The UAB Educational Foundation

Consolidated Financial Statements
June 30, 2019 and 2018

The UAB Educational Foundation
Index
June 30, 2019 and 2018

Report of Independent Auditors

The Board of Directors of
The UAB Educational Foundation

We have audited the accompanying consolidated financial statements of the UAB Educational Foundation and its subsidiaries (the "Foundation"), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018 and the related consolidated statements of activities and changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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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, 2019 and 2018, 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
October 21, 2019

The UAB Educational Foundation
Consolidated Statements of Financial Position
June 30, 2019 and 2018

	As of 6/30/2019	As of 6/30/2018
Assets		
Current assets		
Cash and cash equivalents	$ 7,955,851	$ 13,280,508
Investments	8,012,195	7,639,372
Accounts receivable	1,217,986	777,662
Inventory	71,580	28,713
Prepaid expenses	109,114	90,397
Current portion of notes receivable	6,000	6,000
Total current assets	17,372,726	21,822,652
Noncurrent assets		
Fixed assets, net	59,413,482	53,308,611
Investment in limited liability company	2,599,460	2,290,461
Note receivable from affiliate	4,000,000	3,400,000
Other notes receivable	105,000	111,000
Other assets	1,404,921	1,460,179
Total noncurrent assets	67,522,863	60,570,251
Total assets	$ 84,895,589	$ 82,392,903
Liabilities and net assets		
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 3,340,376	$ 3,673,014
Current liabilities under split-interest agreements	52,229	52,179
Current portion of debt	1,673,581	1,633,026
Total current liabilities	5,066,186	5,358,219
Long term liabilities		
Long-term debt	40,412,504	37,971,809
Liabilities under split-interest agreements	316,520	327,245
Deferred tax liability	132,710	79,415
Total long term liabilities	40,861,734	38,378,469
Total liabilities	45,927,920	43,736,688
Net assets		
Without donor restrictions	35,031,067	34,123,838
With donor restrictions	3,936,600	4,532,377
Total ending net assets	38,967,667	38,656,215
Total liabilities and net assets	$ 84,895,589	$ 82,392,903

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, 2019 and 2018

	2019	2018
Changes in net assets without donor restrictions		
Revenues & gains		
Donation revenue	$ 1,016,007	$ 711,787
Revenues from the operation of		
4th Avenue Parking Deck	3,324,735	3,147,872
Hilton UAB	10,329,420	8,712,000
Medical Towers	1,640,395	1,707,558
Other rental properties	1,081,712	1,091,510
Interest and dividends	348,345	290,878
Realized & unrealized gains	1,707,554	596,107
Total revenues and gains without donor restrictions	19,448,168	16,257,712
Net assets released from satisfaction of program restrictions	3,619,547	3,210,755
Total revenues, gains, and other support without donor restrictions	23,067,715	19,468,467
Expenses and losses		
Program activities		
General university support	1,818,465	2,020,894
Hospital/health system support	852,803	791,833
Academic and scholarship support	1,212,863	2,639,781
Fundraising and development support	506,710	247,173
Property contributed	243,848	1,490,313
Total program activities	4,634,689	7,189,994
General and administrative expenses	390,559	377,551
Expenses related to the operation of:		
4th Avenue Parking Deck	1,065,429	1,040,844
Hilton UAB	9,280,801	8,187,780
Medical Towers	766,180	862,299
Other rental properties	182,648	230,491
Other property-related expenses		
Depreciation expense	3,833,353	1,898,075
Interest expense	2,006,827	1,276,856
Total operating expenses	17,135,238	13,496,346
Total expenses and losses	22,160,486	21,063,890
Increase (decrease) in net assets without donor restrictions	907,229	(1,595,423)
Changes in net assets with donor restrictions		
Revenues & gains		
Donation revenue	2,464,251	2,679,368
Vending income	442,407	493,423
Interest and dividends	74,084	76,266
Realized & unrealized gains	7,353	12,722
Changes in the value of split-interest agreements	35,675	10,817
Total revenues and gains	3,023,770	3,272,598
Net assets released from restrictions	(3,619,547)	(3,210,755)
(Decrease) increase in net assets without donor restrictions	(595,777)	61,841
Increase (Decrease) in net assets	311,452	(1,533,582)
Net assets		
Beginning of year	38,656,215	40,189,797
End of year	$ 38,967,667	$ 38,656,215

