

The UAB Educational Foundation

**Consolidated Financial Statements
September 30, 2014 and 2013**

The UAB Educational Foundation
Index
September 30, 2014 and 2013

	Page(s)
Independent Auditor's Report	1
Consolidated Financial Statements	
Statements of Financial Position.....	2-3
Statements of Activities and Changes in Net Assets.....	4-5
Statements of Cash Flows	6
Notes to Financial Statements	7-19



Independent Auditor's Report

The Board of Directors
The UAB Educational Foundation

We have audited the accompanying consolidated financial statements of the UAB Educational Foundation and its subsidiary (the "Foundation"), which comprise the consolidated statements of financial position as of September 30, 2014 and September 30, 2013 and the related consolidated statements of activities and changes in net assets and 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.

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 Company'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 Company'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.

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 subsidiary at September 30, 2014 and September 30, 2013, 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

December 15, 2014

The UAB Educational Foundation
Consolidated Statement of Financial Position
September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 3,695,049	\$ 159,431	\$ -	\$ 3,854,480
Investments	9,759,536	5,324,960	56,372	15,140,868
Accounts receivable	248,347	54,000	-	302,347
Current pledges receivables	-	-	-	-
Prepayments	80,613	-	-	80,613
Current portion of notes receivable	-	6,000	-	6,000
Total current assets	<u>13,783,545</u>	<u>5,544,391</u>	<u>56,372</u>	<u>19,384,308</u>
Noncurrent assets				
Certificates of deposit	-	-	-	-
Fixed assets, net	31,859,517	-	-	31,859,517
Investment in limited liability company	1,658,992	-	-	1,658,992
Note receivable	-	132,000	-	132,000
Beneficial interest in charitable trusts held by others	-	245,839	-	245,839
Other assets	293,572	-	-	293,572
Total noncurrent assets	<u>33,812,081</u>	<u>377,839</u>	<u>-</u>	<u>34,189,920</u>
Total assets	<u>\$ 47,595,626</u>	<u>\$ 5,922,230</u>	<u>\$ 56,372</u>	<u>\$ 53,574,228</u>
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities	\$ 907,295	\$ 184,519	\$ -	\$ 1,091,814
Current gift annuity liability	-	48,629	-	48,629
Current portion of debt	514,307	-	-	514,307
Total current liabilities	<u>1,421,602</u>	<u>233,148</u>	<u>-</u>	<u>1,654,750</u>
Noncurrent liabilities				
Long-term debt	15,684,495	-	-	15,684,495
Long-term gift annuity liability	-	238,278	-	238,278
Total noncurrent liabilities	<u>15,684,495</u>	<u>238,278</u>	<u>-</u>	<u>15,922,773</u>
Total liabilities	<u>17,106,097</u>	<u>471,426</u>	<u>-</u>	<u>17,577,523</u>
Total net assets	<u>30,489,529</u>	<u>5,450,804</u>	<u>56,372</u>	<u>35,996,705</u>
Total liabilities and equity	<u>\$ 47,595,626</u>	<u>\$ 5,922,230</u>	<u>\$ 56,372</u>	<u>\$ 53,574,228</u>

