THE UNIVERSITY OF
ALABAMA IN HUNTSVILLE

FINANCIAL REPORT
2019 – 2020

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Morton Hall was the first building constructed on the UAH campus in 1961. It received an addition in 1977 and was recently renovated in time to welcome new students for Fall semester 2020. It now sits in front of a large pedestrian quad and contains a two-story expansion, which provides 21st century flair and functionality.

Requests for Information

These financial statements are designed to provide a general overview of the University and its component unit's financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report, or requests for additional information, should be addressed to the Office of Accounting and Financial Reporting, The University of Alabama in Huntsville, 301 Sparkman Drive, Huntsville, Alabama 35899.

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Report of Independent Auditors

To the Board of Trustees of the University of Alabama:

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of The University of Alabama in Huntsville ("UAH"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, which comprise the statements of net position as of September 30, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and of cash flows (where applicable) for the years then ended, and the related notes to the financial statements, which collectively comprise UAH's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on the financial statements based on our audits. We did not audit the financial statements of The University of Alabama in Huntsville Foundation ("UAHF"), UAH's discretely presented component unit, as of and for the years ended September 30, 2020 and 2019. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for UAHF, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of The University of Alabama in Huntsville as of September 30, 2020 and 2019 and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As discussed in Note 1, the financial statements of UAH are intended to present the financial position, the changes in financial position and the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of UAH. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2020 and 2019, the changes in its financial position, or its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

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

PricewaterhouseCoopers LLP

Birmingham, Alabama
January 21, 2021

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

The following discussion and analysis provides an overview of the financial performance and activities of The University of Alabama in Huntsville (the "University" or "UAH") for the fiscal years ended September 30, 2020 and 2019. This discussion and analysis has been prepared by University management along with the financial statements and related note disclosures, and should be read in conjunction with the financial statements and related note disclosures. The financial statements, notes and this discussion are the responsibility of management.

Introduction

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

The University offers 88 degree-granting programs that meet the highest standards of excellence, including 41 bachelor's degree programs, 31 master's degree programs, and 16 doctoral programs through its nine colleges: Arts, Humanities and Social Sciences; Business; Education; Engineering; Graduate School; Honors; Nursing; Professional Studies; and Science.

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

UAH was listed as very competitive by *Barron's Profiles in American Colleges* and was one of only two public universities in Alabama to earn this designation. *U.S. News & World Report* consistently ranks UAH among the magazine's Tier 1 national universities, placing it among the top four percent of public universities in the nation. According to *PayScale*, UAH provides the number one return on investment of all Alabama schools for both in-state and out-of-state students.

The University expended over $112 million for externally funded projects for the year ended September 30, 2020. Sponsors of research include federal and state agencies, academic institutions, industry and private foundations. Research is conducted within the nine individual colleges and through the University's 17 independent research centers, laboratories and institutes.

Major interdisciplinary research thrusts include: modeling and simulation; cybersecurity; systems engineering; rotorcraft and aerospace engineering; propulsion; optics; space physics and astrophysics; earth and atmospheric system science; information technology; materials science; biotechnology; nanotechnology; humanities; and lean supply chain, acquisition, and logistics.

Federal economic relief funds represent funding received from the federal government as a result of the Coronavirus Aid, Relief and Economic Security ("CARES") Act. The CARES Act was signed into law in March 2020 in order to provide economic assistance for businesses and individuals that have been negatively impacted by the COVID-19 pandemic. During 2020, the University received grants primarily from two CARES Act programs, the Education Stabilization Fund Program Governor's Emergency Relief Fund and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Higher Education Emergency Relief Fund (HEERF)Higher Education Emergency Relief Fund.

The Education Stabilization Fund Program Governor's Emergency Relief Fund administered through the U.S. Department of Education awards grants to Governors for the purpose of providing local educational agencies, institutions of higher education, and other education related entities with emergency assistance as a result of the Novel Coronavirus Disease 2019 (COVID-19). Primarily designed to facilitate the distribution of emergency financial aid grants directly to students, as well as to provide funding for institutions negatively impacted by the COVID-19 pandemic. Under the terms of the student portion of this program, revenue is recognized once eligible expenditures associated with the distribution of aid to students have been incurred. For the institutional portions of this program, revenue is recognized as the University identifies eligible expenditures or lost revenues which qualify for reimbursement. Funds received are recognized into revenue as the University identifies eligible expenditures or lost revenues which qualify for reimbursement. Revenue awarded under the terms of this program totaled $5.67 million in 2020, and was primarily related to the distribution of emergency financial aid grants to students.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Higher Education Emergency Relief Fund (HEERF)Higher Education Emergency Relief Fund is administered through the U.S. Department of Education and was for the funds to be used to prevent, prepare for, and respond to coronavirus only. No other purpose is authorized. Funds may not be utilized to replace or supplant any other funding nor to fill revenue shortfall gaps. Revenue awarded from the Higher Education Emergency Relief Fund totaled $1.98 million and $1.3 million, respectively in 2020.

Statements of Net Position

The statements of net position present the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the University as of the end of the fiscal years ended September 30, 2020 and 2019. The purpose of the statements of net position is to present a fiscal snapshot of the University to the readers of the financial statements.

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

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

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

Condensed Statements of Net Position

	September 30		
	2020	2019	2018
Current assets	$114,048,255	$115,007,493	$120,009,299
Noncurrent assets:			
Endowment, life income and other investments	93,785,403	94,232,008	64,671,314
Capital assets, net	310,845,959	310,234,994	295,483,325
Other	2,424,113	2,568,634	2,677,672
Total assets	521,103,730	522,043,129	482,841,610
Deferred outflows of resources	36,476,893	35,809,718	32,894,090
Current liabilities	85,787,067	90,508,497	71,564,101
Noncurrent liabilities	332,992,839	355,755,364	324,923,772
Total liabilities	418,779,906	446,263,861	396,487,873
Deferred inflows of resources	46,357,210	25,324,831	26,728,420
Net position			
Net investment in capital assets	165,514,356	165,385,148	168,455,369
Restricted	21,091,735	22,201,086	28,294,108
Unrestricted	(94,162,584)	(101,322,079)	(104,230,070)
Total net position	$ 92,443,507	$ 86,264,155	$ 92,519,407

For the year ended September 30, 2020, the University's current assets decreased $959 thousand primarily due to a decrease in operating investments. Endowment, life income and other investments decreased $447 thousand due to decreases in restricted cash and endowment investments. Capital assets, net of depreciation, decreased slightly by $611 thousand. Other assets decreased $145 thousand.

