, 2018 by \$359 thousand. Academic support saw an increase of \$723 thousand during 2017.

Operations and maintenance of plant decreased \$136 thousand during fiscal year 2019. Operations and maintenance of plant decreased \$126 thousand during 2018 and increased \$189 thousand during 2017.

Fiscal year 2019 saw a \$5.2 million increase in salaries, wages and benefits, primarily due to a combination of increases in federal contracts and health insurance and other benefit costs. Salaries, wages and benefits increased \$4.5 million in fiscal year 2018, primarily due to a combination of increases in grants and contracts and health insurance and other benefit costs. Salaries, wages and benefits increased \$6.3 million in 2017 due to a \$4.3 million increase in pension expense.

Scholarships and fellowships expense increased \$142 thousand for the year ended September 30, 2019. Scholarships and fellowships expense increased \$788 thousand for 2018 and increased \$405 thousand during 2017. 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 \$9.6 million for the year ended September 30, 2019 due to the University's continued growth and federal contracts. Supplies and services expenses increased \$5.4 million in 2018 and \$3.3 million in 2017 due to the University's growth.





## Economic Factors That Will Affect the Future

The University's state educational appropriations have not kept pace with the funding percentage as recommended by the Alabama Commission on Higher Education (ACHE). In fiscal year 2018, the University was funded at 49.2% of the ACHE recommended funding. The funding percentage decreased to 47.9% for fiscal year 2019. State appropriations at the University have been reduced from \$58.1 million in 2008 to \$52.4 million in 2019. 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. Refer to note 1 where the impact of COVID-19 is discussed.

Total enrollment for fall 2019 was at an all-time high at 9,988, an increase of 252 students over last fall and

2.6% growth. The freshman class is the largest in UAH history with 48.7% scoring 30 or above on the ACT. Once they graduate, these students typically go on to earn a higher average starting (\$54,000) and mid-career (\$98,000) salary than most of their peers across Alabama.

UAH is regularly ranked the best return on investment among all schools in Alabama, and has been named by the Brookings Institution as the best university in the state based on the economic outcomes of its graduates.



**The University of Alabama in Huntsville**  
**Statements of Net Position**  
**September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 29,564,137	\$ 31,943,600
Operating investments	23,782,952	39,294,940
Accounts receivable, net	39,971,336	30,403,827
Other current assets	21,689,068	18,366,932
Total current assets	<u>115,007,493</u>	<u>120,009,299</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	19,153,493	4,127,889
Endowment investments	34,043,115	35,126,425
Investments for capital activities	41,035,400	25,417,000
Capital assets, net	310,234,994	295,483,325
Other noncurrent assets	2,568,634	2,677,672
Total noncurrent assets	<u>407,035,636</u>	<u>362,832,311</u>
<b>Total Assets</b>	<b><u>522,043,129</u></b>	<b><u>482,841,610</u></b>
<b>Deferred Outflows of Resources</b>		
Pensions and OPEB obligations	35,809,718	32,894,090
<b>Total Deferred Outflows of Resources</b>	<b><u>35,809,718</u></b>	<b><u>32,894,090</u></b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 557,852,847</u></b>	<b><u>\$ 515,735,700</u></b>
<b>Liabilities and Net Position</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 31,473,006	\$ 20,020,633
Unearned revenue	49,315,513	42,595,428
Current portion of long-term debt	5,308,149	4,722,149
Deposits held for others	4,411,829	4,225,891
Total current liabilities	<u>90,508,497</u>	<u>71,564,101</u>
Noncurrent Liabilities:		
Long-term debt	147,773,906	123,145,440
Federal advances - loan funds	601,011	505,113
Pension liability	150,951,000	147,428,000
OPEB liability	56,429,447	53,845,219
Total noncurrent liabilities	<u>355,755,364</u>	<u>324,923,772</u>
<b>Total Liabilities</b>	<b><u>446,263,861</u></b>	<b><u>396,487,873</u></b>
<b>Deferred Inflows of Resources</b>		
Pensions and OPEB obligations	25,324,831	26,728,420
<b>Total Deferred Inflows of Resources</b>	<b><u>25,324,831</u></b>	<b><u>26,728,420</u></b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b><u>\$ 471,588,692</u></b>	<b><u>\$ 423,216,293</u></b>
<b>Net Position:</b>		
Net investment in capital assets	165,385,148	168,455,369
Restricted:		
Nonexpendable	10,020,768	9,990,561
Expendable	12,180,318	18,303,547
Unrestricted	(101,322,079)	(104,230,070)
<b>Total Net Position</b>	<b><u>86,264,155</u></b>	<b><u>92,519,407</u></b>
<b>Total Liabilities and Net Position</b>	<b><u>\$ 557,852,847</u></b>	<b><u>\$ 515,735,700</u></b>

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>		
Tuition and fees	\$ 114,566,974	\$ 106,800,049
Less: scholarship allowances	(45,053,028)	(39,161,060)
Tuition and fees, net	69,513,946	67,638,989
Grants and contracts		
Federal	89,185,692	77,317,933
State	3,775,885	3,919,899
Private	1,914,579	1,740,491
Sales and services of educational activities	5,650,645	5,465,339
Auxiliary, net of \$2,698,871 in 2019 and \$2,455,037 in 2018 of scholarship allowances	14,474,450	11,353,348
<b>Total Operating Revenues</b>	<b>184,515,197</b>	<b>167,435,999</b>
<b>Operating Expenses</b>		
Salaries, wages and benefits	169,949,845	164,700,313
Supplies and services	59,793,188	50,218,743
Depreciation	17,167,013	17,143,814
Scholarships and fellowships	3,474,084	3,332,226
<b>Total Operating Expenses</b>	<b>250,384,130</b>	<b>235,395,096</b>
Operating loss	(65,868,933)	(67,959,097)
<b>Nonoperating Revenues (Expenses)</b>		
State educational appropriations	52,365,051	48,352,459
Private gifts	2,791,768	3,067,873
Net investment income	186,866	4,849,274
Grant revenue	9,416,081	9,021,580
Other nonoperating revenues (expenses), net	(18,507)	(281,092)
Interest expense	(6,165,545)	(4,223,715)
<b>Net Nonoperating Revenues</b>	<b>58,575,714</b>	<b>60,786,379</b>
<b>Loss before other changes in net position</b>	<b>(7,293,219)</b>	<b>(7,172,718)</b>
<b>Other Changes in Net Position</b>		
Capital gifts and grants	1,037,967	2,161,614
Intergovernmental transfers	-	397,549
<b>Other changes in net position</b>	<b>1,037,967</b>	<b>2,559,163</b>
Decrease in net position	(6,255,252)	(4,613,555)
Net Position, Beginning of Year (as previously reported)	92,519,407	143,013,745
Cumulative effect of adopting new accounting guidance (see Note 10)	-	(45,880,783)
Net Position, Beginning of Year (as restated, as of October 1, 2017)	92,519,407	97,132,962
<b>Net Position, End of Year</b>	<b>\$ 86,264,155</b>	<b>\$ 92,519,407</b>

See accompanying notes to financial statements

**The University of Alabama in Huntsville**  
**Statements of Cash Flows**  
**Years Ended September 30, 2019 and 2018**

	<b><u>2019</u></b>	<b><u>2018</u></b>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 71,850,680	\$ 69,463,199
Federal grants and contracts	85,820,158	74,603,550
State and local grants and contracts	3,509,075	3,790,337
Private grants and contracts	1,779,292	1,682,964
Sales and services of educational and other departmental activities	5,738,251	5,364,499
Auxiliary enterprises	13,780,434	12,216,963
Payments to suppliers	(54,393,910)	(51,800,440)
Payments to employees and related fringes	(166,182,981)	(161,084,922)
Payments for scholarships and fellowships	(6,748,774)	(5,430,078)
<b>Net Cash Used in Operating Activities</b>	<b><u>(44,847,775)</u></b>	<b><u>(51,193,928)</u></b>
<b>Cash Flows from Noncapital Financing Activities</b>		
State educational appropriations	52,365,051	48,352,459
Private gifts	2,891,768	3,167,873
Student direct lending receipts	33,168,268	32,671,375
Student direct lending disbursements	(33,968,402)	(32,696,156)
Amounts received from affiliates	285,249	136,634
Amounts paid to affiliates	(3,413)	(5,055)
Grant revenue	9,416,081	9,021,580
Borrowings from UA System Pools	10,000,000	15,500,000
Repayment to UA System Pools	(10,000,000)	(15,500,000)
Interest payments on UA System Pools borrowings	(33,562)	(20,569)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b><u>64,121,040</u></b>	<b><u>60,628,141</u></b>
<b>Cash Flows from Investing Activities</b>		
Income distributions from System investment pool	1,501,115	1,579,816
Proceeds from sales and maturities of investments	455,009	45,308,254
Purchases of investments	(802,343)	(20,525,017)
<b>Net Cash Provided by Investing Activities</b>	<b><u>1,153,781</u></b>	<b><u>26,363,053</u></b>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Net proceeds from issuance of bonds	30,331,009	37,379,673
Purchase of capital assets	(27,347,041)	(41,456,739)
Net proceeds / (loss) related to sale of capital assets	-	(26,500)
Principal payments on capital debt	(4,722,149)	(4,674,084)
Interest payments on capital debt	(6,042,724)	(4,088,470)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<b><u>(7,780,905)</u></b>	<b><u>(12,866,120)</u></b>
 Net increase/(decrease) in cash and cash equivalents	 12,646,141	 22,931,146
 Cash and Cash Equivalents, Beginning of Year	 36,071,489	 13,140,343
<b>Cash and Cash Equivalents, End of Year</b>	<b><u>\$ 48,717,630</u></b>	<b><u>\$ 36,071,489</u></b>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Position</b>		
Cash and cash equivalents in current assets	29,564,137	31,943,600
Restricted cash and cash equivalents	19,153,493	4,127,889
<b>Total Cash and Cash Equivalents</b>	<b><u>\$ 48,717,630</u></b>	<b><u>\$ 36,071,489</u></b>

