The UAB Educational Foundation

Consolidated Financial Statements
Year Ended June 30, 2016 and
Nine Months Ended June 30, 2015

The UAB Educational Foundation
Index
Year Ended June 30, 2016 and Nine Months Ended June 30, 2015

Report of Independent Auditors

The Board of Directors
The UAB Educational Foundation

We have audited the accompanying consolidated financial statements of the UAB Educational Foundation and its subsidiaries (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2016 and June 30, 2015 and the related consolidated statements of activities and changes in net assets and of cash flows for the year ended June 30, 2016 and nine months ended June 30, 2015.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the UAB Educational Foundation and its subsidiaries as of June 30, 2016 and June 30, 2015, and the results of their operations and their cash flows for the year ended June 30, 2016 and the nine months ended June 30, 2015 in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1 to the financial statements, as of June 30, 2015 the Foundation changed its fiscal year-end from September 30 to June 30. Our opinion is not modified with respect to this matter.

PricewaterhouseCoopers LLP

November 7, 2016

The UAB Educational Foundation
Consolidated Statements of Financial Position
June 30, 2016 and June 30, 2015

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	$ 4,285,495	$ 4,341,098
Investments	9,940,627	11,105,276
Accounts receivable	306,909	644,143
Prepaid assets	70,230	73,280
Current portion of notes receivable	6,000	6,000
Total current assets	14,609,261	16,169,797
Noncurrent assets		
Fixed assets, net	35,698,407	35,192,236
Investment in limited liability company	1,961,794	1,763,609
Note receivable from affiliate	1,000,000	-
Other note receivable	123,000	129,000
Beneficial interest in charitable trusts held by others	275,750	238,364
Other assets	487,002	283,889
Total noncurrent assets	39,545,953	37,607,098
Total assets	$ 54,155,214	$ 53,776,895
Liabilities and Net assets		
Current liabilities		
Accounts payable and accrued liabilities	$ 969,642	$ 729,271
Current gift annuity liability	52,179	46,104
Current portion of debt	648,310	618,075
Total current liabilities	1,670,131	1,393,450
Noncurrent liabilities		
Long-term debt	14,050,019	14,964,905
Long-term gift annuity liability	358,894	224,053
Deferred tax liability	136,300	160,319
Total noncurrent liabilities	14,545,213	15,349,277
Total liabilities	16,215,344	16,742,727
Net assets		
Unrestricted	32,874,315	31,852,016
Temporarily restricted	5,014,310	5,127,378
Permanently restricted	51,245	54,774
Total net assets	37,939,870	37,034,168
Total liabilities and net assets	$ 54,155,214	$ 53,776,895

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

The UAB Educational Foundation
Consolidated Statements of Activities and Changes in Net Assets
Year Ended June 30, 2016 and Nine Months Ended June 30, 2015

	2016	2015
Changes in unrestricted net assets		
Revenues and gains (losses)		
Donation revenue	$ 795,587	$ 321,436
Rental income	6,296,865	4,553,238
Interest and dividends	199,110	185,788
Realized and unrealized investment gains (losses)	104,018	(9,663)
Total revenues and gains	7,395,580	5,050,799
Net assets released from satisfaction of program restrictions	3,605,412	2,911,636
Total unrestricted revenues, gains, and other support	11,000,992	7,962,435
Expenses and other losses		
Program activities		
General university support	2,294,405	1,111,035
Hospital/Health System support	692,475	512,183
Academic and scholarship support	1,370,192	547,716
UAB Athletics support	1,045,247	1,186,433
Fundraising and development support	231,696	226,380
Property contributed to the University	-	6,019
Total program activities	5,634,015	3,589,766
General and administrative expenses	346,773	290,104
Rental property expenses		
Rental property depreciation	1,280,280	899,542
Rental property interest	439,052	348,661
Other rental property expenses	2,278,573	1,436,918
Total rental property expenses	3,997,905	2,685,121
Total expenses and other losses	9,978,693	6,564,991
Increase in unrestricted net assets	1,022,299	1,397,444
Changes in temporarily restricted net assets		
Donation revenue	3,001,543	2,119,273
Vending revenue	555,548	427,796
Interest and dividends	86,955	75,698
Realized and unrealized investment losses	(110,786)	(72,607)
Changes in the value of split-interest agreements	(40,916)	3,093
Net assets released from restrictions	(3,605,412)	(2,911,636)
Decrease in temporarily restricted net assets	(113,068)	(358,383)
Changes in permanently restricted net assets		
Realized and unrealized investment losses	(3,529)	(1,598)
Decrease in permanently restricted net assets	(3,529)	(1,598)
Increase in net assets	905,702	1,037,463
Net assets		
Beginning of period	37,034,168	35,996,705
End of period	$ 37,939,870	$ 37,034,168