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

The UAB Educational Foundation
Consolidated Statement of Financial Position
September 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current assets				
Cash and cash equivalents	\$ 2,634,594	\$ 399,568	\$ 2	\$ 3,034,164
Investments	11,591,180	5,793,439	28,996	17,413,615
Accounts receivable	5,385	58,000	-	63,385
Current pledges receivables	-	7,000	-	7,000
Prepayments	80,628	-	-	80,628
Current portion of notes receivable	-	6,000	-	6,000
Total current assets	<u>14,311,787</u>	<u>6,264,007</u>	<u>28,998</u>	<u>20,604,792</u>
Noncurrent assets				
Certificates of deposit	-	-	25,000	25,000
Fixed assets, net	33,469,570	-	-	33,469,570
Investment in limited liability company	1,510,894	-	-	1,510,894
Note receivable	-	138,000	-	138,000
Beneficial interest in charitable trusts held by others	-	232,728	-	232,728
Other assets	299,344	-	-	299,344
Total noncurrent assets	<u>35,279,808</u>	<u>370,728</u>	<u>25,000</u>	<u>35,675,536</u>
Total assets	<u>\$ 49,591,595</u>	<u>\$ 6,634,735</u>	<u>\$ 53,998</u>	<u>\$ 56,280,328</u>
Liabilities and Equity				
Current liabilities				
Accounts payable and accrued liabilities	\$ 1,266,767	285,594	\$ -	\$ 1,552,361
Current gift annuity liability	-	46,529	-	46,529
Current portion of debt	584,788	-	-	584,788
Total current liabilities	<u>1,851,555</u>	<u>332,123</u>	<u>-</u>	<u>2,183,678</u>
Noncurrent liabilities				
Long-term debt	16,022,196	-	-	16,022,196
Long-term gift annuity liability	-	239,539	-	239,539
Total noncurrent liabilities	<u>16,022,196</u>	<u>239,539</u>	<u>-</u>	<u>16,261,735</u>
Total liabilities	<u>17,873,751</u>	<u>571,662</u>	<u>-</u>	<u>18,445,413</u>
Total net assets	<u>31,717,844</u>	<u>6,063,073</u>	<u>53,998</u>	<u>37,834,915</u>
Total liabilities and equity	<u>\$ 49,591,595</u>	<u>\$ 6,634,735</u>	<u>\$ 53,998</u>	<u>\$ 56,280,328</u>

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

The UAB Educational Foundation
Consolidated Statement of Activities and Changes in Net Assets
Year Ended September 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Change in net assets				
Revenue				
Donation revenue	\$ 801,053	\$ 2,700,659	\$ -	\$ 3,501,712
Rental income				
Fourth avenue parking deck, net income	1,127,754	-	-	1,127,754
Medical towers, net income	421,622	-	-	421,622
Rental income, net, other properties	884,015	-	-	884,015
Vending income	-	604,824	-	604,824
Interest and dividends	328,484	92,454	1,629	422,567
Total revenue	3,562,928	3,397,937	1,629	6,962,494
Net assets released from restrictions				
Expiration of time and purpose restrictions	4,080,849	(4,079,218)	(1,631)	-
Net revenues, gains, and other support	7,643,777	(681,281)	(2)	6,962,494
Expenses and losses				
Program activities				
General university support	2,130,779	-	-	2,130,779
Hospital/health system support	675,609	-	-	675,609
Academic enrichment program	220,000	-	-	220,000
UAB athletics support	1,438,346	-	-	1,438,346
Salary supplements and expense allowances	181,386	-	-	181,386
UAB transportation services support	-	-	-	-
Library support	50,000	-	-	50,000
Support for student scholarships	201,631	-	-	201,631
Property contributed	1,245,000	-	-	1,245,000
Campus safety initiative	225,000	-	-	225,000
Changes in the value of split-interest agreements	(29,160)	-	-	(29,160)
Capital campaign support	2,000,000	-	-	2,000,000
Other support	758,328	-	-	758,328
Total program activities	9,096,919	-	-	9,096,919
Other depreciation	4,360	-	-	4,360
General and administrative expenses	324,287	-	-	324,287
Realized and unrealized gains				
Realized and unrealized investment gains, net	(207,356)	(69,012)	(2,376)	(278,744)
Earnings from investment in LLC	(346,118)	-	-	(346,118)
Total expenses and losses	8,872,092	(69,012)	(2,376)	8,800,704
Change in net assets	(1,228,315)	(612,269)	2,374	(1,838,210)
Net assets				
Beginning of year	31,717,844	6,063,073	53,998	37,834,915
End of year	\$ 30,489,529	\$ 5,450,804	\$ 56,372	\$ 35,996,705