See accompanying notes to financial statements

**The University of Alabama in Huntsville**  
**Statements of Cash Flows -- Continued**  
**Years Ended September 30, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (65,868,933)	\$ (67,959,097)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	16,781,657	16,998,215
Pension and OPEB expense	16,200,678	16,979,945
Changes in assets and liabilities:		
Accounts receivable, net	(8,757,392)	(4,772,972)
Other current assets	(3,322,136)	(2,225,439)
Pension and OPEB obligations	(14,412,667)	(13,851,024)
Accounts payable and accrued liabilities	7,810,933	(822,040)
Unearned revenues	6,720,085	4,458,484
<b>Net Cash Used in Operating Activities</b>	<u><u>\$ (44,847,775)</u></u>	<u><u>\$ (51,193,928)</u></u>
<b>Supplemental Noncash Activities Information</b>		
Capital asset purchases accrued at year end	5,874,740	2,322,559
Capital assets acquired with a capital lease	-	616,303

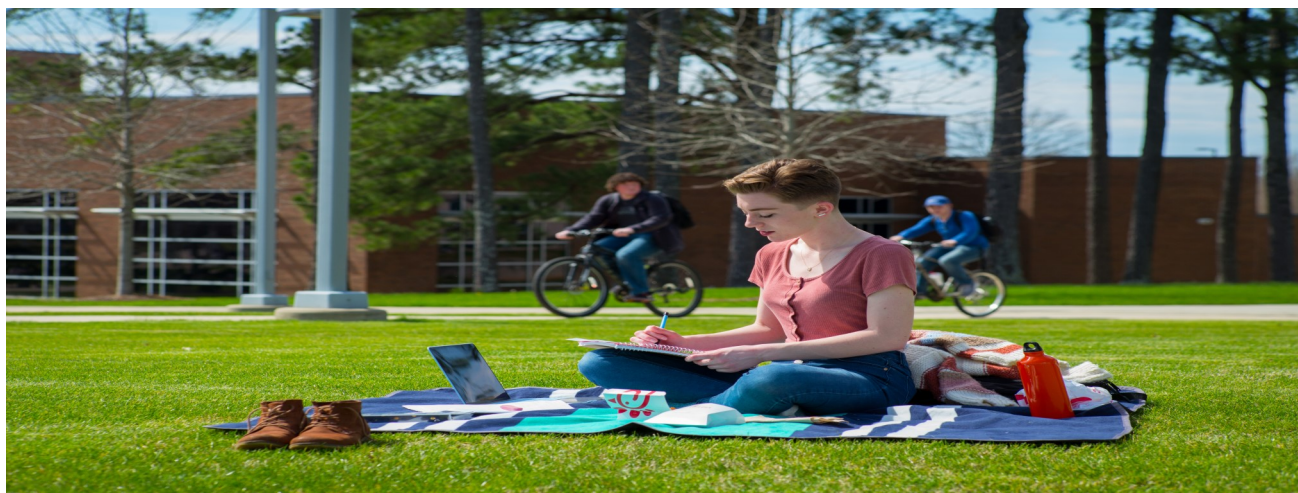
See accompanying notes to financial statements



**University of Alabama Huntsville Foundation**  
**Component Unit**  
**Statements of Net Position**  
**September 30, 2019 and 2018**

	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,277,443	\$ 2,681,139
Accrued interest	476,918	459,884
Prepaid income tax	-	105,462
Other receivable	-	12,030
<b>Total current assets</b>	<u><b>3,754,361</b></u>	<u><b>3,258,515</b></u>
Noncurrent assets		
Investments	46,623,065	47,131,702
Investment in real estate	2,739,563	2,757,376
Investment in trust	5,441,348	5,360,460
Pledges receivable, net	4,216,000	4,551,109
Trust receivable	484,959	484,959
<b>Total current assets</b>	<u><b>59,504,935</b></u>	<u><b>60,285,606</b></u>
<b>Total Assets</b>	<u><u><b>\$ 63,259,296</b></u></u>	<u><u><b>\$ 63,544,121</b></u></u>
<b>Liabilities</b>		
Current liabilities		
Accounts payable	\$ 248,720	\$ 236,950
Annuity payable	95,115	119,529
Related party payable	131,263	119,763
<b>Total Liabilities</b>	<u><b>475,098</b></u>	<u><b>476,242</b></u>
<b>Net Position</b>		
Unrestricted	23,674,563	23,326,920
Restricted		
Expendable	15,107,589	16,496,324
Nonexpendable	24,002,046	23,244,635
<b>Total Net Position</b>	<u><b>62,784,198</b></u>	<u><b>63,067,879</b></u>
<b>Total Liabilities and Net Position</b>	<u><u><b>\$ 63,259,296</b></u></u>	<u><u><b>\$ 63,544,121</b></u></u>

See Note 2



**University of Alabama Huntsville Foundation**  
**Component Unit**  
**Statements of Revenues, Expenses, and Changes in Net Position**  
**Years Ended September 30, 2019 and 2018**

	<u><b>2019</b></u>	<u><b>2018</b></u>
<b>Operating Revenues</b>		
Contributions	\$ 1,422,500	\$ 2,147,848
Other income	127,320	24,197
<b>Total Operating Revenues</b>	<u><b>1,549,820</b></u>	<u><b>2,172,045</b></u>
<b>Operating Expenses</b>		
Scholarships to UAH	1,240,844	1,296,099
Professional services	65,500	78,995
Other expenses	146,125	47,675
<b>Total Operating Expenses</b>	<u><b>1,452,469</b></u>	<u><b>1,422,769</b></u>
<b>Operating Income</b>	<b>97,351</b>	<b>749,276</b>
<b>Nonoperating Revenues (expenses)</b>		
Investment income, net	647,611	3,014,707
Rent income	33,570	33,570
Equity in earnings of trust	708,048	496,340
Change in value of split-interest agreement	19,524	(13,249)
Income tax expense	(121,200)	(166,350)
Contributions to UAH	(1,668,585)	(1,749,740)
<b>Net Nonoperating (Expenses) Revenues</b>	<u><b>(381,032)</b></u>	<u><b>1,615,278</b></u>
<b>Increase in net position</b>	<b>(283,681)</b>	<b>2,364,554</b>
<b>Net position, beginning of year</b>	<u><b>63,067,879</b></u>	<u><b>60,703,325</b></u>
<b>Net position, end of the year</b>	<u><b>\$ 62,784,198</b></u>	<u><b>\$ 63,067,879</b></u>

See Note 2

## Notes to Financial Statements

### Years Ended September 30, 2019 and 2018

#### Note 1 – Organization and Summary of Significant Accounting Policies

**Financial Reporting Entity** - The University of Alabama in Huntsville (the “University”) is one of three universities of The University of Alabama System (the “System”), a 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 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.

While no modifications have been made to UAHF’s financial information in the University’s financial reporting entity for recognition or accounting differences, certain modifications have been made to the presentation of UAHF’s financial statements in the University’s financial reporting entity to conform with the University’s financial statement presentation. Significant note disclosures (see Note 2) to UAHF’s financial statements have been incorporated into the University’s notes to the financial statements. During fiscal years 2019 and 2018, UAHF distributed \$2,909,429 and \$3,045,839, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF are available by phoning (256) 824-6350.

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

With Board approval on April 26, 2018, the University formed The University of Alabama in Huntsville Research and Technology Corporation (the “RTC”), an Alabama non-profit corporation. However, as of September 30, 2019 the RTC did not have any activities or balances to be included in UAH’s financial statements.



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

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

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

- **Net investment in capital assets:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted:**
  - Nonexpendable** – Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the corpus of the University’s permanent endowment funds.
  - Expendable** – Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or The Board of Trustees of the University of Alabama.