Current liabilities decreased $4.7 million. The majority of this decrease is due to a $3.6 million decrease in accounts payable and accrued liabilities, along with a $788 thousand decrease in unearned revenues due to lower enrollment. Noncurrent liabilities decreased by approximately $27.5 million, primarily the result of a decrease in the Pension and OPEB liability of $22.7 million as required by GASB No. 68 and No. 75.

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

The University recorded deferred outflows of resources of $667 thousand primarily due to differences between projected and actual earnings of the pension and OPEB plans. Deferred inflows of resources increased $21 million due to the net differences between projected and actual earnings of the pension and OPEB plans.

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

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

For the year ended September 30, 2020, the University's total net position increased $6.2 million. The University's net investment in capital assets increased approximately $129 thousand. Restricted net position decreased approximately $1.1 million. Unrestricted net position increased approximately $7.2 million. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designed for capital projects, as well as various academic and research programs and initiatives.

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

Capital Assets

For the years ended September 30, 2020, 2019, and 2018, the University had approximately $609.6 million, $592.1 million, and $561.1 million, invested in capital assets and accumulated depreciation of $298.7 million, $281.8 million, and $265.7 million, respectively. Depreciation charges for the years ended September 30, 2020, 2019, and 2018, were $18.1 million, $17.2 million, and $17.1 million, respectively. The following table summarizes the University's capital assets, net of accumulated depreciation, as of September 30:

Capital Assets, Net

	2020	2019	2018
Land	$ 14,050,899	$ 14,050,899	$ 14,050,899
Land improvements and infrastructure, net	5,023,155	6,334,408	6,868,834
Buildings and building improvements, net	273,089,104	270,843,749	255,951,402
Equipment, net	16,061,688	16,373,046	15,903,359
Library books, net	1,254,662	1,289,185	1,317,725
Computer software, net	242,049	219,305	266,704
Collections	1,124,402	1,124,402	1,124,402
Total capital assets, net	$ 310,845,959	$ 310,234,994	$295,483,325

Major capital additions in 2020 included the Spragins Hall exterior renovation and Business Administration Building interior renovation. Major capital additions in 2019 included the completion of the Invention to Innovation Center. Major capital additions for the year ended September 30, 2018 included completion of the Charger Village addition, a new sorority house, and construction of the Invention to Innovation Center.

Additional information about the University's capital assets is presented in Note 6 to the financial statements.

Debt

This table summarizes outstanding debt by type, as of September 30. Principle and interest on these revenue bonds are collateralized by a pledge of revenues produced by student housing and student tuition and fees.

	2020	2019	2018
Bonds - Current	$ 5,225,000	$ 5,114,000	$ 4,528,000
Bonds - Long Term	135,227,000	139,397,000	117,401,000
Lease - Current	33,856	194,149	194,149
Lease - Long Term	-	33,856	228,005
Premium, net	12,410,713	8,343,050	5,516,435
Total debt outstanding	$152,896,569	$ 153,082,055	$ 127,867,589

Statements of Revenues, Expenses, and Changes in Net Position

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

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

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

	Years ended September 30		
	2020	2019	2018
Operating revenues:			
Tuition and fees	$121,333,801	$114,566,974	$ 106,800,049
Less: scholarship allowances	(50,114,488)	(45,053,028)	(39,161,060)
Tuition and fees, net	71,219,313	69,513,946	67,638,989
Federal, state and private grants and contracts	112,067,344	94,876,156	82,978,323
Sales and services of educational activities	3,990,811	5,650,645	5,465,339
Auxiliary, net of $2,473,873 in 2020, $2,698,871 in 2019, and $2,488,236 in 2018 of scholarship allowances	15,924,237	14,474,450	11,353,348
Total operating revenues	203,201,705	184,515,197	167,435,999
Operating expenses	261,335,136	250,384,130	235,395,096
Operating loss	(58,133,431)	(65,868,933)	(67,959,097)
Nonoperating revenues (expenses):			
State educational appropriations	55,333,602	52,365,051	48,352,459
Private gifts	2,182,254	2,791,768	3,067,873
Net investment (loss) income	(1,026,843)	186,866	4,849,274
Grant revenue	14,054,697	9,416,081	9,021,580
Loss on disposal of capital assets	(37,526)	(18,507)	(281,092)
Interest expense	(7,038,136)	(6,165,545)	(4,223,715)
Net nonoperating revenues	63,468,048	58,575,714	60,786,379
Other changes in net position	844,735	1,037,967	2,559,163
Increase (decrease) in net position	6,179,352	(6,255,252)	(4,613,555)
Net position, beginning of year (as previously reported)	86,264,155	92,519,407	143,013,745
Adoption of GASB 75 adjustment (see Note 10)	-	-	(45,880,783)
Net position, beginning of year, as restated as of October 1, 2017	86,264,155	92,519,407	97,132,962
Net position, end of year	$ 92,443,507	$ 86,264,155	$ 92,519,407

Approximately $55.3 million in state appropriations were received for the year ended September 30, 2020, an increase of 5.4% or $2.9 million from the prior year.

Gross tuition and fees increased approximately $6.8 million for the year ended September 30, 2020 due to a continued growth in total enrollment coupled with moderate tuition increases. Gross tuition and fees increased approximately $7.8 million for the year ended September 30, 2019 due to a continued growth in total enrollment.

Significant recurring sources of the University's revenues, such as state appropriations, are considered non-operating, as defined by GASB Statement No. 35, *Basic Financial Statements-Management's Discussion and Analysis – for Public Colleges and Universities*. In fiscal year 2018, the University received an Intergovernmental transfer at the request of the University of Alabama System Office, for oversight and management of the University of Alabama System Regional Optical Network (UAS-RON) to all three campuses effective October 2017. It was determined that each campus would record 1/3 ownership in the UAS-RON Asset. The total asset amount is $1,192,646, and each campus will record $397,548 in assets.