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

The UAB Educational Foundation
Consolidated Statement of Activities and Changes in Net Assets
Year Ended September 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Change in net assets				
Revenue				
Donation revenue	\$ 715,064	\$ 2,463,140	\$ -	\$ 3,178,204
Rental income				
Fourth avenue parking deck, net income	1,074,078	-	-	1,074,078
Medical towers, net income	391,732	-	-	391,732
Rental income, net, other properties	444,450	-	-	444,450
Vending income	-	619,355	-	619,355
Interest and dividends	374,430	119,585	1,366	495,381
Total revenue	2,999,754	3,202,080	1,366	6,203,200
Net assets released from restrictions				
Expiration of time and purpose restrictions	4,154,768	(4,153,386)	(1,382)	-
Net revenues, gains, and other support	7,154,522	(951,306)	(16)	6,203,200
Expenses and losses				
Program activities				
General university support	2,553,837	-	-	2,553,837
Hospital/health system support	741,317	-	-	741,317
Academic enrichment program	220,000	-	-	220,000
UAB athletics support	920,044	-	-	920,044
Salary supplements and expense allowances	178,924	-	-	178,924
UAB transportation services support	200,362	-	-	200,362
Library support	50,000	-	-	50,000
Support for student scholarships	201,381	-	-	201,381
Property contributed	-	-	-	-
Campus safety initiative	225,000	-	-	225,000
Changes in the value of split-interest agreements	4,333	-	-	4,333
Capital campaign support	-	-	-	-
Other support	1,471,081	-	-	1,471,081
Total program activities	6,766,279	-	-	6,766,279
Other depreciation	3,322	-	-	3,322
General and administrative expenses	334,106	-	-	334,106
Realized and unrealized gains				
Realized and unrealized investment gains, net	(117,726)	(71,259)	(1,038)	(190,023)
Earnings from investment in LLC	(405,055)	-	-	(405,055)
Total expenses and losses	6,580,926	(71,259)	(1,038)	6,508,629
Change in net assets	573,596	(880,047)	1,022	(305,429)
Net assets				
Beginning of year	31,144,248	6,943,120	52,976	38,140,344
End of year	\$ 31,717,844	\$ 6,063,073	\$ 53,998	\$ 37,834,915

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

The UAB Educational Foundation
Consolidated Statements of Cash Flows
Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities		
Change in net assets	\$ (1,838,210)	\$ (305,429)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation expense	1,114,645	1,044,577
Property contributed	1,245,000	-
Realized and unrealized investment gains, net	(278,744)	(190,023)
Earnings from investment in LLC	(346,118)	(405,056)
Distributions from LLC	198,020	195,356
Changes in operating assets and liabilities		
Accounts receivable	(238,962)	(7,964)
Pledges receivable, net	7,000	23,657
Note receivable	6,000	16,725
Prepayments	15	(32,609)
Other assets	(7,339)	(40,726)
Accounts payable and accrued liabilities	(460,548)	748,140
Gift annuity liability	839	(147,122)
Net cash (used in) provided by operating activities	<u>(598,402)</u>	<u>899,526</u>
Cash flows from investing activities		
Purchases of investments	(603,000)	(1,043,155)
Proceeds from sale of investments	3,154,492	3,327,690
Capital expenditures	(749,592)	(2,474,266)
Proceeds from maturity of certificates of deposit	25,000	-
Net cash provided by (used in) investing activities	<u>1,826,900</u>	<u>(189,731)</u>
Cash flows from financing activities		
Principal payments on debt	(15,221,782)	(718,953)
Proceeds from the issuance of long-term debt	14,813,600	-
Net cash used in financing activities	<u>(408,182)</u>	<u>(718,953)</u>
Net increase (decrease) in cash and cash equivalents	<u>820,316</u>	<u>(9,158)</u>
Cash		
Beginning of year	<u>3,034,164</u>	<u>3,043,322</u>
End of year	<u>\$ 3,854,480</u>	<u>\$ 3,034,164</u>
Supplemental disclosure of cash flow information		
Cash paid during the year for income taxes	\$ 177,214	\$ 188,674
Cash paid during the year for interest	320,770	380,644
Property contributed	1,245,000	-

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

The UAB Educational Foundation

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

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 annual 2014.

Principles of Consolidation and Basis of Presentation

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

Unrestricted Net Assets

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

Temporarily Restricted Net Assets

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

Permanently Restricted Net Assets

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

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

Subsequent events have been evaluated through December 15, 2014, which represents the date that these financials were available to be issued.

Reclassifications

Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported change in net assets or net assets.

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.

The UAB Educational Foundation

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

Contribution Revenue

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

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

Investments

The University of Alabama System Intermediate, Prime, and Pooled Endowment Funds (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 operated by 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, 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 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, other than the UAS Funds, 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 statement of activities and changes in net assets.