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

The UAB Educational Foundation
Consolidated Statements of Cash Flows
Year Ended June 30, 2016 and Nine Months Ended June 30, 2015

	2016	2015
Cash flows from operating activities		
Cash received from donors	$ 3,287,683	$ 2,414,306
Cash received from tenants	2,859,363	1,928,026
Cash received from other service recipients	3,971,104	2,920,592
Cash paid for grants and other university support	(5,637,804)	(3,898,140)
Cash paid to suppliers	(2,272,049)	(1,551,329)
Cash (paid) received for income taxes	277,773	(159,398)
Cash paid for interest	(440,230)	(452,191)
Interest & dividends received	443,605	269,027
Net cash provided by operating activities	2,489,445	1,470,893
Cash flows from investing activities		
Purchases of investments	(751,000)	(120,906)
Proceeds from sale of investments	1,514,607	3,961,603
Capital expenditures	(1,430,004)	(4,212,150)
Issuance of notes receivable to affiliate	(1,000,000)	-
Proceeds from repayment of other note receivable	6,000	3,000
Net cash used in investing activities	(1,660,397)	(368,453)
Cash flows from financing activities		
Principal payments on debt	(884,651)	(615,822)
Net cash used in financing activities	(884,651)	(615,822)
Net (decrease) increase in cash and cash equivalents	(55,603)	486,618
Cash		
Beginning of year	4,341,098	3,854,480
End of year	$ 4,285,495	$ 4,341,098

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

The UAB Educational Foundation
Consolidated Statements of Cash Flows
Year Ended June 30, 2016 and Nine Months Ended June 30, 2015

	2016	2015
Reconciliation of change in net assets to net cash provided by operating activities		
Change in net assets	$ 905,702	$ 1,037,463
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	1,283,772	903,077
Property contributed to the University	-	6,019
Realized and unrealized investment losses, net	351,043	194,895
In-kind donation revenue	(493,900)	(12,037)
(Gain) Loss on disposal of fixed assets	(37,964)	889
Earnings from investment in LLC	(302,784)	(111,029)
Distributions from LLC	154,598	6,412
Changes in operating assets and liabilities		
Accounts receivable	337,234	(341,796)
Prepaid assets	3,049	7,333
Other assets	(45,840)	23,176
Accounts payable and accrued liabilities	217,637	(387,078)
Gift annuity liability	140,916	(16,750)
Deferred tax liability	(24,018)	160,319
Net cash provided by operating activities	$ 2,489,445	$ 1,470,893

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

1. Summary of Significant Accounting Policies

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

The Foundation has an agreement with UAB whereby it will make annual expenditures of not less than $50,000 for the benefit of UAB. This requirement has been met each previous year, including the year ended June 30, 2016.

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

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

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

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

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

Subsequent events have been evaluated through November 7, 2016, which represents the date that these financials were available to be issued.

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

- Changed the fiscal year-end of the Foundation from September 30th to June 30th.

- Changed the number of directors from 13 to a maximum of 20.

- Reduction of the number of ex officio directors from 5 to 3.

- Established an Audit Committee, which must meet to review and approve the annual audited financial statements no later than 90 days following the end of the fiscal year.

- Extended the deadline for the annual board meeting from 90 days to 120 days following the end of the fiscal year.

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

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

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

Investments

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

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

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

Investment in Limited Liability Company

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

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

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

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

Other Note Receivable

The Foundation received several private donations to aid the victims of the April 27, 2011 tornadoes in Alabama. A portion of these funds were restricted to aiding victims in the form of loans and the remaining amount for grants. During 2012, the Foundation loaned $150,000 to Greater Birmingham Habitat for Humanity for a term of 25 years, payable in semiannual installments of $3,000. This loan is noninterest bearing. The balance of the note receivable as of June 30, 2016 and 2015 was $129,000 and $135,000 respectively.