**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of

three months or less to be cash equivalents. Cash equivalents representing assets of the University’s endowment, life income, and other long-term investments are included in the noncurrent investments category.

**Investments:** The University’s investment portfolio is primarily invested in three separate investment pools maintained by The University of Alabama System. Fair value for the investment pools is determined by the System, based on the fair value of the underlying investment securities held by each investment pool. Fair value of the underlying securities held in each investment pool is based on quoted market prices or dealer quotes, where available, or determined using net asset values provided by underlying investment partnerships or companies. 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 grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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

**Capital Assets:** Capital assets are recorded at cost at the date of acquisition, or acquisition value at date of donation in the case of gifts, less accumulated depreciation. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Implementation costs, which are capitalized, include consulting expenses and allocation of internal salaries and fringes for the core implementation team. Training costs are expensed as incurred. 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.

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

**Revenues:** The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net position are those that generally result from transactions such as payments received for providing services, payments made for services or goods received, and from grants and contracts. Certain significant revenue streams relied upon to support operations are recorded as nonoperating revenues, as defined by GASB guidance,

including state educational appropriations, private gifts for other than capital purposes, investment income, and Federal Pell Grants.

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

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

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

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

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



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

Effective October 1, 2017, the Board adopted a spending rate of 4.5%, based on a moving five-year average of the market (unit) value, and return of gains for underwater endowments. The previous spending rate was 5% of the moving three-year average of the market (unit) value.

**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.

**Events Subsequent to Original Issuance of Financial Statements (unaudited):** In January 2020, the World Health Organization declared the novel Coronavirus (COVID-19) a Public Health Emergency of International Concern. The outbreak of COVID-19 has caused domestic and global disruption in operations for institutions of higher education. The outbreak has also negatively impacted both the global financial markets and the University's investments, including the investments held within the System Pools, and may continue to do so. Other adverse consequences of COVID-19 in the future may include, but are not limited to, decline in enrollment, decline in demand for University housing, decline in demand for University programs that involve travel, and additional volatility within the University's investments. The University believes it has sufficient liquidity to meet its operating and financing needs; however, given the difficulty in predicting the ultimate duration and severity of the impact of COVID-19 on the University, the economy and the financial markets, the ultimate impact is unknown and cannot be reasonably quantified at this time.

## Note 2—Component Unit

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

**Basis of Presentation—**Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The FASB reporting UAHF implemented Accounting Standards Update 2016-14, Presentation of Financial Statements for Not-for-Profit Entities, during their current respective fiscal years, applying the changes retrospectively. The main provisions of this guidance include: the temporarily restricted and permanently restricted net assets have been combined into a single net asset class called net assets with donor restrictions, and the unrestricted net asset class has been renamed net assets without donor restrictions. Net assets of the FASB-reporting UAHF and changes therein are classified and reported as follows in their separately issued financial statements:

**Without Donor Restrictions** – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include unrestricted gifts and earnings on these unrestricted gifts. In order to comply with GASB presentation features, net assets without donor restrictions for the FASB foundations are presented as unrestricted net position within the University's discrete presentation of these component units.

**With Donor Restrictions** – Net assets with donor restrictions are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. When a donor's restriction is met or has expired, the amounts are reclassified to net assets without donor restrictions. Items that affect this net asset category include restricted gifts and earnings on endowment funds expendable for purposes stipulated by the donor. In order to comply with GASB presentation features, these net assets with donor restrictions for the FASB UAHF are presented as restricted expendable net position within the University's discrete presentation of UAHF.

Some donor-imposed restrictions are to be maintained permanently by the Foundation. These resources include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and only the income earned on the gifts be made available for expenditure. In order to comply with GASB presentation features, net assets with these donor restrictions for the FASB UAHF are presented as restricted nonexpendable net position within the University's discrete presentation of UAHF.

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

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, 2019 and 2018 :

	<u>2019</u>		<u>2018</u>	
	<u>Reported Value</u>	<u>Cost</u>	<u>Reported Value</u>	<u>Cost</u>
Certificates of deposit	\$ 1,400,294	\$ 1,400,294	\$ 530,465	\$ 530,465
Pooled Endowment Fund	40,668,582	38,504,245	41,702,865	38,204,687
Marketable debt securities	1,665,474	1,652,412	1,916,312	1,950,676
Marketable equity securities	1,549,022	1,299,630	1,658,203	1,275,016
Mutual funds	1,339,694	1,285,558	1,323,857	1,278,147
Total	<u>\$ 46,623,066</u>	<u>\$ 44,142,139</u>	<u>\$ 47,131,702</u>	<u>\$ 43,238,991</u>

UAHF invests certain amounts in an 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, 2019 and 2018, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of \$708,048 and \$496,340 respectively. In addition, UAHF received distributions from Chambers of \$627,159 and \$626,418 in FY 2019 and FY 2018, respectively. Big Springs did not make any distributions in either FY 2019 or FY2018.

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, 2019 and 2018.

	2019	2018
Current Assets	\$ 18,329,890	\$ 18,982,084
Noncurrent Assets	16,176,647	17,348,133
Current Liabilities	(4,778,802)	(6,611,448)
Noncurrent Liabilities	(3,238,725)	(3,673,809)
Equity	<u>\$ 26,489,010</u>	<u>\$ 26,044,960</u>
Net Sales	\$ 49,740,158	\$ 52,123,197
Operating Income	\$ 2,993,013	\$ 2,790,728
Net Income	\$ 3,660,250	\$ 2,641,715

**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 \$121,200 and \$166,350 for the years ended September 30, 2019 and 2018, respectively.

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

### Note 3 – Cash and Cash Equivalents

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

As of September 30, 2019 and 2018, the University had cash and cash equivalents totaling \$48,717,630 and \$36,071,489 respectively. Included in the amounts are deposits with trustees held for reserves, which totaled \$19,153,493 and \$4,127,889 in fiscal years 2019 and 2018, respectively.

### Note 4 – Investments

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

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

with the asset mix of the corresponding System investment pool. During the fiscal year 2019, the University borrowed \$10 million from the UA System Pools on a short-term basis. The amount was paid back before year end. The following disclosures relate to both the System Pools, which include the investments of other System campuses and other affiliated entities, and the University-specific investment portfolio.

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

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

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

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

- **Level 1** – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the University has the ability to access.
- **Level 2** – Inputs to the valuation methodology include:
  - Quoted prices for similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets;
  - Inputs other than quoted prices that are observable for the assets or liabilities;
  - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- **Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the University's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the University's own data.

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

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

The determination of what constitutes observable requires judgment by the University's management. University management considers observable data to

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

The following is a description of the valuation methods and assumptions used by the University to estimate the fair value of its investments. There have been no changes in the methods and assumptions used at September 30, 2019. 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, 2019 and 2018, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

2019				
	<u>Level 1</u>	<u>Level2</u>	<u>Level 3</u>	<u>Total</u>
Cash & Receivables:				
Compass	\$ 136,161	-	- \$	136,161
Wind Trust	40,230	-	-	40,230
Durkee Trust	379,694	-	-	379,694
Pei Ling Fund for Excellence	257,362	-	-	257,362
	813,447	-	-	813,447

UAH Portion of System Pool Investments:	
Pooled Endowment Fund	34,043,115
Long Term Reserve Fund	55,257,910
Short Term Liquidity Fund	6,208,411
Eminent Scholar Fund	2,538,584
Total Net Asset Value with System Pool Investments	<u>\$ 98,861,467</u>

2018				
	<u>Level 1</u>	<u>Level2</u>	<u>Level 3</u>	<u>Total</u>
Cash & Receivables:				
Compass	\$ 135,910	-	- \$	135,910
Wind Trust	42,342	-	-	42,342
Durkee Trust	370,989	-	-	370,989
	549,241	-	-	549,241

UAH Portion of System Pool Investments:	
Pooled Endowment Fund	35,126,425
Long Term Reserve Fund	55,602,214
Short Term Liquidity Fund	5,924,754
Eminent Scholar Fund	2,635,731
Total Net Asset Value with System Pool Investments	<u>\$ 99,838,365</u>

At September 30, 2019 and 2018, the fair value of investments for the System Pools based on the inputs used to value them is summarized as follows:

Pooled Endowment Fund					
	2019				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 794,850
Total Receivables	-	-	-	-	794,850
Cash Equivalents:					
Money Market Funds	45,659,810	-	-	-	45,659,810
Total Cash Equivalents	45,659,810	-	-	-	45,659,810
Equities:					
U.S. Common Stock	74,012,517	-	-	-	74,012,517
U.S. Preferred Stock	190,932	-	-	-	190,932
Foreign Stock	32,734,298	-	-	-	32,734,298
Total Equities	106,937,747	-	-	-	106,937,747
Fixed Income Securities:					
U.S. Government Obligations	-	9,526,821	-	-	9,526,821
Mortgage Backed Securities	-	16,998,880	-	-	16,998,880
Corporate Bonds	-	23,590,299	-	-	23,590,299
Non-U.S. Bonds	-	4,633,620	-	-	4,633,620
Total Fixed Income Securities	-	54,749,620	-	-	54,749,620
Commingled Funds:					
Non-U.S. Equity Funds	-	230,373,319	-	-	230,373,319
U.S. Bond Funds	-	53,608,300	-	-	53,608,300
Non-U.S. Bond Funds	-	-	-	-	-
Hedge Funds	-	-	-	476,844,586	476,844,586
Private Equity Funds	-	-	-	183,800,862	183,800,862
Real Asset Funds	-	-	28,480,271	312,302,228	340,782,499
Total Commingled Funds	-	283,981,619	28,480,271	972,947,676	1,285,409,566
Total Fund Investments	152,597,557	338,731,239	28,480,271	972,947,676	1,492,756,743
Total Fund Assets	152,597,557	338,731,239	28,480,271	972,947,676	1,493,551,593
Total Fund Liabilities					(283,955)
Affiliated Entity Investments in Funds					(237,774,790)
Total Net Asset Value					\$ 1,255,492,848

Pooled Endowment Fund					
	2018				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 941,965
Total Receivables	-	-	-	-	941,965
Cash Equivalents:					
Money Market Funds	48,621,460	-	-	-	48,621,460
Total Cash Equivalents	48,621,460	-	-	-	48,621,460
Equities:					
U.S. Common Stock	134,722,061	-	-	-	134,722,061
U.S. Preferred Stock	271,458				271,458
Foreign Stock	38,697,223	-	-	-	38,697,223
Total Equities	173,690,742	-	-	-	173,690,742
Fixed Income Securities:					
U.S. Government Obligations	-	8,197,916	-	-	8,197,916
Mortgage Backed Securities	-	14,232,582			14,232,582
Corporate Bonds	-	28,446,907	-	-	28,446,907
Non-U.S. Bonds	-	3,257,623	-	-	3,257,623
Total Fixed Income Securities	-	54,135,028	-	-	54,135,028
Commingled Funds:					
Non-U.S. Equity Funds	-	227,695,748	-	-	227,695,748
U.S. Bond Funds	-	56,400,000	-	-	56,400,000
Non-U.S. Bond Funds	-	27,184,600	-	-	27,184,600
Hedge Funds	-	-	-	429,859,604	429,859,604
Private Equity Funds	-	-	-	144,709,192	144,709,192
Real Asset Funds	-	-	15,904,425	305,862,240	321,766,665
Total Commingled Funds	-	311,280,348	15,904,425	880,431,036	1,207,615,809
Total Fund Investments	222,312,202	365,415,376	15,904,425	880,431,036	1,484,063,039
Total Fund Assets	222,312,202	365,415,376	15,904,425	880,431,036	1,485,005,004
Total Fund Liabilities					(281,027)
Affiliated Entity Investments in Funds					(238,893,599)
Total Net Asset Value					\$ 1,245,830,378



Long Term Reserve Pool Fund					
	2019				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 1,432,688
Total Receivables	-	-	-	-	1,432,688
Cash Equivalents:					
Money Market Funds	67,436,949	-	-	-	67,436,949
Total Cash Equivalents	67,436,949	-	-	-	67,436,949
Equities:					
U.S. Common Stock	176,170,860	-	-	-	176,170,860
U.S. Preferred Stock	376,551	-	-	-	376,551
Foreign Stock	60,626,225	-	-	-	60,626,225
Total Equities	237,173,636	-	-	-	237,173,636
Fixed Income Securities:					
U.S. Government Obligations	-	17,123,633	-	-	17,123,633
Mortgage Backed Securities	-	28,505,448	-	-	28,505,448
Corporate Bonds	-	43,571,551	-	-	43,571,551
Non-U.S. Bonds	-	8,045,325	-	-	8,045,325
Total Fixed Income Securities	-	97,245,957	-	-	97,245,957
Commingled Funds:					
Non-U.S. Equity Funds	-	443,683,561	-	-	443,683,561
U.S. Equity Funds	-	80,732,164	-	-	80,732,164
Non-U.S. Bond Funds	-	41,238,753	-	-	41,238,753
U.S. Bond Funds	-	91,511,322	-	-	91,511,322
Hedge Funds	-	-	-	718,659,741	718,659,741
Real Asset Funds	-	-	-	194,011,040	194,011,040
Total Commingled Funds	-	657,165,800	-	912,670,781	1,569,836,581
Total Fund Investments	304,610,585	754,411,757	-	912,670,781	1,971,693,123
Total Fund Assets	304,610,585	754,411,757	-	912,670,781	1,973,125,811
Total Fund Liabilities					(503,247)
Affiliated Entity Investments in Funds					(132,196,336)
Total Net Asset Value					\$ 1,840,426,228

## Long Term Reserve Pool Fund

	2018				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 1,525,275
Total Receivables	-	-	-	-	1,525,275
Cash Equivalents:					
Money Market Funds	100,476,683	-	-	-	100,476,683
Total Cash Equivalents	100,476,683	-	-	-	100,476,683
Equities:					
U.S. Common Stock	242,196,226	-	-	-	242,196,226
U.S. Preferred Stock	407,187	-	-	-	407,187
Foreign Stock	55,465,295	-	-	-	55,465,295
Total Equities	298,068,708	-	-	-	298,068,708
Fixed Income Securities:					
U.S. Government Obligations	-	12,738,159	-	-	12,738,159
Mortgage Backed Securities	-	21,717,846	-	-	21,717,846
Corporate Bonds	-	42,659,327	-	-	42,659,327
Non-U.S. Bonds	-	5,164,476	-	-	5,164,476
Total Fixed Income Securities	-	82,279,808	-	-	82,279,808
Commingled Funds:					
Non-U.S. Equity Funds	-	404,044,223	-	-	404,044,223
U.S. Equity Funds	-	67,935,522	-	-	67,935,522
Non-U.S. Bond Funds	-	44,052,238	-	-	44,052,238
U.S. Bond Funds	-	79,990,055	-	-	79,990,055
Hedge Funds	-	-	-	619,443,622	619,443,622
Real Asset Funds	-	-	-	200,220,778	200,220,778
Total Commingled Funds	-	596,022,038	-	819,664,400	1,415,686,438
Total Fund Investments	398,545,391	678,301,846	-	819,664,400	1,896,511,637
Total Fund Assets	398,545,391	678,301,846	-	819,664,400	1,898,036,912
Total Fund Liabilities					(460,596)
Affiliated Entity Investments in Funds					(134,087,788)
Total Net Asset Value					\$ 1,763,488,528

## Short Term Liquidity Pool Fund

	2019				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 3,481,503
Total Receivables	-	-	-	-	3,481,503
Cash Equivalents:					
Money Market Funds	77,781,811	-	-	-	77,781,811
Total Cash Equivalents	77,781,811	-	-	-	77,781,811
Fixed Income Securities:					
U.S. Government Obligations	-	106,695,991	-	-	106,695,991
Mortgage Backed Securities	-	256,770,944	-	-	256,770,944
Collateralized Mortgage Obligations	-	18,530,989	-	-	18,530,989
Corporate Bonds	-	149,581,841	-	-	149,581,841
Non-U.S. Bonds	-	66,304,810	-	-	66,304,810
Total Fixed Income Securities	-	597,884,575	-	-	597,884,575
Commingled Funds:					
U.S. Bond Funds	-	185,315,252	-	-	185,315,252
Total Commingled Funds	-	185,315,252	-	-	185,315,252
Total Fund Investments	77,781,811	783,199,827	-	-	860,981,638
Total Fund Assets	77,781,811	783,199,827	-	-	864,463,141
Total Fund Liabilities					(286,331)
Affiliated Entity Investments in Funds					(100,903,160)
Total Net Asset Value					\$ 763,273,650

## Short Term Liquidity Pool Fund

	2018				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	\$ -	\$ -	\$ -	\$ -	\$ 3,378,475
Total Receivables	-	-	-	-	3,378,475
Cash Equivalents:					
Money Market Funds	127,128,864	-	-	-	127,128,864
Total Cash Equivalents	127,128,864	-	-	-	127,128,864
Fixed Income Securities:					
U.S. Government Obligations	-	179,984,745	-	-	179,984,745
Mortgage Backed Securities	-	175,661,110	-	-	175,661,110
Collateralized Mortgage Obligations	-	14,788,045	-	-	14,788,045
Corporate Bonds	-	141,942,756	-	-	141,942,756
Non-U.S. Bonds	-	54,274,651	-	-	54,274,651
Total Fixed Income Securities	-	566,651,307	-	-	566,651,307
Commingled Funds:					
U.S. Bond Funds	-	134,060,134	-	-	134,060,134
Total Commingled Funds	-	134,060,134	-	-	134,060,134
Total Fund Investments	127,128,864	700,711,441	-	-	827,840,305
Total Fund Assets	127,128,864	700,711,441	-	-	831,218,780
Total Fund Liabilities					(277,839)
Affiliated Entity Investments in Funds					(80,413,846)
Total Net Asset Value					\$ 750,527,095