Investment in Limited Liability Company

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

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

The UAB Educational Foundation
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Greater Birmingham Habitat for Humanity for a term of 25 years, payable in semiannual installments of \$3,000. This loan is noninterest bearing. The following is a summary of the note receivable and the associated allowance for doubtful receivable at September 30:

	2014	2013
Note receivable	\$ 138,000	\$ 144,000
Allowance for doubtful receivable	-	-
Note receivable, net of allowance	<u>\$ 138,000</u>	<u>\$ 144,000</u>

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 September 30, 2014 and 2013 was \$1,114,645 and \$1,044,577, respectively.

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

Gift Annuities

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

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

Income Taxes

The Foundation is exempt from federal income tax under Section 501(c)(3) and is an organization described in Section 170(c)(2) of the United States Internal Revenue Code (not a private foundation). However, certain of the Foundation's activities are considered by the Internal Revenue Service to provide unrelated business income and, accordingly, these activities are subject to federal income tax. In addition, Medical Towers, Inc. is not exempt from income taxes and files separate returns (Note 9). The Foundation's income tax expense totaled \$222,581 and \$171,602 for the years ended September 30, 2014 and 2013, respectively. Accrued income taxes payable of \$53,759 and \$8,392 are included in accounts payable and accrued liabilities, within the accompanying consolidated statements of financial position as of September 30, 2014 and 2013, respectively.

The UAB Educational Foundation
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Risks and Uncertainties

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

Concentration of Credit Risk

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

	2014		2013	
	Contributions	Percentage of Overall Revenue	Contributions	Percentage of Overall Revenue
Unrestricted contributions	\$ 700,000	10%	\$ 700,000	12%
Temporary restricted contributions	2,372,000	34%	2,372,000	38%
Combined total for all funds	<u>\$ 3,072,000</u>	44%	<u>\$ 3,072,000</u>	50%

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.

2. Investments

The following is a summary of investments held by the Foundation at September 30, 2014 and 2013:

	2014		2013	
	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
University of Alabama System Funds				
Intermediate Fund	\$ 8,916,941	\$ 8,825,796	\$ 9,302,941	\$ 9,269,937
Prime Fund	2,307,812	2,676,021	2,262,812	2,546,624
Pooled Endowment Fund	2,422,303	2,552,399	4,622,302	4,544,435
The UAB School of Business				
Green and Gold Fund	284,461	570,047	324,952	550,813
Charitable Gift Annuity Fund Investment	513,155	488,426	483,155	476,217
San Diego Foundation investment	22,131	28,179	22,131	25,589
	<u>\$ 14,466,803</u>	<u>\$ 15,140,868</u>	<u>\$ 17,018,293</u>	<u>\$ 17,413,615</u>

The Foundation invests its funds in the University of Alabama System Intermediate, Prime, and Pooled Endowment Funds (UAS Funds), which are sponsored by the System. Assets of the Intermediate 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 Prime and Pooled Endowment Funds consist of U.S. Treasury and agency obligations, corporate debt securities,

The UAB Educational Foundation

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

corporate equity securities, international equity securities, mutual funds, real estate funds, hedge funds, and private equity funds. As discussed in Note 1, the Pooled Endowment Fund and Prime Fund invest in securities with non-readily determinable market values which the Funds value at cost. The portion of the Foundation's beneficial interest in the net assets of the Pooled Endowment Fund and Prime Fund, presented above, which is determined based on cost is \$280,312 and \$29,838, respectively. The remainder of the beneficial interest is determined based on fair value. As discussed in Note 1, the Foundation records its beneficial interest in the net assets of the UAS Funds at the original investment cost, adjusted each period for the Foundation's proportionate share of the changes in net assets of the UAS Funds. The remainder of the Foundation's investments are reported at fair value.

During 2013, the Foundation transferred investment related to the charitable gift annuity program, as discussed in Note 1, to PNC Bank that were previously held in the Pooled Endowment Fund. The total investments in the Charitable Gift Annuity Fund Investment at September 30, 2014 which are reported at fair value are \$488,426.

