The UAB Educational Foundation

Consolidated Financial Statements
June 30, 2017 and 2016

The UAB Educational Foundation
Index
June 30, 2017 and 2016

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, 2017 and 2016 and the related consolidated statements of activities and changes in net assets and of cash flows for the years ended.

Management's Responsibility for the Consolidated Financial Statements

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

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, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

Birmingham, Alabama
November 29, 2017

The UAB Educational Foundation
Consolidated Statements of Financial Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 9,897,100	$ 4,285,495
Investments	9,998,499	9,940,627
Accounts receivable	2,036,530	306,909
Inventory	21,984	-
Prepaid assets	99,176	70,230
Current portion of notes receivable	6,000	6,000
Total current assets	22,059,289	14,609,261
Noncurrent assets		
Fixed assets, net	41,450,260	35,698,407
Investment in limited liability company	2,140,047	1,961,794
Note receivable from affiliate	2,100,000	1,000,000
Other note receivable	295,755	123,000
Beneficial interest in charitable trusts held by others	-	275,750
Other assets	1,493,247	487,002
Total noncurrent assets	47,479,309	39,545,953
Total assets	$ 69,538,598	$ 54,155,214
Liabilities and Net assets		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,089,230	$ 969,642
Current gift annuity liability	52,179	52,179
Current portion of debt	1,020,897	648,310
Total current liabilities	3,162,306	1,670,131
Noncurrent liabilities		
Long-term debt	25,749,351	14,050,019
Long-term gift annuity liability	338,062	358,894
Deferred tax liability	99,082	136,300
Total noncurrent liabilities	26,186,495	14,545,213
Total liabilities	29,348,801	16,215,344
Net assets		
Without donor restrictions	35,719,261	32,874,315
With donor restrictions	4,470,536	5,065,555
Total net assets	40,189,797	37,939,870
Total liabilities and net assets	$ 69,538,598	$ 54,155,214

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

The UAB Educational Foundation
Consolidated Statements of Activities and Changes in Net Assets
Years Ended June 30, 2017 and 2016

	2017	2016
Changes in net assets without donor restrictions		
Revenues and gains and other support		
Donation revenue	$ 1,771,348	$ 795,587
Income from the operation of:		
4th Avenue Parking Deck	3,320,255	3,345,570
Doubletree Birmingham	5,872,180	-
Medical Towers	1,691,637	1,717,972
Other rental properties	1,063,322	1,219,310
Interest and dividends	237,119	213,123
Realized and unrealized investment gains	505,234	104,018
Total revenues and gains without donor restrictions	14,461,095	7,395,580
Net assets released from satisfaction of program restrictions	3,860,468	3,605,412
Total revenues, gains, and other support without donor restrictions	18,321,563	11,000,992
Expenses and other losses		
Program activities		
General university support	2,141,351	2,294,405
Hospital/Health System support	727,440	692,475
Academic and scholarship support	1,665,958	1,370,192
UAB Athletics support	439,353	1,045,247
Fundraising and development support	213,058	231,696
Total program activities	5,187,160	5,634,015
Other activities		
General and administrative expenses	360,817	343,282
Expenses related to the operation of:		
4th Avenue Parking Deck	1,001,391	959,636
Doubletree Birmingham	5,304,372	-
Medical Towers	970,084	1,058,027
Other rental properties	252,255	260,909
Depreciation expense	1,620,382	1,283,772
Interest expense	780,154	439,052
Total expenses and other losses	15,476,615	9,978,693
Increase in net assets without donor restrictions	2,844,948	1,022,299
Changes in net assets with donor restrictions		
Donation revenue	2,479,669	3,001,543
Vending revenue	592,598	555,549
Interest and dividends	86,194	86,952
Realized and unrealized investment gains (losses)	86,154	(114,313)
Changes in the value of split-interest agreements	20,832	(40,916)
Net assets released from satisfaction of program restrictions	(3,860,468)	(3,605,412)
Decrease in net assets with donor restrictions	(595,021)	(116,597)
Increase in net assets	2,249,927	905,702
Net assets		
Beginning of year	37,939,870	37,034,168
End of year	$ 40,189,797	$ 37,939,870