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

Revenue Sources for the years ended September 30

	2020		2019		2018	
State educational appropriations	$ 55,333,602	20.2%	$ 52,365,051	20.9%	$ 48,352,459	20.6%
Net investment income	(1,026,843)	-0.4%	186,866	0.1%	4,849,274	2.1%
Grants and contracts	112,067,344	40.8%	94,876,156	37.9%	82,978,323	35.3%
Gifts	2,182,254	0.8%	2,791,768	1.1%	3,067,873	1.3%
Auxiliary	15,924,237	5.8%	14,474,450	5.8%	11,353,348	4.8%
Net tuition and fees	71,219,313	25.9%	69,513,946	27.8%	67,638,989	28.7%
Sales and services	3,990,811	1.5%	5,650,645	2.2%	5,465,339	2.2%
Capital gifts and grants	844,735	0.3%	1,037,967	0.4%	2,161,614	0.9%
Grant Revenue	14,054,697	5.1%	9,416,081	3.8%	9,021,580	3.8%
Intergovernmental transfers	-	0.0%	-	0.0%	397,549	0.2%
Total revenues	$ 274,590,150		$250,312,930		$ 235,286,348	

Investments produced losses for fiscal year 2020 in the amount of $1 million, a $1.2 million decrease over fiscal year 2019. Investments produced income and gains for 2019 in the amount of $187 thousand, a $4.7 million decrease over the prior year. Investments produced income and gains for the year ended September 30, 2018 in the amount of $4.8 million, a $5.4 million decrease over fiscal year 2017.

Grants and contracts revenues increased $17.2 million in 2020 due primarily to increases in federal, state, and private contracts of $16.2 million, $597 thousand, and $348 thousand, respectively. For the year ended September 30, 2019 grants and contracts revenues increased $11.9 million due primarily to increases in federal and private contracts. For the year ended September 30, 2018, grants and contracts revenue increased $4.1 million due primarily to increases in federal contracts of $4.8 million.

The University received gifts of approximately $2.2 million for fiscal year 2020 and $2.8 million in 2019. This slight decrease was due to a reduction in corporate gifts to the University. In 2018, gifts totaled $3.1 million, primarily from the University of Alabama Huntsville Foundation.

The University's auxiliary activities are comprised primarily of the Bevill Conference Center and Hotel, food service, housing, and bookstore. Auxiliary activities increased $1.4 million, $3.1 million, and $781 thousand for the years ended September 30, 2020, 2019 and 2018, respectively.
Sales and services revenue decreased by $1.7 million in 2020 due to a decrease in student activity on campus. For the year ended September 30, 2019, sales and services revenue stayed constant with a slight increase of $186 thousand. Sales and services revenue increased $1 million in 2018 due to increased student activity on campus.

Grant revenue increased by $4.6 million in 2020 due to the University receiving emergency financial aid grants to students under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. For the year ended September 30, 2020 the University received $3.7 million and $927 thousand from federal and state coronavirus relief funding, respectively.

The University receives grant and contract revenue from federal, state and local governments and private agencies. These funds are used to further the mission of the University: research, education, and public service. These funds are recorded as operating revenues.

The following chart reflects the funding sources for federal operating grant and contract revenue for the years ended September 30:

Detail of Federal Grants & Contracts Revenue

	Years ended September 30		
	2020	2019	2018
National Aeronautics and Space Administration	$ 28,194,823	$ 24,641,552	$ 24,322,285
Department of Defense	61,092,911	49,359,419	40,866,195
National Science Foundation	8,092,302	8,804,595	7,427,626
Department of Education	339,401	-	313,449
Other	7,711,820	6,380,126	4,388,378
Total	$ 105,431,257	$ 89,185,692	$ 77,317,933

National Aeronautics and Space Administration (NASA) revenues increased $3.6 million for the year ended September 30, 2020. NASA revenues increased slightly by $319 thousand for the year ended September 30, 2019. NASA revenues increased $1.3 million in 2018.

For the year ended September 30, 2020, Department of Defense (DOD) revenues increased $11.7 million primarily due to federal pass-through contracts that were renewed. DOD revenues increased $8.5 million in 2019 primarily due to a new multi-year Space and Missile Defense (SMDC) contract. DOD revenues increased $1.1 million in 2018 primarily due to new federal pass-through contracts.
National Science Foundation (NSF) revenues decreased slightly by $712 thousand in 2020. NSF increased $1.4 million and $3.2 million for the years ended September 30, 2019 and 2018 respectively.

For the year ended September 30, 2020, the Department of Education (DOE) revenues increased $339 thousand due an increase to federal pass-through contracts. DOE decreased $313 thousand in 2019 primarily due to federal pass-through contracts that were not renewed.

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

Operating Expenses (by functional classification)

	Years ended September 30		
	2020	2019	2018
Instruction	$ 62,794,421	$ 65,064,208	$ 62,356,254
Research	94,352,715	80,082,153	73,077,887
Public service	10,344,933	7,362,241	6,566,199
Academic support	11,600,344	12,129,052	12,175,608
Student services	17,393,231	18,246,691	17,535,813
Institutional support	19,950,746	22,619,041	21,799,636
Operations and maintenance of plant	14,765,937	13,396,185	13,532,266
Scholarships and fellowships	4,310,626	3,474,084	3,332,226
Auxiliary enterprises	7,697,597	10,843,462	7,875,393
Depreciation	18,124,586	17,167,013	17,143,814
Total operating expenses	$ 261,335,136	$ 250,384,130	$ 235,395,096

Operating Expenses (by natural classification)

Salaries, wages, and benefits	$ 175,461,558	$ 169,949,845	$ 164,700,313
Supplies and services	63,438,366	59,793,188	50,218,743
Depreciation	18,124,586	17,167,013	17,143,814
Scholarships and fellowships	4,310,626	3,474,084	3,332,226
Total operating expenses	$ 261,335,136	$ 250,384,130	$ 235,395,096

For fiscal year 2020, instruction expenses decreased $2.3 million due to an decrease in salaries, wages and benefits. In the year ended September 30, 2019, instruction expenses increased $2.7 million due to an increase in salaries, wages and benefits and a slight increase in supplies and services. In 2018, instruction expenses increased $2.3 million due to an increase in salaries, wages and benefits.