3. Fair Value Measurements

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

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

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

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

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

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

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

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

The UAB Educational Foundation
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

The following table sets forth, by level, within the fair value hierarchy, the Foundation's assets at fair value as of September 30, 2014 and 2013:

	Assets at Fair Value as of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Investment in the UAB School of Business				
Green and Gold Fund				
Cash, money funds, and FDIC deposits	\$ 32,033	\$ -	\$ -	\$ 32,033
Fixed income	11,040	-	-	11,040
Equities	229,535	-	-	229,535
Mutual funds	77,331	-	-	77,331
Exchange-traded products	220,108	-	-	220,108
Charitable Gift Annuity Fund Investment				
Cash, money funds, and FDIC deposits	15,092	-	-	15,092
Fixed income	277,328	-	-	277,328
Mutual funds	83,912	-	-	83,912
Exchange-traded products	112,094	-	-	112,094
Investment in the San Diego Foundation Fund designated balanced pool endowment	-	-	28,179	28,179
	<u>\$ 1,058,473</u>	<u>\$ -</u>	<u>\$ 28,179</u>	<u>\$ 1,086,652</u>

	Assets at Fair Value as of September 30, 2013			
	Level 1	Level 2	Level 3	Total
Investment in the UAB School of Business				
Green and Gold Fund				
Cash, money funds, and FDIC deposits	\$ 31,509	\$ -	\$ -	\$ 31,509
Fixed income	33,906	-	-	33,906
Equities	266,491	-	-	266,491
Mutual funds	61,653	-	-	61,653
Exchange-traded products	157,254	-	-	157,254
Charitable Gift Annuity Fund Investment				
Cash, money funds, and FDIC deposits	13,191	-	-	13,191
Fixed income	-	-	-	-
Mutual funds	355,589	-	-	355,589
Exchange-traded products	107,437	-	-	107,437
Investment in the San Diego Foundation Fund designated balanced pool endowment	-	-	25,589	25,589
	<u>\$ 1,027,030</u>	<u>\$ -</u>	<u>\$ 25,589</u>	<u>\$ 1,052,619</u>

The UAB Educational Foundation
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the years ended September 30, 2014 and 2013:

	Level 3 Assets
Balance at September 30, 2012	\$ 24,424
Unrealized gain on investment	<u>1,165</u>
Balance at September 30, 2013	25,589
Unrealized gain on investment	<u>2,590</u>
Balance at September 30, 2014	<u>\$ 28,179</u>

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 2014 or 2013.

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 the net asset value ("NAV") of shares held by the Foundation at year end.

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

4. Investment in Limited Liability Company

During fiscal 1997, the Foundation purchased a 1% share of all outstanding membership units of Triton Health Systems, L.L.C. (Triton), for \$800 from UAB. UAB and the Foundation are the sole members of Triton. Triton was formed in 1995 to advance the educational and research mission of UAB and to educate and train physicians and other healthcare professionals. The Foundation's equity position was \$1,658,992 and \$1,510,894 per Triton's audited financial statements as of December 31, 2013 and December 31, 2012, respectively. Earnings on the investment were \$346,118 and \$405,055 for the years ended September 30, 2014 and 2013, respectively.

The UAB Educational Foundation
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

5. The UAB Diabetes Trust Foundation

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

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

Charitable Remainder Trusts

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

The irrevocable remainder trust for which the UABDTF is one of several beneficiaries distributes net income to the surviving spouse of the donor until her death, after which the UABDTF will receive 47 ½% of the trust assets for its remainder interest. Fair market value is the basis for the valuation of the UABDTF's remainder interest, which was \$245,839 and \$232,728 at September 30, 2014 and 2013, respectively, and presented as temporarily restricted other assets.

6. Property and Equipment

Property and equipment was as follows at September 30:

	2014	2013
Land	\$ 7,796,788	\$ 9,039,593
Buildings and leasehold improvements	37,720,829	37,056,475
Equipment	<u>1,649,980</u>	<u>1,621,759</u>
	47,167,597	47,717,827
Less: Accumulated depreciation	<u>(15,308,080)</u>	<u>(14,248,257)</u>
	<u>\$ 31,859,517</u>	<u>\$ 33,469,570</u>

On December 18, 2013, the Foundation's Board approved the donation of land located at 900 17th Street South (the University Court Parking Lot) to UAB for the purposes of construction of a new student residence hall. The book value of the property was \$1,245,000 and this amount has been recorded as Property contributed in the accompanying 2014 consolidated statement of activities and changes in net assets.