Additional information on fair values, unfunded commitments, remaining life, and redemption for investments measure at the NAV for the System Pools at September 30, 2019 is as follows:

	Fair Value	Pooled Endowment Fund			
		Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Hedge funds - absolute return, credit, long/short equities	\$ 476,844,586	\$ -	No limit	Monthly, Quarterly, and Annually	Lock-up provisions ranging from none to 2 years
Private equity - private credit, buyouts, venture, secondary	183,800,862	151,340,710	1-10 years	Partnerships ineligible for redemption	Not redeemable
Real assets - public real estate, natural resources, and infrastructure	147,852,025	-	No limit	Monthly	None
Real assets - private real estate, natural resources, and infrastructure	164,450,203	99,981,416	1-15 years	Partnerships ineligible for redemption	Not redeemable
	<u>\$ 972,947,676</u>	<u>\$ 251,322,126</u>			

	Fair Value	Long Term Reserve Pool			
		Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Hedge funds - absolute return, credit, long/short equities	\$ 718,659,741	\$ -	No limit	Monthly, Quarterly, and Annually	Lock-up provisions ranging from none to 2 years
Real assets - public real estate, natural resources, and infrastructure	194,011,040	-	No limit	Monthly	None
Real assets - private real estate, natural resources, and infrastructure	-	-			
	<u>\$ 912,670,781</u>	<u>\$ -</u>			

Additional information on fair values, unfunded commitments, remaining life, and redemption for investments measure at the NAV for the System Pools at September 30, 2018 is revised as follows:

	Fair Value	Unfunded Commitments	Pooled Endowment		
			Remaining Life	Redemption Notice Period	Redemption Restrictions
Hedge funds - absolute return, credit, long/short equities	\$ 429,859,604	\$ -	No limit	Monthly, Quarterly, and Annually	Lock-up provisions ranging from none to 2 years
Private equity - private credit, buyouts, venture, secondary	144,709,192	112,546,521	1-10 years	Partnerships ineligible for redemption	Not redeemable
Real assets - public real estate, natural resources, and infrastructure	152,056,360	-	No limit	Monthly and Quarterly	None
Real assets - private real estate, natural resources, and infrastructure	153,805,880	64,559,680	1-15 years	Partnerships ineligible for redemption	Not redeemable
	<u>\$ 880,431,036</u>	<u>\$ 177,106,201</u>			

	Fair Value	Unfunded Commitments	Long Term Reserve Pool		
			Remaining Life	Redemption Notice Period	Redemption Restrictions
Hedge funds - absolute return, credit, long/short equities	\$ 619,443,622	\$ -	No limit	Monthly, Quarterly, and Annually	Lock-up provisions ranging from none to 2 years
Real assets - public real estate, natural resources, and infrastructure	200,211,837	-	No limit	Monthly and Quarterly	None
Real assets - private real estate, natural resources, and infrastructure	8,941	-	1-10 years	Partnerships ineligible for redemption	Not redeemable
	<u>\$ 819,664,400</u>	<u>\$ -</u>			

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

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

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

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the PEF and LTRP, which are tracked against the Barclays

U.S. High Yield Index for U.S. investments and the JPM Non-U.S. GBI Index for international investment benchmarks for the fixed income portion of these pools. Fixed income investments within the PEF and LTRP include corporate and U.S. Treasury and/or agency bonds. In addition, approximately \$39,361,000 and \$35,248,000 in the PEF and LTRP at September 30, 2019 and 2018, respectively, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds and money market funds were approximately \$299,455,000 and \$356,725,000 in the PEF and LTRP at September 30, 2019 and 2018, 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, 2019 and 2018, respectively, approximately \$173,218,000 and \$105,563,100 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 \$263,097,000 and \$261,189,000 at September 30, 2019 and 2018, respectively.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2019 and 2018 are as follows:

	Endowment Fund		LTRP Fund		STLP Fund	
	2019	2018	2019	2018	2019	2018
Fixed or Variable Income Securities						
U.S. Government Obligations	\$ 9,526,821	\$ 8,197,916	\$ 17,123,633	\$ 12,738,159	\$ 106,695,991	\$ 179,984,745
Other U.S. and Non-U.S. Denominated:						
AAA	1,445,545	779,600	2,399,062	968,280	82,360,918	70,741,960
AA	4,937,086	3,796,225	8,500,014	5,708,359	49,502,664	30,793,835
A	8,922,674	9,462,969	16,639,285	14,112,658	87,465,527	87,893,696
BBB	10,537,413	13,268,623	19,983,283	20,151,133	91,050,594	82,640,685
BB	4,105,601	4,245,245	6,954,906	6,381,065	6,106,262	6,436,205
B	595,375	548,625	963,425	807,975	1,140,474	1,955,776
C and < C	-	-	-	-	343,702	641,329
Unrated	14,679,105	13,835,825	24,682,349	21,412,180	173,218,443	105,563,075
Commingled Funds:						
U.S. Bond Funds: Unrated	53,608,300	56,400,000	91,511,322	79,990,055	185,315,252	134,060,134
Non-U.S. Bond Funds: Unrated	-	27,184,600	41,238,753	44,052,238	-	-
Money Market Funds: Unrated	45,659,810	48,621,460	67,436,949	100,476,683	77,781,811	127,128,864
<b>Total</b>	<b>\$ 154,017,730</b>	<b>\$ 186,341,088</b>	<b>\$ 297,432,981</b>	<b>\$ 306,798,784</b>	<b>\$ 860,981,638</b>	<b>\$ 827,840,305</b>

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

**Concentration of Credit Risk:** Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. As previously mentioned, credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2019 and 2018, 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, 2019 and 2018 are as follows:



	Endowment Fund		LTRP Fund		STLP Fund	
	2019	2018	2019	2018	2019	2018
U.S. Government Obligations	9.2	11.3	9.2	11.2	2.1	2.0
Corporate Bonds	6.3	5.2	6.3	5.1	1.8	1.8
Non-U.S. Bonds	6.3	5.2	6.3	5.1	1.8	1.8
Commingled Bond Funds	3.6	2.4	2.0	2.3	2.7	2.7

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

2018, the fair market value of these investments held by the System Pools are as follows:

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, 2019 and

	Endowment Fund		LTRP Fund		STLP Fund	
	2019	2018	2019	2018	2019	2018
Mortgage Backed Securities	\$ 16,998,880	\$ 14,232,582	\$ 28,505,448	\$ 21,717,846	\$ 256,770,944	\$ 175,661,110
Collateralized Mortgage Obligations	-	-	-	-	18,530,989	14,788,045
Total Fixed	\$ 16,998,880	\$ 14,232,582	\$ 28,505,448	\$ 21,717,846	\$ 275,301,933	\$ 190,449,155

**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.

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, 2019 and 2018, the effective durations for these securities are as follows:

**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.

	Endowment Fund		LTRP Fund		STLP Fund	
	2019	2018	2019	2018	2019	2018
Mortgage Backed Securities	3.6	5.3	3.7	5.3	1.5	1.1
Collateralized Mortgage Obligations	0	0	0	0	1.7	2.6

**Foreign Currency Risk:** The strategic asset allocation policy for the PEF and the LTRP includes an allocation to non-United States equity securities and fixed income securities. Currency hedging of foreign bonds and stocks is allowed under System Policy. As of September 30, 2019 and 2018, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for foreign stock and non-U.S. bond funds denominated in U.S. dollars and held by each of the three pools as disclosed in the previous tables. At September 30, 2019 and 2018, the University did not hold any foreign securities in its separately held investment portfolio.

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

At September 30, 2019 and 2018, 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 allowance for doubtful accounts. Endowment pledges do not meet eligibility requirements and are not recorded as assets until the related gift is received. Due to uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. The University's trust policies do not differ in nature from endowment policies.