Research expenses increased $14.3 million in 2020 due to an increase in federal contracts and grants. Research expenses increased $7.0 million in 2019 due to an increase in contracts and grants. Research expenses increased $6.2 million in fiscal year 2018 due to an increase in contracts and grants.

Public service expenses increased $3 million in 2020 due to increases in federal public service contracts and grants. For the year ended September 30, 2019, public service expenses increased $796 thousand due to increases in federal public service contracts and grants. Public service expenses decreased $423 thousand due to decreases in federal public service contracts and grants in 2018.

Academic support saw an decrease of $529 thousand during 2020. Academic support decreased slightly during 2019 by $47 thousand. Academic support increased during for the year ended September 30, 2018 by $359 thousand.

Operations and maintenance of plant increased $1.4 million during fiscal year 2020 primarily due to increases in utilities costs and other services. Operations and maintenance of plant decreased $136 thousand during 2019 and decreased $126 thousand during 2018.

Salaries, wages and benefits increased $5.5 million in 2020 due to a continued increase in federal contracts and health insurance and other benefits. Fiscal year 2019 saw a $5.2 million increase in salaries, wages and benefits, primarily due to a combination of increases in federal contracts and health insurance and other benefit costs. Salaries, wages and benefits increased $4.5 million in fiscal year 2018, primarily due to a combination of increases in grants and contracts and health insurance and other benefit costs.

Scholarships and fellowships expense increased $836 thousand for the year ended September 30, 2020. Scholarships and fellowships expense increased $142 thousand for 2019 and increased $788 thousand during 2018. Scholarships and fellowships expenses represent the residual expense after applying the scholarship allowance to gross tuition and fees revenue. The scholarship allowance represents the discount applied to student accounts for internal scholarships and financial aid, including Pell grant assistance that is reported as non-operating revenue.

Supplies and services expenses increased $3.6 million for the year ended September 30, 2020 due to the University's continued growth and federal contracts. Supplies and services expenses increased $9.6 million in 2018 and $5.4 million in 2018 due to the University's growth.

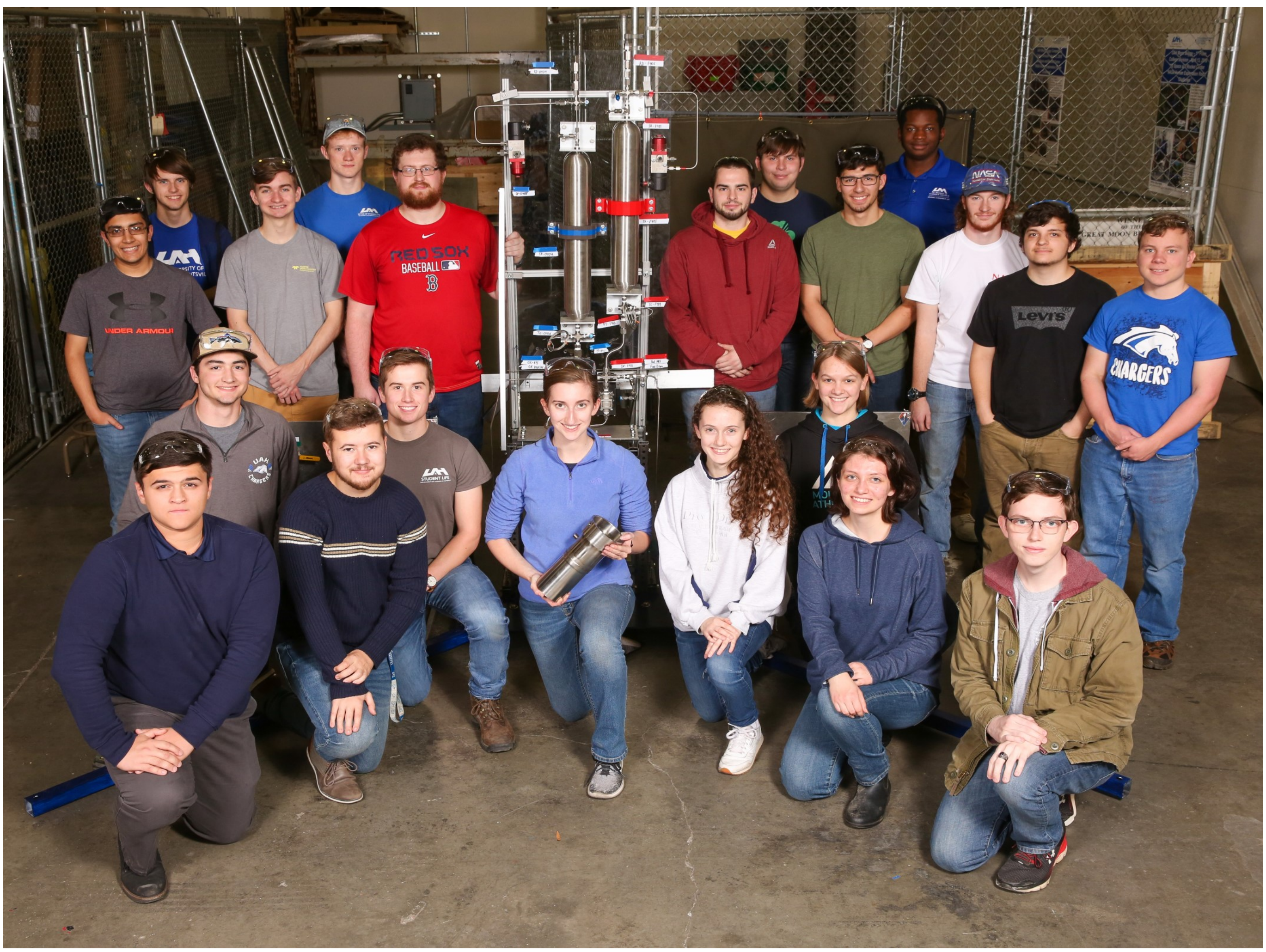
Economic Factors That Will Affect the Future

Despite the global pandemic, The University of Alabama in Huntsville set its enrollment record for the sixth consecutive year. The University enrolled 10,000 students in Fall 2020, a slight increase from 9,988 students in Fall 2019. Tuition revenues accounted for approximately 55% of the unrestricted fund source. UAH is a leading destination for high-achieving students, with 52% of the first-time freshmen scoring 4.0 or higher in high school grade point average. UAH is strategically investing its resources in student retention, and projects its future enrollment to hold steady or improve moderately.