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

The UAB Educational Foundation
Consolidated Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Cash received from donors	$ 3,466,768	$ 3,287,683
Cash received from tenants	2,667,511	2,859,363
Cash received from other service recipients	9,286,641	3,971,104
Cash paid for grants and other university support	(5,174,580)	(5,637,804)
Cash paid to suppliers	(7,357,810)	(2,272,049)
Cash (paid) received for income taxes	(150,976)	277,773
Cash paid for interest	(781,389)	(440,230)
Interest & dividends received	391,055	443,605
Net cash provided by operating activities	2,347,220	2,489,445
Cash flows from investing activities		
Purchases of investments	(1,040,000)	(751,000)
Proceeds from sale of investments	1,269,000	1,514,607
Capital expenditures	(713,820)	(1,430,004)
Acquisition of Doubletree Birmingham, net of cash and cash equivalents	(6,924,958)	-
Franchise fee paid to Hilton	(125,000)	-
Issuance of notes receivable to affiliate	(1,100,000)	(1,000,000)
Issuance of other note receivable	(238,340)	-
Proceeds from repayment of other note receivable	65,585	6,000
Net cash used in investing activities	(8,807,533)	(1,660,397)
Cash flows from financing activities		
Proceeds from the issuance of long-term debt	13,000,000	-
Principal payments on debt	(928,082)	(884,651)
Net cash provided by (used in) financing activities	12,071,918	(884,651)
Net increase (decrease) in cash and cash equivalents	5,611,605	(55,603)
Cash		
Beginning of year	4,285,495	4,341,098
End of year	$ 9,897,100	$ 4,285,495

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, 2017.

Principles of Consolidation and Basis of Presentation

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

Net Assets Without Donor Restrictions

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

Net Assets With Donor Restrictions

Net assets with donor restrictions generally result from contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those stipulations. These amounts are reclassified to net assets without donor restrictions when such restrictions are met or have expired.

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

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

Subsequent events have been evaluated through November 29, 2017, which represents the date that these financials were available to be issued.

Cash and Cash Equivalents

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

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 assets with and without donor restrictions. Contributions for which donors have not stipulated restrictions are reported as donation revenue without donor restrictions. Contributions for which donors have imposed restrictions that limit the use of the donated assets are reported as donation revenue with donor restrictions if the restrictions are not met in the same reporting period that the gift is reported. When such donor-imposed restrictions are met in subsequent reporting periods, donor-restricted net assets are reclassified to net assets without donor restrictions and reported as net assets released from restrictions when the purpose or time restrictions are met. Contributions of assets which donors have stipulated must be maintained in perpetuity, with only the income earned thereon available for use, are also classified as assets with donor restrictions.

Unconditional promises to give with payments due in future periods are reported as donor-restricted support, and are reported at their estimated fair value at the date of gift in the accompanying consolidated statement of financial position. Gifts of land, buildings, and equipment are reported as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor-restricted support. Absent explicit donor stipulation, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Investments

The University of Alabama System Short Term Liquidity Pool Fund, Long Term Reserve Pool, and Pooled Endowment Funds (collectively the UAS Funds), investment pools sponsored by the University of Alabama System (the System), hold certain investment assets for the beneficial interest of the Foundation. Since the Foundation is organized for the 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 and are presented net of any investment-related expenses.

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

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, 2017 and 2016 was $123,000 and $129,000 respectively.