The composition of accounts receivable as of September 30, 2019 and 2018 is summarized as follows:

	2019	2018
Tuition and fees	\$ 13,572,818	\$ 10,489,487
Auxiliary enterprises and other operating activities	153,032	355,150
Federal, state, and private grants and contracts	27,556,714	20,057,598
Other	1,175,586	1,255,316
Total accounts receivable	42,458,150	32,157,551
Less allowance for doubtful accounts	(2,486,814)	(1,753,724)
Accounts receivable, net	\$ 39,971,336	\$ 30,403,827

## Note 6 – Capital Assets

Capital assets activity for the years ended September 30, 2019 and 2018 is summarized as follows:

	October 1, <u>2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2019</u>
Land	\$ 14,050,899	\$ -	-	\$ -	\$ 14,050,899
Land improvements and infrastructure	21,693,320	940,220	-	-	22,633,540
Buildings and building improvements	408,692,338	2,083,999	-	14,602,670	425,379,007
Construction in progress	11,027,300	24,205,624	-	(14,602,670)	20,630,254
Equipment	74,865,062	4,549,339	(970,556)	-	78,443,845
Library books	26,472,059	158,007	(78,776)	-	26,551,290
Computer software	3,238,818	-	-	-	3,238,818
Collections	1,124,402	-	-	-	1,124,402
Total cost of capital assets	561,164,198	31,937,189	(1,049,332)	-	592,052,055
Less accumulated depreciation	265,680,873	17,167,013	(1,030,825)	-	281,817,061
Capital assets, net	\$ 295,483,325	\$ 14,770,176	\$ (18,507)	\$ -	\$ 310,234,994

	October 1, <u>2017</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2018</u>
Land	\$ 14,050,899	\$ -	-	\$ -	\$ 14,050,899
Land improvements and infrastructure	20,422,764	1,270,556	-	-	21,693,320
Buildings and building improvements	367,108,295	3,916,516	(225,910)	37,893,437	408,692,338
Construction in progress	18,779,116	30,141,621	-	(37,893,437)	11,027,300
Equipment	72,509,982	5,149,844	(2,794,764)	-	74,865,062
Library books	26,329,044	161,967	(18,952)	-	26,472,059
Computer software	3,006,245	232,573	-	-	3,238,818
Collections	1,124,402	-	-	-	1,124,402
Total cost of capital assets	523,330,747	40,873,077	(3,039,626)	-	561,164,198
Less accumulated depreciation	251,322,093	17,143,814	(2,785,034)	-	265,680,873
Capital assets, net	\$ 272,008,654	\$ 23,729,263	\$ (254,592)	\$ -	\$ 295,483,325

## Note 7 – Long-Term Debt

Long-term debt activity for the years ended September 30, 2019 and 2018 is summarized as follows:

<u>Type/Supported by</u>	<u>October 1, 2018</u>	<u>New Debt</u>	<u>Principal Repayment</u>	<u>September 30, 2019</u>
Bonds:				
Student housing revenue	\$ 25,991,000	\$ -	\$ 670,000	25,321,000
General fee revenue	95,938,000	27,600,000	4,348,000	119,190,000
Lease obligations	422,154	-	194,149	228,005
Total debt	122,351,154	27,600,000	5,212,149	144,739,005
Less current portion	(4,722,149)			(5,308,149)
Premium, net	5,516,435			8,343,050
Total long-term debt	<u>\$123,145,440</u>			<u>\$ 147,773,906</u>

<u>Type/Supported by</u>	<u>October 1, 2017</u>	<u>New Debt</u>	<u>Principal Repayment</u>	<u>September 30, 2018</u>
Bonds:				
Student housing revenue	\$ 26,641,000	\$ -	\$ 650,000	\$ 25,991,000
General fee revenue	66,714,000	32,515,000	3,291,000	95,938,000
Lease obligations	1,155,238	616,303	1,349,387	422,154
Total debt	94,510,238	33,131,303	5,290,387	122,351,154
Less current portion	(5,096,238)			(4,722,149)
Premium, net	806,396			5,516,435
Total long-term debt	<u>\$ 90,220,396</u>			<u>\$ 123,145,440</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 5,308,149	\$ 6,130,136	\$ 11,438,285
2021	5,293,856	5,967,989	11,261,845
2022	5,352,000	5,791,946	11,143,946
2023	5,540,000	5,609,400	11,149,400
2024	5,737,000	5,407,865	11,144,865
2025-2029	28,658,000	23,392,942	52,050,942
2030-2034	24,375,000	17,934,203	42,309,203
2035-2039	24,815,000	12,663,334	37,478,334
2040-2044	25,810,000	6,605,233	32,415,233
2045-2048	13,850,000	1,779,500	15,629,500
	<u>\$ 144,739,005</u>	<u>\$ 91,282,548</u>	<u>\$ 236,021,553</u>

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

<u>Description and Purpose</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate - %</u>	<u>Original Indebtedness</u>	<u>Outstanding Indebtedness September 30, 2019</u>	<u>Outstanding Indebtedness September 30, 2018</u>
<b>Bonds Payable:</b>						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	\$ 2,180,000	\$ 95,000	\$ 185,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	186,000	291,000
Revenue Bonds-Series 2009A	8/4/2009	7/1/2029	3.00-4.50	8,115,000	4,830,000	5,205,000
Student Housing Revenue Bonds-Series 2010-A	7/14/2010	6/1/2042	2.85-6.125	27,990,000	25,040,000	25,515,000
General Fee Revenue Bonds-Series 2012-A	4/3/2012	10/1/2031	0.73-4.28	11,170,000	7,570,000	8,135,000
General Fee Revenue Bonds-Series 2012-B	9/5/2012	12/1/2026	0.74-3.84	13,700,000	8,400,000	9,170,000
General Fee Revenue Bonds-Series 2013-A-1	4/4/2013	4/1/2023	1.57	7,550,000	3,160,000	3,920,000
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	8,415,000	8,810,000
General Fee Revenue Bonds-Series 2015-A	3/25/2015	6/1/2025	1.96	5,175,000	3,225,000	3,728,000
General Fee Revenue Bonds-Series 2018-A-1	3/22/2018	9/1/2027	5.00	5,400,000	4,910,000	5,400,000
General Fee Revenue Bonds-Series 2018-A-2	3/22/2018	9/1/2048	5.00	27,115,000	27,115,000	27,115,000
General Fee Revenue Bonds-Series 2018-B-1	10/30/2018	9/1/2028	5.00	5,290,000	4,800,000	-
General Fee Revenue Bonds-Series 2018-B-2	10/30/2018	9/1/2048	5.00	22,310,000	22,310,000	-
<b>Total Bonds Payable</b>				<u>174,912,000</u>	<u>144,511,000</u>	<u>121,929,000</u>
<b>Lease Obligation:</b>						
Key Government Finance Inc	6/1/2018	6/1/2021		616,303	228,005	422,154
<b>Total Lease Obligation</b>				<u>616,303</u>	<u>228,005</u>	<u>422,154</u>
<b>Total Debt</b>				<u>\$ 175,528,303</u>	<u>\$ 144,739,005</u>	<u>\$ 122,351,154</u>

The University's general fee bonds and student housing bonds are subject to certain covenants. These covenants, among other things, require the University to establish and maintain reasonable fees, rates, and other charges to ensure pledged revenues are sufficient for debt service coverage; to maintain books and records pertaining to the pledged revenues; to furnish annual audits and other periodic reports that reflect the financial condition of the University, the project, other pledged facilities, and other pledged assets; and to comply with certain restrictions as to additional indebtedness. The University is in compliance with all restrictive financial covenants as of September 30, 2019.

During the year, the University issued General Fee Revenue Bonds Series 2018-B1 and 2018-B2 for the purpose of constructing and equipping the Morton Hall expansion and other related campus infrastructure, improvements and additions. The Series 2018-B1 bond was privately issued in October 2018 directly to a bank for \$5,290,000. This bond principal matures each year from 2018 until 2028 and carries an interest rate of 5.00%. The Series 2018-B2 bonds were also issued in October 2018 in the form of \$14,555,000 serial

bonds with principal maturing each year from 2029 through 2043 and \$7,755,000 term bond maturing in 2048. Each from of the Series 2018-B2 bonds carries an interest rate of 5.00%.

In October 2019, the University refinanced the General Fee Revenue Bonds Series 2009A and Student Housing Revenue Bonds Series 2010A, which resulted in a reduction of future principal and interest payments of \$596 thousand. This will average \$25.9 thousand per year for the next 23 years. The amounts outstanding on these bonds were paid in October 2019 in the amount of \$29.87 million. There is no defeased debt related to the General Fee Revenue Bond Series 2009A and Student Housing Revenue Bond Series 2010A. The University leveraged the annual cash flow savings which resulted in a project fund deposit of \$4.4 million to be used on deferred building maintenance.

## 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 \$457,038 and \$408,904 for general liability for fiscal years 2019 and 2018, respectively.

The University also maintains a self-insured health plan. During 2019, the University paid \$25.25 and \$15.27 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 \$1,789,970 and \$1,720,070 for health insurance for 2019 and 2018, 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:

	2019	2018
Balance, beginning of year	\$ 2,092,524	\$ 1,945,014
Claims paid	(12,912,996)	(13,468,958)
Contributions and adjustments	12,891,634	13,616,468
Balance, end of year	<u>\$ 2,071,162</u>	<u>\$ 2,092,524</u>

## 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](http://www.rsa-al.gov).

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

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

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

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

The University's contractually required contribution

rate for the year ended September 30, 2019 was 12.41% of annual pay for Tier 1 members and 11.35% of annual pay for Tier 2 members. The University's contribution rate for the year ended September 30, 2018 was 12.24% of annual pay for Tier 1 members and 11.01% of annual pay for Tier 2 members.