State appropriation accounted for 23% of the unrestricted fund source. Due to the ongoing support of higher education from the Alabama Legislature, UAH received a state appropriation increase of 4.2% in FY 2019, 6.6% in FY 2020, and 3.41% in FY 2021. The early projection from the state's Educational Trust Fund (ETF) is promising despite the economic slow down caused by the pandemic.

Facilities and Administrative Rates (F&A) accounted for another 7% of the University unrestricted fund source. UAH contracts and grants revenues increased approximately $16 million in FY 2020, which is a 17% increase from FY 2019. While the University does not anticipate the contracts and grants revenues to continue to grow at a double-digit pace, it does project the growth trend to continue next year.

In summary, the primary source of revenues for the University's unrestricted fund, tuition, state appropriation, and F&A is projected to remain stable or grow moderately in the near future.



The University of Alabama in Huntsville
Statements of Net Position
September 30, 2020 and 2019

	2020	2019
Assets		
Current Assets:		
Cash and cash equivalents	$ 42,590,181	$ 29,564,137
Operating investments	11,687,721	23,782,952
Accounts receivable, net	39,384,004	39,971,336
Other current assets	20,386,349	21,689,068
Total current assets	114,048,255	115,007,493
Noncurrent Assets:		
Restricted cash and cash equivalents	8,593,145	19,153,493
Endowment investments	33,254,580	34,043,115
Investments for capital activities	51,937,678	41,035,400
Capital assets, net	310,845,959	310,234,994
Other noncurrent assets	2,424,113	2,568,634
Total noncurrent assets	407,055,475	407,035,636
Total Assets	**521,103,730**	**522,043,129**
Deferred Outflows of Resources		
Pensions and OPEB obligations	36,476,893	35,809,718
Total Deferred Outflows of Resources	**36,476,893**	**35,809,718**
Total Assets and Deferred Outflows of Resources	**$ 557,580,623**	**$ 557,852,847**
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 27,901,849	$ 31,473,006
Unearned revenue	48,527,840	49,315,513
Current portion of long-term debt	5,258,856	5,308,149
Deposits held for others	4,098,522	4,411,829
Total current liabilities	85,787,067	90,508,497
Noncurrent Liabilities:		
Long-term debt	147,637,713	147,773,906
Federal advances - loan funds	721,113	601,011
Pension liability	161,346,000	150,951,000
OPEB liability	23,288,013	56,429,447
Total noncurrent liabilities	332,992,839	355,755,364
Total Liabilities	**418,779,906**	**446,263,861**
Deferred Inflows of Resources		
Pensions and OPEB obligations	46,357,210	25,324,831
Total Deferred Inflows of Resources	**46,357,210**	**25,324,831**
Total Liabilities and Deferred Inflows of Resources	**$ 465,137,116**	**$ 471,588,692**
Net Position:		
Net investment in capital assets	165,514,356	165,385,148
Restricted:		
Nonexpendable	10,052,197	10,020,768
Expendable	11,039,538	12,180,318
Unrestricted	(94,162,584)	(101,322,079)
Total Net Position	**92,443,507**	**86,264,155**
Total Liabilities and Net Position	**$ 557,580,623**	**$ 557,852,847**

See accompanying notes to financial statements

The University of Alabama in Huntsville
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Revenues		
Tuition and fees	$ 121,333,801	$ 114,566,974
Less: scholarship allowances	(50,114,488)	(45,053,028)
Tuition and fees, net	71,219,313	69,513,946
Grants and contracts		
Federal	105,431,257	89,185,692
State	4,373,211	3,775,885
Private	2,262,876	1,914,579
Sales and services of educational activities	3,990,811	5,650,645
Auxiliary, net of $2,473,873 in 2020 and $2,698,871 in 2019 of scholarship allowances	15,924,237	14,474,450
Total Operating Revenues	**203,201,705**	**184,515,197**
Operating Expenses		
Salaries, wages and benefits	175,461,558	169,949,845
Supplies and services	63,438,366	59,793,188
Depreciation	18,124,586	17,167,013
Scholarships and fellowships	4,310,626	3,474,084
Total Operating Expenses	**261,335,136**	**250,384,130**
Operating loss	(58,133,431)	(65,868,933)
Nonoperating Revenues (Expenses)		
State educational appropriations	55,333,602	52,365,051
Private gifts	2,182,254	2,791,768
Net investment income	(1,026,843)	186,866
Grant revenue	14,054,697	9,416,081
Other nonoperating revenues (expenses), net	(37,526)	(18,507)
Interest expense	(7,038,136)	(6,165,545)
Net Nonoperating Revenues	63,468,048	58,575,714
Income (loss) before other changes in net position	5,334,617	(7,293,219)
Other Changes in Net Position		
Capital gifts and grants	844,735	1,037,967
Other changes in net position	**844,735**	**1,037,967**
Increase/(decrease) in net position	6,179,352	(6,255,252)
Net Position, Beginning of Year	86,264,155	92,519,407
Net Position, End of Year	**$ 92,443,507**	**$ 86,264,155**