Note Receivable from Affiliate
In conjunction with the establishment of the INTO UAB, LLC joint venture, the Foundation issued a promissory note to provide member loans to the LLC in an amount not to exceed $4 million, bearing an interest rate of 4%. Principal and interest payments will be made until paid in full before any profit distributions are made to the LLC members. The balance of the note receivable, all of which was still outstanding, was $2,100,000 and $1,000,000 at June 30, 2017 and 2016, respectively. Accrued interest receivable related to this note was $69,589 and $11,068 as of June 30, 2017 and 2016, respectively, and is included in accounts receivable within the accompanying consolidated statements of financial position.

Property and Equipment
Property and equipment of the Foundation is recorded at cost at the date of acquisition or, in the case of donated property, at fair value at the date of donation. Depreciation of buildings, leasehold improvements, and equipment is provided on a straight–line basis over the estimated useful lives of the assets, ranging from 5 to 39 years. Depreciation expense for the years ended June 30, 2017 and 2016 was $1,620,382 and $1,283,772, respectively.

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

Gift Annuities

The Foundation enters into agreements in which donors contribute to UAB via the Foundation in the form of charitable gift annuities. Under these agreements, the Foundation acts as a trustee and has the duty to hold and manage the assets for the benefit of UAB. An annuity is to be paid to the donor or their designee for a specified period of time. The assets received for an annuity are recorded by the Foundation at fair value at the date of the gift. The liabilities to the annuitants are recorded at the present value of expected future annuity payments. These liabilities are calculated using assumptions from the 2012 IAR mortality table. The difference between the asset and liability value is recorded as contribution revenue in the year the asset is received.

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

The following is a summary of these assets and their related liabilities for the years ended June 30, 2017 and 2016:

	2017	**2016**
Charitable Gift Annuities		
Total assets	$ 487,459	$ 504,021
Total liabilities	390,241	411,073

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) and is an organization described in Section 170(c)(2) of the United States Internal Revenue Code. However, certain of the Foundation's activities are considered by the Internal Revenue Service to provide unrelated business income and, accordingly, these activities are subject to federal income tax. In addition, Medical Towers, Inc. and Campus Hospitality Services, LLC are not exempt from income taxes and file separate tax returns (Notes 10 and 11). The Foundation's income tax expense totaled $121,161 and $211,271 for the years ended June 30, 2017 and 2016, respectively. Accrued income taxes (receivable) payable of $(15,963) and $206,259 are included in accounts receivable and accounts payable and accrued liabilities within the accompanying consolidated statements of financial position as of June 30, 2017 and 2016, respectively.

Allocation of Expenses

The table below presents expenses by both their nature and their function for years ended June 30, 2017 and 2016:

	Program Activities					Other Activities		
2017	**General University**	**Hospital/ Health System**	**Academic/ Scholarship**	**Athletics**	**Fundraising/ Development**	**Management & General**	**Rental & Other Prop.**	**Total Expenses**
Contributions in support of UAB	$ 2,137,251	$ 725,590	$ 1,631,566	$ 439,353	$ 212,558	$ -	$ -	$ 5,146,318
Salaries, wages & benefits	-	-	-	-	-	273,257	2,004,385	2,277,642
Depreciation	-	-	-	-	-	-	1,620,382	1,620,382
Other operating expenses	-	-	-	-	-	-	1,013,753	1,013,753
Repairs & maintenance	-	-	-	-	-	-	911,700	911,700
Utilities	-	-	-	-	-	-	903,659	903,659
Interest expense	-	-	-	-	-	-	780,155	780,155
Marketing	-	-	-	-	-	-	489,008	489,008
Other administration & general	1,500	1,000	1,500	-	500	34,245	447,644	486,389
Professional & management fees	2,600	850	32,892	-	-	47,473	282,725	366,540
Income and other taxes	-	-	-	-	-	(69)	307,527	307,458
Security	-	-	-	-	-	-	295,768	295,768
Franchise fees	-	-	-	-	-	-	240,863	240,863
Bank & Credit card fees	-	-	-	-	-	5,911	224,275	230,186
Cost of sales	-	-	-	-	-	-	221,424	221,424
Insurance	-	-	-	-	-	-	185,370	185,370
Total expenses	$ 2,141,351	$ 727,440	$ 1,665,958	$ 439,353	$ 213,058	$ 360,817	$ 9,928,638	$ 15,476,615