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, 2019 and 2018

	2019	2018
Cash flow from operating activities		
Cash received from donors	$ 3,320,383	$ 4,501,155
Cash received from tenants	2,611,913	2,698,593
Cash received from other service recipients	13,895,809	12,782,596
Cash paid for grants and other university support	(4,368,348)	(5,656,707)
Cash paid to suppliers	(10,024,844)	(10,844,972)
Cash received (paid) for income taxes	116,006	(23,974)
Cash paid for interest	(1,959,350)	(1,188,483)
Interest & dividends received	451,881	642,074
Total cash flows from operating activities	4,043,450	2,910,282
Cash flows from investing activities		
Purchases of investments	(1,177,000)	(583,000)
Proceeds from the sale of investments	775,658	3,020,189
Issuance of notes receivable	(594,000)	(1,300,000)
Proceeds from repayment of other note receivable	-	184,755
Proceeds from sale of fixed assets	2,130,411	-
Capital expenditures	(12,984,427)	(13,683,404)
Total cash flows used in investing activities	(11,849,358)	(12,361,460)
Cash flows from financing activities		
Principal payments on debt	(1,633,025)	(1,057,850)
Proceeds from the issuance of long-term debt	4,114,276	13,892,436
Total cash flows from financing activities	2,481,251	12,834,586
Net (decrease) increase in cash and cash equivalents	(5,324,657)	3,383,408
Cash		
Beginning of year	13,280,508	9,897,100
End of year	$ 7,955,851	$ 13,280,508

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, 2019.

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 October 21, 2019, 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 (see note 5).

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 INTO UAB, 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, 2019 and 2018 was $111,000 and $117,000 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 $4,000,000 and $3,400,000 at June 30, 2019 and 2018, respectively. Accrued interest receivable related to this note was $332,510 and $175,013 as of June 30, 2019 and 2018, 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, 2019 and 2018 was $3,833,353 and $1,898,075, 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, 2019 and 2018:

	2019	2018
Charitable Gift Annuities		
Total assets	$ 451,100	$ 453,345
Total liabilities	368,749	379,424

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 (benefit) expense totaled ($25,924) and $105,017 for the years ended June 30, 2019 and 2018, respectively. Accrued income taxes receivable of $0 and $36,787 are included in accounts receivable within the accompanying consolidated statements of financial position as of June 30, 2019 and 2018, respectively.

Allocation of Expenses

The table below presents expenses by both their nature and their function for years ended June 30, 2019 and 2018:

2019	Program Activities General University	Hospital/ Health System	Academic/ Scholarship	Fundraising/ Development	Other Activities Management & General	Rental & Other Prop.	Total Expenses
Contributions in support of UAB	$ 1,814,165	$ 850,753	$ 1,210,363	$ 505,110	$ -	$ -	$ 4,380,391
Property contributed	243,848	-	-	-	-	-	243,848
Salaries, wages & benefits	-	-	-	-	281,174	4,275,595	4,556,769
Depreciation	-	-	-	-	-	3,833,353	3,833,353
Other operating expenses	-	-	-	-	-	1,230,673	1,230,673
Repairs & maintenance	-	-	-	-	-	890,213	890,213
Utilities	-	-	-	-	-	1,112,799	1,112,799
Interest expense	-	-	-	-	-	2,006,827	2,006,827
Marketing	-	-	-	-	-	882,008	882,008
Other administration & general	1,700	1,200	1,650	750	41,531	671,135	717,966
Professional and management fees	2,600	850	850	850	57,169	426,989	489,308
Income and other taxes	-	-	-	-	-	148,298	148,298
Security	-	-	-	-	-	300,107	300,107
Franchise fees	-	-	-	-	-	316,219	316,219
Bank & Credit card fees	-	-	-	-	10,685	268,730	279,415
Cost of sales	-	-	-	-	-	601,095	601,095
Insurance	-	-	-	-	-	171,197	171,197
Total expenses	$ 2,062,313	$ 852,803	$ 1,212,863	$ 506,710	$ 390,559	$ 17,135,238	$ 22,160,486

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

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, 2019 and 2018:

	2019		2018	
	Contributions	Percentage of Overall Revenue	Contributions	Percentage of Overall Revenue
Without donor restrictions	$ 1,050,000	5%	$ 880,934	5%
With donor restrictions	2,022,000	9%	2,191,066	11%
Combined total for all funds	$ 3,072,000	14%	$ 3,072,000	16%

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, 2020. The Foundation is currently evaluating the effect of adoption to the financial statements.