Note Receivable from Affiliate

In conjunction with the establishment of the INTO UAB, LLC joint venture, the Foundation issued a promissory note to provide member loans to the LLC in an amount not to exceed $4 million, bearing an interest rate of 4%. Principal and interest payments will be made until paid in full before any profit distributions are made to the LLC members. As of June 30, 2016, the Foundation had loaned the LLC $1,000,000, all of which was still outstanding. Accrued interest receivable related to this note was $11,068 and is included in accounts receivable within the accompanying consolidated statements of financial position as of June 30, 2016.

Property and Equipment

Property and equipment of the Foundation is recorded at cost at the date of acquisition or, in the case of donated property, at fair value at the date of donation. Depreciation of buildings, leasehold improvements, and equipment is provided on a straight–line basis over the estimated useful lives of the assets, ranging from 5 to 39 years. Depreciation expense for the year ended June 30, 2016 and for the nine months ended June 30, 2015 was $1,283,772 and $903,077, respectively.

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

Gift Annuities

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

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

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) and is an organization described in Section 170(c)(2) of the United States Internal Revenue Code (not a private foundation). However, certain of the Foundation’s activities are considered by the Internal Revenue Service to provide unrelated business income and, accordingly, these activities are subject to federal income tax. In addition, Medical Towers, Inc. (Medical Towers) is not exempt from income taxes and files separate returns (Note 9). The Foundation’s income tax (benefit) expense totaled $211,271 and $(40,845) for the year ended June 30, 2016 and for the nine months ended June 30, 2015, respectively. Accrued income taxes (receivable) payable of $206,259 and $(306,803) are included in accounts receivable and accounts payable and accrued liabilities within the accompanying consolidated statements of financial position as of June 30, 2016 and 2015, respectively.

Risks and Uncertainties

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

Concentration of Credit Risk

The UAB Health System, a related party, has agreed to allocate funds annually to the Foundation and various temporarily restricted funds held by the Foundation. These allocations are determined annually and paid monthly to the Foundation. They are recorded in the statement of activities and changes in net assets as unrestricted and temporarily restricted contributions. The following is a summary of these contributions and their corresponding percentage of overall revenue for the year ended June 30, 2016 and for the nine months ended June 30, 2015:

	2016		2015	
	Contributions	Percentage of Overall Revenue	Contributions	Percentage of Overall Revenue
Unrestricted contributions	$ 425,591	4%	$ 413,435	5%
Temporary restricted contributions	2,646,409	24%	1,890,565	25%
Combined total for all funds	$ 3,072,000	28%	$ 2,304,000	30%

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Revisions to Authoritative Guidance

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, Presentation of Financial Statements for Not-for-Profit Entities (the "ASU") which makes targeted improvements to the not-for-profit (NFP) financial reporting model. The new ASU marks the completion of the first phase of a larger project aimed at improving not-for-profit financial reporting. The ASU is effective for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. The Foundation is evaluating whether there will be any material impact from its adoption of ASU 2016-14.

2. Investments

The following is a summary of investments held by the Foundation as of June 30, 2016 and 2015:

	2016		2015	
	Cost or Amortized Cost	Reported Value	Cost or Amortized Cost	Reported Value
University of Alabama System Funds				
Short Term Liquidity Pool Fund	$ 3,991,497	$ 3,837,827	$ 5,158,497	$ 5,007,590
Long Term Reserve Pool Fund	2,719,162	2,843,716	2,357,162	2,649,999
Pooled Endowment Fund	2,251,302	2,230,018	2,334,302	2,425,007
The UAB School of Business Green and Gold Fund	228,909	525,045	254,516	548,776
Charitable Gift Annuity Fund Investment	599,498	504,021	499,498	446,305
San Diego Foundation investment	-	-	22,131	27,599
	$ 9,790,368	$ 9,940,627	$ 10,626,106	$ 11,105,276

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

3. Fair Value Measurements

United States generally accepted accounting principles require the entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value of financial assets and liabilities. The guidance establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

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

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability; Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

The following table sets forth, by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2016 and 2015:

	Assets at Fair Value as of June 30, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment in the UAB School of Business Green and Gold Fund				
Cash, money funds, and FDIC deposits	$ 63,249	$ -	$ -	$ 63,249
Fixed income	10,352	-	-	10,352
Equities	185,481	-	-	185,481
Mutual funds	27,268	-	-	27,268
Exchange-traded products	238,695	-	-	238,695
Charitable Gift Annuity Fund Investment		-	-	
Cash, money funds, and FDIC deposits	21,470	-	-	21,470
Fixed income	271,698	-	-	271,698
Mutual funds	122,713	-	-	122,713
Exchange-traded products	88,140	-	-	88,140
	$ 1,029,066	$ -	$ -	$ 1,029,066

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

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended June 30, 2016 and for the nine months ended June 30, 2015:

	Level 3 Assets
Balance at September 30, 2014	$ 28,179
Unrealized loss on investment	(580)
Balance at June 30, 2015	27,599
Unrealized loss on investment	(27,599)
Balance at June 30, 2016	$ -

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used in 2016 or 2015.