	Program Activities					Other Activities		
2016	**General University**	**Hospital/ Health System**	**Academic/ Scholarship**	**Athletics**	**Fundraising/ Development**	**Management & General**	**Rental & Other Prop.**	**Total Expenses**
Contributions in support of UAB	$ 2,290,305	$ 690,625	$ 1,367,842	$ 1,045,247	$ 231,196	$ -	$ -	$ 5,625,215
Salaries, wages & benefits	-	-	-	-	-	259,818	192,945	452,763
Depreciation	-	-	-	-	-	-	1,283,772	1,283,772
Other operating expenses	-	-	-	-	-	-	115,320	115,320
Repairs & maintenance	-	-	-	-	-	-	750,517	750,517
Utilities	-	-	-	-	-	-	446,677	446,677
Interest expense	-	-	-	-	-	-	439,052	439,052
Marketing	-	-	-	-	-	-	-	-
Other administration & general	1,500	1,000	1,500	-	500	33,695	22,013	60,208
Professional & management fees	2,600	850	850	-	-	42,500	44,723	91,523
Income and other taxes	-	-	-	-	-	75	298,698	298,773
Security	-	-	-	-	-	-	225,959	225,959
Franchise fees	-	-	-	-	-	-	-	-
Bank & Credit card fees	-	-	-	-	-	7,194	64,628	71,822
Cost of sales	-	-	-	-	-	-	-	-
Insurance	-	-	-	-	-	-	117,092	117,092
Total expenses	$ 2,294,405	$ 692,475	$ 1,370,192	$ 1,045,247	$ 231,696	$ 343,282	$ 4,001,396	$ 9,978,693

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

Risks and Uncertainties

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

Concentration of Credit Risk

The UAB Health System, a related party, has agreed to allocate funds annually to the Foundation and various restricted funds held by the Foundation. These allocations are determined annually and paid monthly to the Foundation. They are recorded in the statement of activities and changes in net assets as donation revenue. The following is a summary of these contributions and their corresponding percentage of overall revenue for the years ended June 30, 2017 and 2016:

	2017		2016	
	Contributions	Percentage of Overall Revenue	Contributions	Percentage of Overall Revenue
Without donor restrictions	$ 826,877	5 %	$ 425,591	4 %
With donor restrictions	2,245,123	13	2,646,409	24
Combined total for all funds	$ 3,072,000	18 %	$ 3,072,000	28 %

Use of Estimates

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

Recent Revisions to Authoritative Guidance

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

In August 2016, the FASB issued authoritative guidance (ASU 2016-14) to amend the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The ASU streamlines net asset reporting by replacing the existing three-category classification of net assets with a simplified model that combines temporarily restricted and permanently restricted net assets into a single category called "net assets with donor restrictions." The ASU also requires new disclosures associated with these donor restrictions and imposes several new requirements related to reporting expenses and disclosure of the entity's liquidity. The guidance is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, but has been early adopted by the Foundation as of and for the year ended June 30, 2017.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 606"). ASC 606 outlines a five-step framework that intends to clarify the principles for recognizing revenue and eliminate industry-specific guidance. In addition, ASC 606 revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. ASC 606 will be effective for annual reporting periods beginning after December 15, 2017. ASC 606 may be applied retrospectively to each period presented or on a modified retrospective basis with the cumulative effect recognized as of the date of adoption. The Foundation is currently evaluating the effect of adoption on the financial statements.

2. Financial Assets

The following reflects the Foundation's financial assets as of June 30, 2017 and 2016, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Additionally, the amount of liquidity available for general expenditures has been reduced by any board-designated net assets.