See accompanying notes to financial statements

The University of Alabama in Huntsville
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Student tuition and fees	$ 67,782,113	$ 71,850,680
Federal grants and contracts	108,111,633	85,820,158
State and local grants and contracts	4,429,361	3,509,075
Private grants and contracts	2,291,930	1,779,292
Sales and services of educational and other departmental activities	4,096,610	5,738,251
Auxiliary enterprises	16,207,678	13,780,434
Payments to suppliers	(67,339,930)	(54,393,910)
Payments to employees and related fringes	(174,097,954)	(166,182,981)
Payments for scholarships and fellowships	(3,006,497)	(6,748,774)
Net Cash Used in Operating Activities	**(41,525,056)**	**(44,847,775)**
Cash Flows from Noncapital Financing Activities		
State educational appropriations	55,333,602	52,365,051
Private gifts	2,282,254	2,891,768
Student direct lending receipts	32,112,901	33,168,268
Student direct lending disbursements	(32,019,179)	(33,968,402)
Amounts received from affiliates	120,102	285,249
Amounts paid to affiliates	(313,307)	(3,413)
Grant revenue	14,054,697	9,416,081
Borrowings from UA System Pools	10,000,000	10,000,000
Repayment to UA System Pools	(10,000,000)	(10,000,000)
Interest payments on UA System Pools borrowings	(14,250)	(33,562)
Net Cash Provided by Noncapital Financing Activities	**71,556,820**	**64,121,040**
Cash Flows from Investing Activities		
Income distributions from System investment pool	855,262	1,501,115
Proceeds from sales and maturities of investments	923,528	455,009
Purchases of investments	(835,828)	(802,343)
Net Cash Provided by Investing Activities	**942,962**	**1,153,781**
Cash Flows from Capital and Related Financing Activities		
Net proceeds from issuance of bonds	34,550,222	30,331,009
Purchase of capital assets	(21,801,317)	(27,347,041)
Proceeds from the sale of capital assets	40,000	-
Principal payments on capital debt	(34,283,148)	(4,722,149)
Interest payments on capital debt	(7,014,787)	(6,042,724)
Net Cash Used in Capital and Related Financing Activities	**(28,509,030)**	**(7,780,905)**
Net increase in cash and cash equivalents	2,465,696	12,646,141
Cash and Cash Equivalents, Beginning of Year	48,717,630	36,071,489
Cash and Cash Equivalents, End of Year	**$ 51,183,326**	**$ 48,717,630**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents in current assets	42,590,181	29,564,137
Restricted cash and cash equivalents	8,593,145	19,153,493
Total Cash and Cash Equivalents	**$ 51,183,326**	**$ 48,717,630**

See accompanying notes to financial statements

The University of Alabama in Huntsville
Statements of Cash Flows -- Continued
Years Ended September 30, 2020 and 2019

	2020	2019
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (58,133,431)	$ (65,868,933)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	17,716,547	16,781,657
Pension expense	14,675,120	11,580,770
OPEB expense	(1,777,139)	4,619,908
Changes in assets and liabilities:		
Accounts receivable, net	505,293	(8,757,392)
Other current assets	1,302,719	(3,322,136)
Pension obligations	(13,402,359)	(12,659,120)
OPEB obligations	(1,876,852)	(1,753,547)
Accounts payable and accrued liabilities	252,719	7,810,933
Unearned revenues	(787,673)	6,720,085
Net Cash Used in Operating Activities	**$ (41,525,056)**	**$ (44,847,775)**
Supplemental Noncash Activities Information		
Capital asset purchases accrued at year end	2,041,765	5,874,740
Transfer from STLP to LCRP	6,363,697	-

University of Alabama Huntsville Foundation
Discretely Presented Component Unit
Statements of Net Position
September 30, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	$ 3,966,708	$ 3,277,443
Accrued interest	506,815	476,918
Total current assets	**4,473,523**	**3,754,361**
Noncurrent assets		
Investments	47,246,860	46,623,065
Investment in real estate	2,739,563	2,739,563
Investment in trust	10,863,342	5,441,348
Pledges receivable, net	3,914,015	4,216,000
Trust receivable	242,479	484,959
Total noncurrent assets	**65,006,259**	**59,504,935**
Total Assets	**$ 69,479,782**	**$ 63,259,296**
Liabilities		
Current liabilities		
Accounts payable	$ 194,401	$ 248,720
Annuity payable	100,685	95,115
Related party payable	228,471	131,263
Total Liabilities	**523,557**	**475,098**
Net Position		
Unrestricted	29,054,918	23,674,563
Restricted		
Expendable	15,608,603	15,107,589
Nonexpendable	24,292,704	24,002,046
Total Net Position	**68,956,225**	**62,784,198**
Total Liabilities and Net Position	**$ 69,479,782**	**$ 63,259,296**

See Note 2

University of Alabama Huntsville Foundation
Discretely Presented Component Unit
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Revenues		
Contributions	$ 2,118,370	$ 1,422,500
Other income	30,339	127,320
Total Operating Revenues	**2,148,709**	**1,549,820**
Operating Expenses		
Scholarships to UAH	774,605	1,240,844
Contributions to UAH	1,392,598	1,668,585
Professional services	80,089	65,500
Other expenses	126,737	146,125
Total Operating Expenses	**2,374,029**	**3,121,054**
Operating Income	**(225,320)**	**(1,571,234)**
Nonoperating Revenues (expenses)		
Investment income, net	423,308	647,611
Rent income	33,570	33,570
Contributions-Trust	4,981,334	-
Equity in earnings of trust	1,200,476	708,048
Change in value of split-interest agreement	(5,943)	19,524
Income tax expense	(235,398)	(121,200)
Net Nonoperating (Expenses) Revenues	**6,397,347**	**1,287,553**
Increase in net position	6,172,027	(283,681)
Net position, beginning of year	62,784,198	63,067,879
Net position, end of the year	**$ 68,956,225**	**$ 62,784,198**

See Note 2

Notes to Financial Statements
Years Ended September 30, 2020 and 2019

Note 1 – Organization and Summary of Significant Accounting Policies

Financial Reporting Entity - The University of Alabama in Huntsville (the "University") is one of three universities of The University of Alabama System (the "System"), a component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business type activities of the financial reporting entity of the System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the System, its changes in financial position or cash flows in accordance with accounting principles generally accepted in the United States of America. The financial statements include individual schools, colleges and departments, and certain affiliated operations determined to be a part of the University's financial reporting entity. The System is recognized as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code.