Cash, Money Fund, and FDIC Deposits
Valued at quoted market prices for securities traded on an active exchange.

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

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

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

Exchange-Traded Products
Valued at quoted market prices for securities traded on an active exchange.

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

4. Investment in Limited Liability Company

During fiscal 1997, the Foundation purchased a 1% share of all outstanding membership units of Triton Health Systems, L.L.C. (Triton), for $800 from UAB. UAB and the Foundation are the sole members of Triton. Triton was formed in 1995 to advance the educational and research mission of UAB and to educate and train physicians and other healthcare professionals. The Foundation's equity position was $1,911,794 and $1,763,609 per Triton's audited financial statements as of December 31, 2015 and December 31, 2014, respectively. Earnings on the investment were $302,784 and $111,029 and are included in changes in unrestricted net assets under realized and unrealized investment (losses) gains, within the accompanying consolidated statements of activities and changes in net assets for the year ended June 30, 2016 and for the nine months ended June 30, 2015, respectively.

5. The UAB Diabetes Trust Foundation

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

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

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

The irrevocable remainder trust for which the UABDTF is one of several beneficiaries distributes net income to the surviving spouse of the donor until her death, after which the UABDTF will receive 47 ½% of the trust assets for its remainder interest. Fair market value is the basis for the valuation of the UABDTF's remainder interest, which was $275,750 and $238,364 as of June 30, 2016 and 2015, respectively, and presented as a beneficial interest in charitable trusts held by others within the accompanying consolidated statements of financial position.

6. Property and Equipment

Property and equipment were as follows as of June 30, 2016 and 2015:

	2016	2015
Land	$ 10,238,339	$ 9,113,844
Buildings and leasehold improvements	32,699,385	32,198,956
Equipment	10,229,849	10,066,660
	53,167,573	51,379,460
Less: Accumulated depreciation	(17,469,166)	(16,187,224)
Total property and equipment, net	$ 35,698,407	$ 35,192,236

7. Description of Leasing Arrangements

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

The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes for as of June 30, 2016 and 2015:

	2016	2015
Buildings and leasehold improvements	$ 21,792,411	$ 21,121,614
Land	10,238,339	9,113,844
	32,030,750	30,235,458
Less: Accumulated depreciation	(10,935,311)	(10,294,459)
Total property and equipment, net	$ 21,095,439	$ 19,940,999

8. Fourth Avenue Parking Deck

The results of operations of the Fourth Avenue Parking Deck for the year ended June 30, 2016 and for the nine months ended June 30, 2015, which are included in the accompanying statements of activities and changes in net assets, are summarized as follows:

	2016	2015
Rental and other income, gross	$ 3,348,514	$ 2,451,381
Rental property expenses		
Interest	390,739	302,268
Depreciation	639,429	461,423
Management fees	12,000	9,000
Utilities	145,189	118,599
Overhead allocation	53,000	55,000
Operating	498,529	392,374
Other	303,918	231,654
Total expenses	2,042,804	1,570,318
Net income	1,305,710	881,063

9. Medical Towers, Inc.

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

A substantial portion of the office space in Towers' building is leased to UAB. The results of operations of Towers for the year ended June 30, 2016 and for the nine months ended June 30, 2015, which are included in the accompanying statements of activities and changes in net assets, are summarized as follows:

	2016	2015
Rental income, gross	$ 1,729,040	$ 1,303,433
Rental property expenses		
Interest	84,029	72,713
Depreciation	306,053	212,084
Maintenance and cleaning	474,317	282,816
Utilities	253,054	193,825
Overhead allocation	68,000	70,000
Income tax (benefit) expense	211,271	(40,845)
Other	119,385	113,458
Total expenses	1,516,109	904,051
Net income	212,931	399,382