	2017	2016
Financial assets, at year-end	$ 19,895,599	$ 14,226,122
Less those unavailable for general expenditures within one year, due to:		
Contractural or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	(4,737,242)	(5,097,606)
Restricted by lender to meet debt-service requirements	(1,904,055)	-
Board designated net assets	(75,000)	(75,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 13,179,302	$ 9,053,516

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

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

3. Investments

The following is a summary of investments held by the Foundation as of June 30, 2017 and 2016:

	2017		2016	
	Cost or Amortized Cost	Reported Value	Cost or Amortized Cost	Reported Value
University of Alabama System Funds				
Short Term Liquidity Pool Fund	$ 3,859,497	$ 3,675,632	$ 3,991,497	$ 3,837,827
Long Term Reserve Pool Fund	3,188,162	3,502,529	2,719,162	2,843,716
Pooled Endowment Fund	1,715,302	1,783,815	2,251,302	2,230,018
The UAB School of Business Green and Gold Fund	198,909	549,063	228,909	525,045
Charitable Gift Annuity Fund Investment	431,533	487,460	469,660	504,021
	$ 9,393,403	$ 9,998,499	$ 9,660,530	$ 9,940,627

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

4. Fair Value Measurements

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

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

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

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

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

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

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

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

The following table sets forth, by level, within the fair value hierarchy, the Foundation's assets at fair value as of June 30, 2017 and 2016:

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

	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 - Equity	122,713	-	-	122,713
Exchange-traded products - Equity	88,140	-	-	88,140
	$ 1,029,066	$ -	$ -	$ 1,029,066

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 2017 or 2016.

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.

5. Investment in Limited Liability Company

During fiscal 1997, the Foundation purchased a 1% share of all outstanding membership units of Triton Health Systems, L.L.C. (Triton), for $800 from UAB. UAB and the Foundation are the sole members of Triton. Triton was formed in 1995 to advance the educational and research mission of UAB and to educate and train physicians and other healthcare professionals. The Foundation's equity position was $2,090,047 and $1,911,794 per Triton's audited financial statements as of December 31, 2016 and December 31, 2015, respectively. Earnings on the investment were $304,516 and $302,784 and are included in changes in net assets without donor restrictions under realized and unrealized investment (losses) gains, within the accompanying consolidated statements of activities and changes in net assets for the years ended June 30, 2017 and 2016, respectively.

6. The UAB Diabetes Trust Foundation

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

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

Charitable Remainder Trusts
The revocable remainder trust for which the UABDTF is the only beneficiary was recognized as contribution revenue in the amount of $1,060,000 for the year ending June 30, 2017. This recognition occurred following the passing of the lone remaining income beneficiary.

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 as of June 30, 2016, and presented as a beneficial interest in charitable trusts held by others within the accompanying consolidated statements of financial position. The final distribution to the UABDTF of $254,687 was received in October, 2016.

7. Property and Equipment

Property and equipment were as follows as of June 30, 2017 and 2016:

	2017	2016
Land	$ 10,335,839	$ 10,238,339
Buildings and leasehold improvements	38,080,749	32,699,385
Equipment	11,841,705	10,229,849
	60,258,293	53,167,573
Less: Accumulated depreciation	(18,808,033)	(17,469,166)
Total property and equipment, net	$ 41,450,260	$ 35,698,407

8. Description of Leasing Arrangements

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

The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes for as of June 30, 2017 and 2016:

	2017	2016
Buildings and leasehold improvements	$ 22,049,993	$ 21,792,411
Land	10,335,839	10,238,339
	32,385,832	32,030,750
Less: Accumulated depreciation	(11,311,275)	(10,935,311)
Total property and equipment, net	$ 21,074,557	$ 21,095,439

9. Fourth Avenue Parking Deck

The results of operations of the Fourth Avenue Parking Deck for the years ended June 30, 2017 and 2016, which are included in the accompanying statements of activities and changes in net assets, are summarized as follows:

	2017	2016
Rental and other income, gross	$ 3,320,992	$ 3,348,514
Rental property expenses		
Interest	376,414	390,739
Depreciation	641,658	639,429
Management fees	12,000	12,000
Utilities	154,853	145,189
Overhead allocation	60,000	53,000
Operating	493,029	498,529
Other	341,509	303,918
Total expenses	2,079,463	2,042,804
Net income	$ 1,241,529	$ 1,305,710

10. Medical Towers, Inc.

The results of operations of Medical Towers for the years ended June 30, 2017 and 2016, which are included in the accompanying statements of activities and changes in net assets, are summarized as follows:

	2017	2016
Rental income, gross	$ 1,750,158	$ 1,729,040
Rental property expenses		
Interest	68,309	84,029
Depreciation	312,053	306,053
Maintenance and cleaning	468,226	474,317
Utilities	275,953	253,054
Overhead allocation	100,000	68,000
Income tax (benefit) expense	121,161	211,271
Other	104,745	119,385
Total expenses	1,450,447	1,516,109
Net income	$ 299,711	$ 212,931

11. DoubleTree Birmingham Hotel

In September, 2016 the Foundation entered into an agreement to acquire the DoubleTree Birmingham Hotel located at 808 20th Street South on the UAB campus for total consideration of $6.7 million. Subsequently, a single-member LLC was established named Campus Hospitality Services, LLC (CHS) for the purpose of owning and operating the hotel. The Foundation entered into a financing agreement (Note 13) in order to finance both the initial purchase and the property improvement plan required to upgrade the hotel to a Hilton. The hotel was acquired on November 1, 2016.

The results of operations of the DoubleTree Birmingham for the year ended June 30, 2017, which are included in the accompanying statements of activities and changes in net assets, are summarized as follows:

	2017
Operating revenue	
Room revenue	$ 4,820,163
Food & beverage revenue	785,461
Other operating revenues	269,574
Total operating revenue	5,875,198
Operating expenses	
Rooms expense	1,245,289
Food & beverage expense	744,712
Other operating expenses	88,532
Total operating costs	2,078,533
Operating profit	3,796,665
Nonoperating expenses	
Sales & marketing	730,347
Administrative and general	699,122
Utilities	452,396
Interest expense	373,858
Property operation and maintenance	512,156
Franchise fees	240,863
Management fees	167,714
Depreciation	318,320
Rent	130,204
Property & other taxes	116,587
Other expenses	176,449
Total nonoperating costs	3,918,016
Net loss	$ (121,351)

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

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

12. 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.

13. Debt

Debt consists of the following as of years ended June 30, 2017 and 2016:

	2017	**2016**
Revenue Bond, the UAB Educational Foundation Project, due serially through 2032	$ 13,358,600	$ 13,893,600
Regions Commercial Equipment Finance - Hotel Project, due serially through 2026	13,000,000	-
Compass Bank - $2,000,000 nonrevolving line of credit to Medical Towers, Inc.	411,648	804,729
Total Long term debt	26,770,248	14,698,329
Less: Amounts due in less than one year	(1,020,897)	(648,310)
Long-term debt, net of current amounts	$ 25,749,351	$ 14,050,019

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

As additional security for the payment of the Bonds, the Foundation entered into a Bond Guaranty Agreement (the Guaranty) with Regions Bank dated February 1, 2014, whereby the Foundation guaranteed payment when due of debt service on the 2014 Bond and the purchase price of the bonds tendered for purchase under the trust indenture. The Guaranty on the 2014 Bond contains a "put" option where Regions Bank can have tendered the 2014 Bond for purchase on December 1, 2023, effectively giving the Guaranty a term just under 10 years. The rate on the bonds is fixed at 2.77%. Accrued interest related to the bonds was $30,836 and $32,071 as June 30, 2017 and 2016, respectively. The 2014 Bond matures serially through December 1, 2032, in annual installments ranging from $410,000 to $1,178,600.