Scope of Statements - The University follows Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* ("GASB 61"). This Statement provides additional guidance in determining whether certain organizations affiliated with the University should be considered component units of the University for financial reporting purposes. The Statement also provides guidance on determining whether component units should be presented in the University's financial statements as "blended" or "discrete" components based on their relationship and organizational structure.

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the University, as well as its discretely presented component unit, the University of Alabama Huntsville Foundation ("UAHF").

UAHF is a legally separate, tax-exempt component unit of the University. UAHF is organized exclusively for charitable, scientific, and educational purposes in order to benefit the University. UAHF is governed by a 37-member board of trustees. Although the University does not control the timing or amount of receipts from UAHF, the majority of resources or income that UAHF holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by UAHF can only be used by, or for the benefit of, the University, UAHF is considered a component unit of the University. UAHF is reported in separate financial statements because it does not meet the criteria to be blended with the University as described in GASB 61.

UAHF is a not-for-profit organization that reports its financial results under the Financial Accounting Standards Board ("FASB") Statements. Most significant to UAHF's operations and reporting model is Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features.

While no modifications have been made to UAHF's financial information in the University's financial reporting entity for recognition or accounting differences, certain modifications have been made to the presentation of UAHF's financial statements in the University's financial reporting entity to conform with the University's financial statement presentation. Significant note disclosures (see Note 2) to UAHF's financial statements have been incorporated into the University's notes to the financial statements. During fiscal years 2020 and 2019, UAHF distributed $2,167,203 and $2,909,429, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF are available by phoning (256) 824-6350.

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

With Board approval on April 26, 2018, the University formed The University of Alabama in Huntsville Research and Technology Corporation (the "RTC"), an Alabama non-profit corporation. However, as of September 30, 2020 the RTC did not have any activities or balances to be included in UAH's financial statements.

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

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

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

- **Net investment in capital assets**: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

- **Restricted**:

    Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the corpus of the University's permanent endowment funds.

    Expendable – Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

- **Unrestricted:** Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management or The Board of Trustees of the University of Alabama.

Cash and Cash Equivalents: For purposes of the statement of cash flows, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents representing assets of the University's endowment, life income, and other long-term investments are included in the noncurrent investments category.

Investments: The University's investment portfolio is primarily invested in investment pools maintained by The University of Alabama System. Fair value for the investment pools is determined by the System, based on the fair value of the underlying investment securities held by each investment pool. Fair value of the underlying securities held in each investment pool is based on quoted market prices or dealer quotes, where available, or determined using net asset values provided by underlying investment partnerships or companies. Fair value for investments held directly by the University is determined from quoted market prices or market prices of similar instruments. Net investment income or loss, including realized and unrealized gains and losses, is reported as non-operating revenues (expenses) in the statements of revenues, expenses and changes in net position.

Investments are reported in three categories in the statement of net position. Investments recorded as endowment investments are those invested funds that cannot be used to fund current operations and thus are included in noncurrent assets. Investments for capital activities are included in noncurrent assets, except for amounts included in current assets to offset current construction-related payables. All other investments are included as operating investments.

Accounts Receivable: Accounts receivable consist primarily of tuition and fees charged to students, and amounts due from the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

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

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or acquisition value at date of donation in the case of gifts, less accumulated depreciation. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Implementation costs, which are capitalized, include consulting expenses and allocation of internal salaries and fringes for the core implementation team. Training costs are expensed as incurred. Prior to fiscal year 2018, interest costs for certain qualifying assets acquired with the proceeds of tax-exempt borrowings were capitalized and amortized over the life of the related asset. In 2018, the University early adopted GASB Statement No. 89, Accounting for Interest Cost Incurred before the end of a Construction Period. This statement simplifies accounting for interest cost incurred before the end of a construction period by requiring it to be expensed instead of capitalized.

Depreciation of buildings and building improvements (5-40 years), land improvements, and infrastructure (10 years), library collection (10 years), computer software (10 years), and inventoried equipment (5-8 years) is computed on a straight-line basis. The University computes depreciation for certain buildings and building improvements using a componentized method.

Collections are recognized as an asset on the accompanying statements of net position in accordance with GASB Statement No. 35. The University defines collections as works of art or similar assets that are held for public exhibition, education, or research in furtherance of public service rather than financial gain which are protected, kept unencumbered, cared for, and preserved. Collection items are recorded at cost as of the date of acquisition or at their appraised or acquisition value on the date of donation in the case of gifts. Gains or losses from the sale of collection items are reflected on the statement of revenues, expenses, and changes in net position.

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

Revenues: The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net position are those that generally result from transactions such as payments received for providing services, payments made for services or goods received, and from grants and contracts. Certain significant revenue streams relied upon to support operations are recorded as non-operating revenues, as defined by GASB guidance, including state educational appropriations, private gifts for other than capital purposes, investment income, and Federal Pell Grants.

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

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

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

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

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

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

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

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Current Environment: The COVID-19 pandemic has negatively affected national, state, and local economies as well as global financial markets and the higher education landscape in general. Commencing March 15, 2020 course instruction at the University was conducted virtually and most students vacated the campus. The University issued refunds of $3 million in fiscal year 2020 for parking, housing, and dining services not provided. Students continued to meet their academic requirements for the remainder of the 2019-20 academic year. While the total financial impact on the University cannot be quantified at this time, the pandemic may have a material adverse effect on the current and future financial profile and operating performance of the University. The University continues to monitor the course of the pandemic and is prepared to take additional measures to protect the health of the University community and promote the continuity of its academic mission.

Note 2 – Component Unit

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

Basis of Presentation – Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of and changes therein are classified and reported as follows in separately issued financial statements:

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

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

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

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

In accordance with ASC 958-320, *Not-for-Profit Entities,* investments in debt securities and investments in equity securities with readily determinable fair values are reported at their fair values based on published market prices. Other investments, including real estate, are stated at cost or fair value at date of donation in the case of gifts. Changes in fair values are reported as unrealized gains or losses in the statement of activities. All interest income and realized gains and losses are reported in the statement of activities.