10. Other Properties

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

11. Debt

Debt consists of the following as of year ended June 30, 2016 and 2015:

	2016	2015
Revenue Bond, the UAB Educational Foundation Project, due serially through 2032	$ 13,893,600	$ 14,403,600
Compass Bank - $2,000,000 nonrevolving line of credit to Medical Towers, Inc.	804,729	1,179,380
	$ 14,698,329	$ 15,582,980

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

As additional security for the payment of the Bonds, the Foundation entered into a Bond Guaranty Agreement (the Guaranty) with Regions Bank dated September 30, 2009, whereby the Foundation guaranteed payment when due of debt service on the 2009 Bond and the purchase price of the bonds tendered for purchase under the trust indenture. The Guaranty on the 2009 Bond contained a “put” option where Regions Bank could have tendered the 2009 Bond for purchase on October 1, 2014, effectively giving the Guaranty a five-year term. In anticipation of this, on February 20, 2014 the Foundation refinanced these bonds (2014 Bond) with Regions Capital Advantage, retaining essentially the same structure as the 2009 Bonds except the rate is now fixed at 2.77% and the put option date is December 1, 2023. Accrued interest related to the bonds was $32,071 and $33,248 as June 30, 2016 and 2015, respectively. The 2014 Bond matures serially through December 1, 2032, in annual installments ranging from $410,000 to $1,178,600.

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

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

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

	Parking Deck Bonds Principal	Medical Towers Loan Payable Principal	Total
2017	$ 535,000	$ 113,310	$ 648,310
2018	565,000	691,419	1,256,419
2019	590,000	-	590,000
2020	625,000	-	625,000
Thereafter	11,578,600	-	11,578,600
	$ 13,893,600	$ 804,729	$ 14,698,329

12. Net Assets Released from Restrictions

Net assets were released from donor restrictions during the year ended June 30, 2016 and nine months ended June 30, 2015 by incurring expenses and/or due to the passage of time, satisfying the restricted purposes specified by donors as follows:

	2016	2015
Purpose restrictions accomplished	$ 3,605,412	$ 2,911,636
Total restrictions released	$ 3,605,412	$ 2,911,636

13. Temporarily Restricted and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

Common Fund

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

University/Hospital Funds

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

Charitable Gift Annuity Program

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

Athletics Support Funds

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

UAB Tornado Relief Fund

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

Permanently Restricted Net Assets

Newsome Fund

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

Total net assets consisted of the following as of June 30, 2016 and 2015:

	2016			
	Unrestricted	**Temporary Restricted**	**Permanently Restricted**	**Total**
Net assets				
Unrestricted				
Designated	$ 75,000	$ -	$ -	$ 75,000
Unappropriated	32,799,315	-	-	32,799,315
Temporarily restricted				
Common fund	-	2,745,299	-	2,745,299
University/Hospital funds	-	1,905,295	-	1,905,295
Charitable gift annuity program	-	92,948	-	92,948
Athletics support funds	-	141,768	-	141,768
UAB Tornado relief fund	-	129,000	-	129,000
Permanently restricted to investment				
Newsome fund	-	-	51,245	51,245
Total net assets	$ 32,874,315	$ 5,014,310	$ 51,245	$ 37,939,870

	2015			
	Unrestricted	Temporary Restricted	Permanently Restricted	Total
Net assets				
Unrestricted				
Designated	$ 75,000	$ -	$ -	$ 75,000
Unappropriated	31,777,016	-	-	31,777,016
Temporarily restricted				
Common fund	-	2,955,323	-	2,955,323
University/Hospital funds	-	2,236,931	-	2,236,931
Charitable gift annuity program	-	176,149	-	176,149
Athletics support funds	-	(379,025)	-	(379,025)
UAB Tornado relief fund	-	138,000	-	138,000
Permanently restricted to investment				
Newsome fund	-	-	54,774	54,774
Total net assets	$ 31,852,016	$ 5,127,378	$ 54,774	$ 37,034,168

14. Subsequent Events

On August 17, 2016, the Foundation's Board of Directors approved the creation of a wholly-owned subsidiary, Campus Hospitality Services, LLC, for the purpose of acquiring the Doubletree Hotel located at 808 20th Street South. The Board also approved a guaranty of the debt of the LLC, up to $26 million, for the purpose of acquiring the property, renovating and converting the hotel to a Hilton.