7. Description of Leasing Arrangements

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

The UAB Educational Foundation
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

The following schedule provides an analysis of the Foundation's investment in property held for lease by major classes as of September 30, 2014:

	2014	2013
Buildings and leasehold improvements	\$ 18,524,744	\$ 17,860,389
Land	7,796,787	9,039,592
	<u>26,321,531</u>	<u>26,899,981</u>
Less: Accumulated depreciation	<u>(9,856,341)</u>	<u>(9,413,848)</u>
	<u>\$ 16,465,190</u>	<u>\$ 17,486,133</u>

8. Fourth Avenue Parking Deck

The results of operations of the Fourth Avenue Parking Deck for the fiscal years ended September 30, 2014 and 2013 are summarized as follows:

	2014	2013
Revenue		
Parking	\$ 2,976,429	\$ 2,862,082
Other	14,376	16,064
	<u>2,990,805</u>	<u>2,878,146</u>
Expenses		
Interest	360,675	294,018
Depreciation	612,972	621,119
Management fees	14,625	68,250
Utilities	131,310	144,394
Overhead allocation	52,000	52,000
Operating	419,966	362,963
Other	323,503	313,324
	<u>1,915,051</u>	<u>1,856,068</u>
Net income	1,075,754	1,022,078
Elimination of intercompany expenses paid by the foundation		
Overhead allocation	52,000	52,000
Net income	<u>\$ 1,127,754</u>	<u>\$ 1,074,078</u>

9. Medical Towers, Inc.

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

The UAB Educational Foundation
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

A substantial portion of the office space in Towers' building is leased to UAB. The results of operations of Towers for the fiscal years ended September 30, 2014 and 2013 are summarized as follows:

	2014	2013
Rental and other income	<u>\$ 1,732,941</u>	<u>\$ 1,703,802</u>
Expenses		
Interest	110,089	124,256
Depreciation	265,899	251,633
Maintenance and cleaning	387,962	421,865
Utilities	247,123	261,267
Overhead allocation	70,000	70,000
Income taxes	222,580	171,602
Other	<u>114,550</u>	<u>120,219</u>
	<u>1,418,203</u>	<u>1,420,842</u>
Net income	314,738	282,960
Elimination of intercompany expenses paid to the Foundation		
Interest	36,884	38,772
Overhead allocation	<u>70,000</u>	<u>70,000</u>
Net income	<u>\$ 421,622</u>	<u>\$ 391,732</u>

10. Other Properties

Net income from the operation of other properties includes rental income related to various smaller properties including the Burleson Building, Pita Stop Building, 506 10th Street Warehouse and the 508 8th Street Warehouse, as well as rental income from a master ground lease for retail space in the 4th Avenue Parking Deck.

11. Debt

Debt consists of the following at September 30, 2014 and 2013:

	2014	2013
Revenue Bond, the UAB Educational Foundation Project, due serially through 2032	\$ 14,813,600	\$ 14,958,700
Compass Bank - \$2,000,000 nonrevolving line of credit to Medical Towers, Inc.	<u>1,385,202</u>	<u>1,648,284</u>
	<u>\$ 16,198,802</u>	<u>\$ 16,606,984</u>

On September 30, 2009 the City of Birmingham Downtown Redevelopment Authority (the "Authority") issued its "Revenue Bond, the UAB Educational Foundation Project" (the "2009 Bond"). The 2009 Bond replaced the original 2002 financing of the construction of the Fourth Avenue Parking Deck. The 2009 Bond was issued to Regions Bank as the sole bondholder, and bears interest at a variable rate equal to 65% of 1-month LIBOR, plus 178 basis points. For fiscal year 2013, the average rate of interest on the bonds was 1.91% and accrued interest at September 30, 2013 was \$23,667. For the first five months of fiscal year 2014, the average rate of interest on the 2009 Bond was 1.89%.

The UAB Educational Foundation

Notes to Consolidated Financial Statements

September 30, 2014 and 2013

In conjunction with the issuance of the 2009 Bond, the Foundation entered into a capital lease agreement with the Authority dated September 30, 2009 pursuant to which the Foundation will lease certain real property and facilities from the Authority. The real property and facilities were acquired by the Authority pursuant to the provisions of the lease agreement. Rental payments due under the lease agreement are to be sufficient in amounts to pay the principal and interest on the Bonds when due. The Bond is a limited obligation of the Authority payable solely from amounts payable by the Foundation pursuant to the lease agreement with respect to debt service on the Bonds and any other revenues, rentals and receipts derived by the Authority from the leasing or sale of the Fourth Avenue Parking Deck. The Foundation will gain title to the facilities and equipment from the Authority when the project lease expires. The 2009 Bond is collateralized by the assignment of the Authority's interest in the lease agreement, a pledge by the Authority of the revenues received under the lease. As additional security for the payment of the Bonds, the Foundation has entered into a Bond Guaranty Agreement (the Guaranty) with Regions Bank dated September 30, 2009, whereby the Foundation has guaranteed payment when due of debt service on the 2009 Bond and the purchase price of the bonds tendered for purchase under the trust indenture.