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:

	<u>2019</u>	<u>2018</u>
University contributions	\$ 12,657,364	\$ 12,184,536
Employee contributions	7,351,676	7,238,969
Total contributions	<u>\$ 20,009,040</u>	<u>\$ 19,423,505</u>

	<u>2019</u>	<u>2019</u>	<u>2018</u>	<u>2018</u>
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 1</u>	<u>Tier 2</u>
University contribution regular rate	12.41%	11.35%	12.24%	11.01%
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 \$105.4 million during the year ended September 30, 2019 and \$102.2 million during 2018.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At September 30, 2019 and 2018, the financial statements of the University reflected a liability of \$150,951,000 and \$147,128,000 for its proportionate share of the collective net pension liability, as prescribed by GASB 68. For the 2019 reported amounts the collective net pension liability was measured as of September 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2017.

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, 2018 the University's proportion was 1.518226% which was an increase of 0.018217% from its proportion measured as of September 30, 2017.

For the year ended September 30, 2019, the University recognized pension expense of \$11.6 million. At September 30, 2019 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	\$ 3,257,000	\$ 4,598,000
Changes of assumptions	8,391,000	-
Net difference between projected and actual earnings on pension plan investments	-	11,394,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,955,000	3,634,000
Employer contributions subsequent to the measurement date	12,659,120	-
Total	<u>\$ 26,262,120</u>	<u>\$ 19,626,000</u>

For the year ended September 30, 2018, the University recognized pension expense of \$12.1 million. At September 30, 2018 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 6,321,000
Changes of assumptions	8,799,000	-
Net difference between projected and actual earnings on pension plan investments	-	8,815,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,921,000	5,715,000
Employer contributions subsequent to the measurement date	12,165,770	-
Total	<u>\$ 22,885,770</u>	<u>\$ 20,851,000</u>



\$12,659,120 of the amount reported as deferred outflows of resources resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2020. 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 ending September 30:		Inflation	2.75%
2020	\$37,000	Investment rate of return*	7.70%
2021	(\$3,623,000)	Projected salary increases	3.25% - 5.00%
2022	(\$2,987,000)		
2023	\$217,000	*Net of pension plan investment expense,	
2024	\$333,000	including inflation	
Thereafter	-		

The actuarial assumptions used in the September 30, 2017 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.

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:

The long-term expected rate of return on pension plan

	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 Equivalents	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 7.70%. 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 reflects the University's proportionate share of the net pension liability, as prescribed by GASB 68, and is calculated using the discount rate of 7.70%, 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 (6.70%) or 1-percentage-point higher (8.70%) than the current rate:

	<u>1% Decrease (6.0%)</u>	<u>Current Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
University's proportionate share of collective net pension liability (Dollar amounts in thousands)	\$210,125	\$150,951	\$100,898

**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, 2018. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2018. The auditor's report dated September 22, 2019 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, 2018 along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

#### Defined Contribution Plans

As previously noted, some employees participate in the optional TIAA-CREF and VALIC programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed

plus investment earnings. All regular full-time and regular part-time employees are eligible to participate from the date of employment. The University contributes a matching amount up to 5% of the employee's monthly contribution for regular, full-time exempt employees. The University's contribution is funded as it accrues and, along with that of employees, is immediately and fully vested. The contribution for fiscal years 2019 and 2018, excluding amounts not eligible for matching, are summarized as follows:

	<u>2019</u>	<u>2018</u>
University contributions	\$ 3,240,596	\$ 3,117,337
Employee contributions	6,371,715	6,038,625
Total contributions	<u>\$ 9,612,311</u>	<u>\$ 9,155,962</u>

The University's total salaries and wages subject to benefit plan participation for the years ended September 30, 2019 and 2018 are summarized in the table below:

	<u>2019</u>	<u>2018</u>
Total Salaries and Wages	\$ 124,504,350	\$ 119,844,093
Salaries and Wages of employees participating in:		
TRS	\$ 105,412,352	\$ 103,210,401
TIAA - CREF	\$ 66,585,538	\$ 69,176,292

### 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 \$4,829,058 and \$4,733,798 for fiscal years 2019 and 2018, 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. Plan description.* The Alabama Retired Education Employees' Health Care Trust (Trust) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health

Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Plan (PEEHIP). In accordance with GASB, the Trust is considered a component unit of the State of Alabama (State) and is included in the State's Comprehensive Annual Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975, Title 16, Chapter 25A* (Act 83-455) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees, and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Board. The Board is a corporate body for purposes of management of the health insurance plan.

The *Code of Alabama 1975, Section 16-25A-4* provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

**Benefits provided.** PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The

plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The MAPDP plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the United Healthcare plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

**Contributions.** The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, Section, 16-25A-8.1* provide the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25 subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree.

In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the Board. This reduction in the employer contribution ceases upon notification to the Board of the attainment of Medicare coverage.

*Outflows of Resources and Deferred Inflows of Resources Related to OPEB.* At September 30, 2019, the financial statements of the University reflected a liability of \$56.4 million for its proportionate share of the net OPEB liability, as prescribed by GASB 75. The net OPEB liability was measured as of September 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2018, the University's proportion was 0.687%, which was a decrease of 0.038% from its proportion measured as of September 30, 2017.

#### *OPEB Liabilities, OPEB Expense, and Deferred*

For the year ended September 30, 2019, the University recognized OPEB expense of \$4.6 million. At September 30, 2019 the System 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	\$ 1,062,394	\$ -
Changes of assumptions	-	2,748,635
Net difference between projected and actual earnings on OPEB plan investments	-	302,349
Changes in proportion and differences between Employer contributions and proportionate share of contributions	6,731,657	2,647,847
Employer contributions subsequent to the measurement date	1,753,547	-
Total	<u>\$ 9,547,598</u>	<u>\$ 5,698,831</u>

For the year ended September 30, 2018, the University recognized OPEB expense of \$1.2 million. At September 30, 2018 the System 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	\$ -	\$ -
Changes of assumptions	-	5,590,744
Net difference between projected and actual earnings on OPEB plan investments	-	286,676
Changes in proportion and differences between Employer contributions and proportionate share of contributions	8,323,066	-
Employer contributions subsequent to the measurement date	1,685,254	-
Total	<u>\$ 10,008,320</u>	<u>\$ 5,877,420</u>

\$1.8 million reported as deferred outflows of resources related to OPEB resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2020.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended September 30:

2020	\$476,499
2021	\$476,499
2022	\$476,499
2023	\$544,376
2024	\$123,231
Thereafter	(1,884)

*Actuarial assumptions.* The total OPEB liability was determined by an actuarial valuation as of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases <sup>1</sup>	3.25% - 5.00%
Long-Term Investment Rate of Return <sup>2</sup>	7.25%
Municipal Bond Index Rate at the Measurement Date	4.18%
Municipal Bond Index Rate at the Prior Measurement Date	3.57%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2029
Single Equivalent Interest Rate the Measurement Date	4.44%
Single Equivalent Interest Rate the Prior Measurement Date	4.63%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	7.00%
Medicare Eligible	5.00% beginning in 2019
Ultimate Trend Rate	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024

<sup>1</sup>Includes 3.00% wage inflation.

<sup>2</sup>Compounded annually, net of investment expense, and includes inflation.

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females. There were no ad hoc postemployment benefit changes, including ad hoc cost of living adjustments, during fiscal year 2018.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2017 valuation were based on a review of recent plan experience done concurrently with the September 30, 2017 valuation.

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return,

net of investment expense and inflation), as developed for each major asset class.

These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below.

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

\* Geometric mean, includes 2.5% inflation

**Discount rate.** The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2018 was 4.44%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.01%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately 27.08% of the employer contributions were used to assist in funding retiree benefit payments in 2016 and it is assumed that the amount will increase by 3.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money

before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2115. The long term rate of return is used until the assets are expected to be depleted in 2029, after which the municipal bond rate is used.

**Sensitivity of the University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.** The following table reflects the University's proportionate share of the net OPEB liability of the Trust, as prescribed by GASB 75, and is calculated using the current healthcare trend rate, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (6.00% decreasing to 3.75% for pre- Medicare, 4.00% decreasing to 3.75% for Medicare Eligible)</b>	<b>Current Healthcare Trend Rate (7.00% decreasing to 4.75% for pre- Medicare, 5.00% decreasing to 4.75% for Medicare Eligible)</b>	<b>1% Increase (8.00% decreasing to 5.75% for pre- Medicare, 6.00% decreasing to 5.75% for Medicare Eligible)</b>
Net OPEB Liability	\$ 46,386,290	\$ 56,429,447	\$ 69,215,786

The following table reflects the University's proportionate share of the net OPEB liability of the Trust, as prescribed by GASB 75, and is calculated using the discount rate of 4.44%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (3.44%)</b>	<b>Current Discount Rate (4.44%)</b>	<b>1% Increase (5.44%)</b>
Net OPEB Liability	\$ 67,409,242	\$ 56,429,447	\$ 47,572,664

**OPEB plan fiduciary net position.** Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2018. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2018. Additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).