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

2. Financial Assets

The following reflects the Foundation’s financial assets as of June 30, 2019 and 2018, 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.

	2019	2018
Financial Assets		
Cash and Cash Equivalents	$ 7,955,851	$ 13,280,508
Investments	8,012,195	7,639,372
Total financial assets, at year-end	15,968,046	20,919,880
Less those unavailable for general expenditures within one year, due to:		
Contractual or donor-imposed restrictions:		
Restricted by donor with purpose restrictions	(4,209,382)	(4,838,538)
Restricted by lender to meet debt-service requirements	(1,544,055)	(1,904,055)
Financial assets available to meet cash needs for general expenditures within one year	$ 10,214,609	$ 14,177,288

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, 2019 and 2018:

	2019		2018	
	Cost or Amortized Cost	Reported Value	Cost or Amortized Cost	Reported Value
University of Alabama System Funds				
Short Term Liquidity Pool Fund	$ 2,320,498	$ 2,134,726	$ 2,588,498	$ 2,363,177
Long Term Reserve Pool Fund	4,553,161	4,867,241	3,517,161	3,903,877
Pooled Endowment Fund	-		246,303	344,754
The UAB School of Business Green and Gold Fund	126,720	559,128	172,720	574,219
Charitable Gift Annuity Fund Investment	396,239	451,100	395,504	453,345
	$ 7,396,618	$ 8,012,195	$ 6,920,186	$ 7,639,372

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, 2019 and 2018:

	Assets at Fair Value as of June 30, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Investment in the UAB School of Business Green and Gold Fund				
Cash, money funds, and FDIC deposits	$ 50,418	$ -	$ -	$ 50,418
Fixed income	114,786	-	-	114,786
Equities	187,418	-	-	187,418
Mutual funds	17,881	-	-	17,881
Exchange-traded products	188,625	-	-	188,625
Charitable Gift Annuity Fund Investment				
Cash, money funds, and FDIC deposits	21,708	-	-	21,708
Fixed income	253,073	-	-	253,073
Mutual funds - Equity	98,447	-	-	98,447
Exchange-traded products - Equity	77,872	-	-	77,872
	$ 1,010,228	$ -	$ -	$ 1,010,228

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

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.

For assets measured at fair value, they are 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 $2,549,460 and $2,240,461 per Triton's audited financial statements as of December 31, 2018 and December 31, 2017, respectively. Earnings on the investment were $495,948 and $530,768 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, 2019 and 2018, 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.

7. Property and Equipment

Property and equipment were as follows as of June 30, 2019 and 2018:

	2019	2018
Land	$ 8,846,040	$ 9,788,339
Buildings and leasehold improvements	37,271,455	37,285,420
Equipment	37,372,068	26,507,896
	83,489,563	73,581,655
Less: Accumulated depreciation	(24,076,081)	(20,273,044)
Total property and equipment, net	$ 59,413,482	$ 53,308,611

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, 2019 and 2018:

	2019	2018
Buildings and leasehold improvements	$ 23,066,072	$ 22,383,246
Land	8,846,041	9,788,340
	31,912,113	32,171,586
Less: Accumulated depreciation	(12,420,128)	(11,644,509)
Total property and equipment, net	$ 19,491,985	$ 20,527,077

9. Major Properties

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

In September, 2016 the Foundation entered into an agreement to acquire the DoubleTree Birmingham Hotel located at 808 20th Street South on the UAB campus for total consideration of $6.7 million. Subsequently, a single-member LLC was established named Campus Hospitality Services, LLC (CHS) for the purpose of owning and operating the hotel. The Foundation entered into a financing agreement (Note 11) in order to finance both the initial purchase and the property improvement plan required to upgrade the hotel to a Hilton. The hotel was acquired on November 1, 2016 and renovations were completed in 2019. Upon completion of the renovations the hotel was rebranded and renamed Hilton Birmingham at UAB.