The Guaranty on the 2009 Bond contained a "put" option where Regions Bank could have tendered the 2009 Bond for purchase on October 1, 2014, effectively giving the Guaranty a five-year term. In anticipation of this, on February 20, 2014 the Foundation refinanced these bonds (2014 Bond) with Regions Capital Advantage, retaining essentially the same structure as the 2009 Bonds except the rate is now fixed at 2.77% and the put option date is December 1, 2023. Accrued interest related to the bonds was \$136,779 for the year ended September 30, 2014. The 2014 Bond matures serially through December 1, 2032, in annual installments ranging from \$410,000 to \$1,178,600.

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 principal and interest amounts are due and payable on July 8, 2018.

The aggregate contractual maturities of debt at September 30, 2014 are as follows:

	Parking Deck Bonds Principal	Medical Towers Loan Payable Principal	Total
2015	\$ 410,000	\$ 104,308	\$ 514,308
2016	510,000	109,361	619,361
2017	535,000	114,659	649,659
2018	565,000	1,056,874	1,621,874
Thereafter	12,793,600	-	12,793,600
	<u>\$ 14,813,600</u>	<u>\$ 1,385,202</u>	<u>\$ 16,198,802</u>

The UAB Educational Foundation
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

12. Net Assets Released From Restrictions

Net assets were released from donor restrictions during fiscal 2014 and 2013 by incurring expenses and/or due to the passage of time, satisfying the restricted purposes specified by donors as follows:

	2014	2013
Purpose restrictions accomplished	\$ 4,080,849	\$ 4,154,768
Total restrictions released	<u>\$ 4,080,849</u>	<u>\$ 4,154,768</u>

13. Temporarily Restricted and Permanently Restricted Net Assets

Temporarily Restricted Net Assets

Common Fund

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

University/Hospital Funds

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

Charitable Gift Annuity Program

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

UAB Tornado Relief Fund

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

Athletics Support Funds

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

Permanently Restricted Net Assets

Newsome Fund

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

The UAB Educational Foundation
Notes to Consolidated Financial Statements
September 30, 2014 and 2013

Total net assets consisted of the following at September 30, 2014 and 2013:

	2014			Total
	Unrestricted	Temporary Restricted	Permanently Restricted	
Net assets				
Unrestricted				
Designated	\$ 75,000	\$ -	\$ -	\$ 75,000
Unappropriated	30,414,529	-	-	30,414,529
Temporarily restricted				
Common fund	-	2,909,757	-	2,909,757
University/Hospital funds	-	2,289,193	-	2,289,193
Charitable gift annuity program	-	201,519	-	201,519
Athletics support funds	-	(87,665)	-	(87,665)
Tornado relief fund	-	138,000	-	138,000
Permanently restricted to investment				
Newsome fund	-	-	56,372	56,372
Total net assets	<u>\$ 30,489,529</u>	<u>\$ 5,450,804</u>	<u>\$ 56,372</u>	<u>\$ 35,996,705</u>

	2013			Total
	Unrestricted	Temporary Restricted	Permanently Restricted	
Net assets				
Unrestricted				
Designated	\$ 75,000	\$ -	\$ -	\$ 75,000
Unappropriated	31,642,844	-	-	31,642,844
Temporarily restricted				
Common fund	-	3,789,730	-	3,789,730
University/Hospital funds	-	2,316,854	-	2,316,854
Charitable gift annuity program	-	190,150	-	190,150
Athletics support funds	-	(377,661)	-	(377,661)
Tornado relief fund	-	144,000	-	144,000
Permanently restricted to investment				
Newsome fund	-	-	53,998	53,998
Total net assets	<u>\$ 31,717,844</u>	<u>\$ 6,063,073</u>	<u>\$ 53,998</u>	<u>\$ 37,834,915</u>