In conjunction with the issuance of the 2014 Bond, the Foundation entered into a capital lease agreement with the Authority dated February 1, 2014 pursuant to which the Foundation will lease certain real property and facilities from the Authority. The real property and facilities were acquired by the Authority pursuant to the provisions of the lease agreement. Rental payments due under the lease agreement are to be sufficient in amounts to pay the principal and interest on the Bonds when due. The Bond is a limited obligation of the Authority payable solely from amounts payable by the Foundation pursuant to the lease agreement with respect to debt service on the Bonds and any other revenues, rentals and receipts derived by the Authority from the leasing or sale of the Fourth Avenue Parking Deck. The Foundation will gain title to the facilities and equipment from the Authority when the project lease expires. The 2014 Bond is collateralized by the assignment of the Authority's interest in the lease agreement, a pledge by the Authority of the revenues received under the lease.

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

On November 1, 2016, Regions Commercial Equipment Finance, LLC ("Regions") issued two taxable bank loans totaling $26 million ($13 million each) to Campus Hospitality Services (CHS) for the purpose of acquiring and renovating the Doubletree Hotel (the "CHS notes"). The first promissory note (Note A) for $13 million was funded at closing and bears a fixed interest rate of 4.93%. The second $13 million note (Note B) will be funded during the 18-month construction period. During construction the interest rate on Note B will be variable, equal to 30 day LIBOR plus 239 basis points. Following the construction period, the rate will be fixed at the 10-year US Treasury rate, plus 324 basis points. The loans will be amortized based on a 25-year term and have a 10 year maturity. The notes are secured by a mortgage on the property.

As additional security for payment of the CHS notes, the Foundation entered into a guaranty agreement. Under this agreement, the Foundation gave an unconditional guaranty for all obligations to Regions (including the bonds for the 4th Avenue Parking Deck), including the cross-collateralization of these obligations. Furthermore, the Foundation is required to maintain a global debt-service coverage ratio of 1.25, a requirement that was met in both years ended June 30, 2017 and 2016.

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

	Parking Deck Bonds Principal	Hotel Project Loan Payable Principal	Medical Towers Loan Payable Principal	Total
2018	$ 565,000	$ 44,209	$ 411,648	$ 1,020,857
2019	590,000	273,003	-	863,003
2020	625,000	286,770	-	911,770
2021	650,000	301,232		951,232
2022	685,000	316,423		1,001,423
Thereafter	10,243,600	11,778,363		22,021,963
	$ 13,358,600	$ 13,000,000	$ 411,648	$ 26,770,248

14. Net Assets with Donor Restrictions

Common Fund
These 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 net assets are provided by proceeds from vending machines, other donor- 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 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 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. These funds were transferred to the UAB Athletic Foundation in October, 2016.

UAB Tornado Relief Fund

These 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.

Newsome Fund

These 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, 2017 and 2016:

	2017		
	Without donor restrictions	**With donor restrictions**	**Total**
Net assets			
Without donor restrictions			
Designated	$ 75,000	$ -	$ 75,000
Unappropriated	35,644,261	-	35,644,261
With donor restrictions			
Common fund	-	2,402,635	2,402,635
University/Hospital funds	-	1,785,368	1,785,368
Charitable gift annuity program	-	97,219	97,219
Athletics support funds	-	-	-
UAB Tornado relief fund	-	129,000	129,000
Newsome fund	-	56,314	56,314
Total net assets	$ 35,719,261	$ 4,470,536	$ 40,189,797

	2016		
	Without donor restrictions	**With donor restrictions**	**Total**
Net assets			
Without donor restrictions			
Designated	$ 75,000	$ -	$ 75,000
Unappropriated	32,799,315	-	32,799,315
With donor restrictions			
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
Newsome fund	-	51,245	51,245
Total net assets	$ 32,874,315	$ 5,065,555	$ 37,939,870