## Note 11 – Federal Direct Student Loan Program

The Federal Direct Student Loan Program ("FDSLPL") was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLPL on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During the years ended September 30, 2019 and 2018, the University disbursed \$33,968,402 and \$32,696,156, respectively, under the FDSLPL.

## Note 12 – Grants and Contracts

As of September 30, 2019 and 2018, the University was awarded approximately \$83.4 million and \$79.8 million, respectively, in contracts and grants which have not been expended. These awards, which represent commitments of sponsors to provide funds for specific research, training, and service projects, have not been reflected in the financial statements.

## Note 13 – Operating Expenses by Function

Operating expenses by functional classification for the years ended September 2019 and 2018 are summarized as follows:

Year Ended September 30, 2019						
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 43,190,404	\$ 16,822,685	\$ 5,051,119	\$ -	\$ -	\$ 65,064,208
Research	46,554,063	15,659,357	17,868,733	-	-	80,082,153
Public service	3,181,535	1,197,833	2,982,873	-	-	7,362,241
Academic support	6,764,037	2,414,638	2,950,377	-	-	12,129,052
Student services	7,668,186	2,979,540	7,598,965	-	-	18,246,691
Institutional support	10,803,293	3,939,095	7,876,653	-	-	22,619,041
Operations and maintenance of plant	3,963,115	1,919,903	7,513,167	-	-	13,396,185
Scholarships and fellowships	-	-	-	-	3,474,084	3,474,084
Auxiliary enterprises	2,379,717	512,444	7,951,301	-	-	10,843,462
Depreciation	-	-	-	17,167,013	-	17,167,013
Total Operating Expenses	\$ 124,504,350	\$ 45,445,495	\$ 59,793,188	\$ 17,167,013	\$ 3,474,084	\$ 250,384,130

Year Ended September 30, 2018						
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 41,304,006	\$ 16,564,230	\$ 4,488,018	\$ -	\$ -	\$ 62,356,254
Research	44,828,892	15,327,433	12,921,562	-	-	73,077,887
Public service	2,534,255	996,623	3,035,321	-	-	6,566,199
Academic support	6,783,581	2,487,753	2,904,274	-	-	12,175,608
Student services	7,517,299	3,040,885	6,977,629	-	-	17,535,813
Institutional support	11,298,284	4,124,631	6,376,721	-	-	21,799,636
Operations and maintenance of plant	4,131,447	1,931,292	7,469,527	-	-	13,532,266
Scholarships and fellowships	-	-	-	-	3,332,226	3,332,226
Auxiliary enterprises	1,446,329	383,373	6,045,691	-	-	7,875,393
Depreciation	-	-	-	17,143,814	-	17,143,814
Total Operating Expenses	\$ 119,844,093	\$ 44,856,220	\$ 50,218,743	\$ 17,143,814	\$ 3,332,226	\$ 235,395,096



## Note 14 – Contingencies and Commitments

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

addition of Morton Hall. At September 30, 2019, the estimated remaining cost to complete this project was \$11.7 million and is expected to be funded from University bond proceeds.

## Note 15 - Segment Reporting

The University constructed Southeast Housing and issued bonds in 1980 and 1981. The bonds were payable from revenues received by the University for the use and occupancy of the facility. Condensed financial information of the University's segment as of September 30, 2019 and 2018 is as follows:

## Condensed Statements of Position

	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	2019	2018	2019	2018
<b>Assets</b>				
Current assets	\$ 187,263	\$ 182,878	\$ 160,184	\$ 156,860
Capital assets, net of accumulated depreciation	672,185	614,451	302,269	439,030
<b>Total assets</b>	<b>859,448</b>	<b>797,329</b>	<b>462,453</b>	<b>595,890</b>
<b>Liabilities</b>				
Current liabilities	2,075,421	1,741,980	3,420,916	2,578,975
Noncurrent liabilities	-	95,000	348,319	432,010
<b>Total liabilities</b>	<b>2,075,421</b>	<b>1,836,980</b>	<b>3,769,235</b>	<b>3,010,985</b>
<b>Net assets</b>				
Net investment in capital assets	577,185	429,451	116,269	148,030
Restricted				
Expendable	240,000	240,000	280,000	280,000
Unrestricted	(2,033,158)	(1,709,102)	(3,703,051)	(2,843,125)
<b>Total net position</b>	<b>(1,215,973)</b>	<b>(1,039,651)</b>	<b>(3,306,782)</b>	<b>(2,415,095)</b>
<b>Total liabilities and net position</b>	<b>\$ 859,448</b>	<b>\$ 797,329</b>	<b>\$ 462,453</b>	<b>\$ 595,890</b>

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

	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	2019	2018	2019	2018
Operating revenues	\$ 670,929	\$ 586,741	\$ 836,919	\$ 802,498
Operating expenses	(902,693)	(1,133,402)	(1,582,976)	(1,103,807)
Depreciation expense	(150,792)	(138,525)	(136,761)	(136,761)
<b>Operating loss</b>	<b>(382,556)</b>	<b>(685,186)</b>	<b>(882,818)</b>	<b>(438,070)</b>
Nonoperating expenses	(2,291)	1,422	(8,886)	(12,037)
Transfers from general funds	208,525	148,119	17	-
<b>Changes in net position</b>	<b>(176,322)</b>	<b>(535,645)</b>	<b>(891,687)</b>	<b>(450,107)</b>
<b>Net position, beginning of year</b>	<b>(1,039,651)</b>	<b>(504,006)</b>	<b>(2,415,095)</b>	<b>(1,964,988)</b>
<b>Net position, end of year</b>	<b>\$ (1,215,973)</b>	<b>\$ (1,039,651)</b>	<b>\$ (3,306,782)</b>	<b>\$ (2,415,095)</b>

## Condensed Statements of Cash Flows

	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	2019	2018	2019	2018
<b>Cash flows from</b>				
Operating activities	\$ (232,889)	\$ (539,785)	\$ (724,356)	\$ (286,641)
Capital and related financing activities	232,889	539,785	724,356	286,641
<b>Net increase (decrease) in cash</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash, beginning of year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Cash, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

## Note 16 – Recently Issued Pronouncements

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

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

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

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, in April 2018. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This statement is effective for reporting periods beginning after June 15, 2018. The University has determined there was no material impact from its adoption of GASB 88.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, in June 2018. The objectives

of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement is effective for reporting periods beginning after December 15, 2019. The University is evaluating whether there will be any material impact from its adoption of GASB 90.

The GASB issued Statement No. 90, *Majority Equity Interest - An Amendment of GASE Statements No. 14 and No. 61*, in August 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement is effective for reporting periods beginning after December 15, 2018. The University is evaluating whether there will be any material impact from its adoption of GASB 90.

The GASB issued Statement No. 91, *Conduit Debt Obligations*, in May 2019. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement is effective for reporting periods beginning after December 15, 2020. The University is evaluating whether there will be any material impact from its adoption of GASB 91.

## 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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Employer's proportion of the collective net pension liability	1.518226%	1.500009%	1.525333%	1.532529%	1.609851%
Employer's proportionate share of the collective net pension liability	\$150,951,000	\$147,428,000	\$165,132,000	\$160,390,000	\$146,248,000
Employer's covered payroll during measurement period	\$103,210,401	\$100,416,137	\$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	146.26%	146.82%	167.36%	163.67%	150.72%
Plan fiduciary net position as a percentage of the total collective pension liability	72.29%	71.50%	67.93%	67.51%	71.01%

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$12,186,202	\$12,184,536	\$11,711,569	\$11,474,249	\$11,311,261
Contributions in relation to the contractually required contribution	(\$12,186,202)	(\$12,184,536)	(\$11,711,569)	(\$11,474,249)	(\$11,311,261)
Contribution deficiency (excess)	-	-	-	-	-
University's covered payroll	\$105,412,352	\$102,231,521	\$100,416,137	\$98,670,645	\$97,998,750
Contributions as a percentage of covered payroll	11.56%	11.92%	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 2019, the measurement period is October 1, 2017 - September 30, 2018.

Measurement period: For fiscal year 2018, the measurement period is October 1, 2016 - September 30, 2017.

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

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

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

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

	<u>2019</u>	<u>2018</u>
Employer's proportion of the net OPEB liability	0.686596%	0.724951%
Employer's proportionate share of the net OPEB liability	\$56,429,447	\$53,845,219
Employer's covered payroll during measurement period	\$103,210,401	\$100,416,137
Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll	54.67%	53.62%
Plan fiduciary net position as a percentage of the total OPEB liability	14.81%	15.37%

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

	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$1,753,547	\$1,685,254
Contributions in relation to the contractually required contribution	(\$1,753,547)	(\$1,685,254)
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
University's covered-employee payroll	\$105,412,352	\$102,231,521
Contributions as a percentage of covered-employee payroll	1.66%	1.65%

## THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA

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