The results of operations of these major properties for the years ended June 30, 2019 and 2018, which are included in the accompanying statements of activities and changes in net assets, are summarized as follows:

		2019	
	Hilton UAB	**4th Avenue Parking Deck**	**Medical Towers**
Operating revenue	$ 10,349,689	$ 3,342,645	$ 1,640,395
Rental property expenses			
Salaries, wages & benefits	4,001,507	336,089	100,000
Other operating expenses	1,782,961	177,937	22,494
Depreciation	2,301,766	725,652	521,581
Other Administration & General	1,482,818	48,719	10,734
Interest expense	1,632,446	374,381	88,979
Utilities	638,745	147,998	277,421
Repairs & Maintenance	269,435	167,142	396,135
Income and other taxes	109,264	1,453	(21,834)
Professional & Management fees	360,383	30,551	33,255
Security	34,594	217,539	47,974
Cost of Sales	601,095	-	-
Total expenses	13,215,013	2,227,462	1,476,740
Net (loss) income	$ (2,865,324)	$ 1,115,183	$ 163,655

	2018		
	Hilton UAB	4th Avenue Parking Deck	Medical Towers
Operating revenue	$ 8,722,385	$ 3,157,160	$ 1,637,970
Rental property expenses			
Salaries, wages & benefits	3,098,302	306,481	100,000
Other operating expenses	1,841,947	163,178	338
Depreciation	555,394	640,020	376,439
Other Administration & General	1,159,455	63,177	37,049
Interest expense	934,171	331,372	89,072
Utilities	722,320	162,947	263,081
Repairs & Maintenance	263,369	184,216	377,976
Income and other taxes	398,014	1,453	109,130
Professional & Management fees	292,701	24,460	16,865
Security	41,412	196,932	57,859
Cost of Sales	370,261	-	-
Total expenses	9,677,346	2,074,236	1,427,809
Net (loss) income	$ (954,961)	$ 1,082,924	$ 210,161

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 years ended June 30, 2019 and 2018:

	2019	2018
Revenue Bond, the UAB Educational Foundation Project, due serially through 2032	$ 12,203,600	$ 12,793,600
Regions Commercial Equipment Finance - Hotel Project, due serially through 2026	29,415,773	25,918,799
UAB construction loan to Medical Towers Inc.	466,712	892,436
Total Long term debt	42,086,085	39,604,835
Less: Amounts due in less than one year	(1,673,581)	(1,633,026)
Long-term debt, net of current amounts	$ 40,412,504	$ 37,971,809

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 $28,170 as June 30, 2019 and 2018, 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 June 2018, UAB loaned Medical Towers $892,436 for a building envelope upgrade project that the university has served as project manager for. The loan is interest-free and matures in May, 2020 with monthly installments of $45,000.

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

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, 2019 and 2018.

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

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

	Parking Deck Bonds Principal	Hotel Project Loan Payable Principal	Medical Towers UAB Loan Payable Principal	Total
2020	$ 625,000	$ 581,869	$ 466,712	$ 1,673,581
2021	650,000	632,496	-	1,282,496
2022	685,000	668,778	-	1,353,778
2023	720,000	707,170	-	1,427,170
2024	755,000	747,796	-	1,502,796
Thereafter	8,768,600	26,077,664	-	34,846,264
	$ 12,203,600	$ 29,415,773	$ 466,712	$ 42,086,085

12. Net Assets with Donor Restrictions

University Funds

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

Hospital Funds

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

Academic Funds

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

Development Funds

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

Total net assets consisted of the following as of June 30, 2019 and 2018:

		2019	
	Without donor restrictions	With donor restrictions	Total
Net assets			
Without donor restrictions			
Unappropriated	$ 35,031,067	$ -	$ 35,031,067
With donor restrictions			
University funds	-	365,548	365,548
Hospital funds	-	723,642	723,642
Academic funds	-	2,301,338	2,301,338
Development funds	-	546,072	546,074
Total net assets	$ 35,031,067	$ 3,936,600	$ 38,967,669

	2018		
	Without donor restrictions	**With donor restrictions**	**Total**
Net assets			
Without donor restrictions			
Unappropriated	$ 34,123,838	$ -	$ 34,123,838
With donor restrictions			
University funds	-	198,392	198,398
Hospital funds	-	826,396	826,396
Academic funds	-	2,664,859	2,664,859
Development funds	-	842,726	842,726
Total net assets	$ 34,123,838	$ 4,532,377	$ 38,656,217