Investments – The following are the cost and reported value of investments as of September 30, 2020 and 2019:

	2020		2019	
	Reported Value	Cost	Reported Value	Cost
Certificates of deposit	$ -	$ -	$ 1,400,294	$ 1,400,294
Pooled Endowment Fund	40,113,308	38,426,309	40,668,582	38,504,245
Marketable debt securities	4,069,695	3,940,788	1,665,474	1,652,412
Marketable equity securities	1,552,507	1,278,815	1,549,022	1,299,630
Mutual funds	1,511,350	1,287,236	1,339,694	1,285,558
Total	$ 47,246,860	$ 44,933,148	$ 46,623,066	$ 44,142,139

UAHF invests certain amounts in an investment pool ("Pooled Endowment Fund") sponsored by The University of Alabama System. The value recognized for the investment pool is determined by the System and is based on UAHF's proportionate share of the net asset value of the investment pool. The System has no variance power over the funds. Instead, the funds are distributed by the System to the Foundation upon its request. The investment pool invests in various investment securities, including both marketable and non-marketable securities.

Investment in Unconsolidated Entities and Trust Receivable - UAHF is one of several beneficiaries of a trust established upon the death in 1974 of one of the University's benefactors. The sole assets of the trust consist of ownership interests in two closely-held Huntsville, Alabama businesses named Big Springs, Inc. ("Big Springs") and Chambers Bottling Company, LLC ("Chambers"). The trust holds a 70% interest in the common stock of Big Springs and a 65% interest in Chambers.

The trust was established with both lead and remainder beneficiaries. The lead interest in the trust (that is, the rights to the income generated by the trust assets) is divided equally among three sets of beneficiaries who hold a lifetime interest in those rights. As each lead interest terminates, a proportionate amount of the underlying assets in the trust is distributed among two residual beneficiaries, UAHF and another unrelated charitable organization. UAHF's share of the residual interest of the trust assets is 90%. UAHF accounts for its residual interest in the trust as an unconditional promise to give noncash assets, consistent with generally accepted accounting principles for situations where a donee has the eventual right to noncash assets held by a charitable trust but not the cash flows generated by them while they are held by the trust. UAHF recorded this interest at fair value as of the date it was awarded in 1974, and currently carries this interest in the Trust receivable line on UAHF's accompanying statements of financial position.

During 2008, one of the income interests terminated, and a pro-rata distribution of the ownership interests held by the trust was transferred to UAHF. As a result of the satisfaction of a pro-rata share of the pledge, UAHF recognized a gain of $4,375,835 representing the increase in fair value of the noncash assets between the date the assets were promised in 1974 and their values upon actual receipt in 2008. As a result of the receipt of these equity interests, UAHF currently holds approximately 21% and 19.5% of Big Springs and Chambers, respectively. These equity interests allow UAHF to exercise significant influence over Big Springs and Chambers, and accordingly, UAHF accounts for these interests using the equity method of accounting.

During the years ended September 30, 2020 and 2019, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of $1,200,476 and $708,048 respectively. In addition, UAHF received distributions from Chambers of $1,005,944 and $627,159 in FY 2020 and FY 2019, respectively. Big Springs did not make any distributions in either FY 2020 or FY2019.

Eventually, all of the assets in the trust will be distributed upon the termination of the remaining lead interests, and the trust will terminate. At such time, UAHF will hold controlling interests of 63% and 58.5% in Big Springs and Chambers, respectively, and will consolidate these entities. UAHF will account for these interests under the equity method until the last lead interest is terminated, including the period after the termination of the second lead interest.

This table summarizes the combined financial position and results of operations of Big Springs and Chambers (on a consolidated basis) for the years ended September 30, 2020 and 2019.

	2020	2019
Current Assets	$ 22,370,548	$ 18,329,890
Noncurrent Assets	15,665,143	16,176,647
Current Liabilities	(8,414,038)	(4,778,802)
Noncurrent Liabilities	(2,715,438)	(3,238,725)
Equity	$ 26,906,215	$ 26,489,010
Net Sales	$ 52,088,456	$ 49,740,158
Operating Income	$ 2,951,262	$ 2,993,013
Net Income	$ 3,593,303	$ 3,660,250

Income Taxes - The Foundation is a nonprofit corporation that is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue code for activities related to its exempt purpose. Certain of the Foundation's activities are considered by the Internal Revenue Service to provide unrelated business income and, accordingly, income from these activities is subject to federal income tax. The Foundation's income tax expense totaled $235,398 and $121,200 for the years ended September 30, 2020 and 2019, respectively.

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

Note 3 – Cash and Cash Equivalents

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

As of September 30, 2020 and 2019, the University had cash and cash equivalents totaling $51,183,326 and $48,717,630 respectively. Included in the amounts are deposits with trustees held for reserves, which totaled $8,593,145 and $19,153,493 in fiscal years 2020 and 2019, respectively.

Note 4 – Investments

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

The Board has the responsibility for the establishment of the investment policy and the oversight of the investments for the System and related entities. In order to facilitate System-wide investment objectives and achieve economies of scale, the Board previously established three distinct investment pools based primarily on the projected investment time-horizons for System funds: the Pooled Endowment Fund (“PEF”), the Long Term Reserve Pool Fund (“LTRP”), and the Short Term Liquidity Pool Fund (“STLP”); collectively, the “System Pools.” In April 2020, the Board approved a merger of the STLP and the LTRP into one pool, the Liquidity and Capital Reserve Pool (“LCRP”). In July 2020, the Board closed the STLP and transferred the assets to the LTRP to create the new merged pool, with a new asset allocation. Pursuant to Board investment policies, each System or related entity may include all or a portion of their investments within the System-sponsored investment pools. These investment funds are considered “internal” investment pools under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with the assets pooled on a market value basis. Separately managed funds that reside with each entity are to be invested consistent with the asset mix of the corresponding System investment pool. The following disclosures relate to both the System Pools, which include the investments of other System entities and other affiliated entities, and the University-specific investment portfolio.

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

Long Term Reserve Pool Fund (effective July 1, 2020, merged with STLP to form the LCRP): The LTRP was a longer-term pool used as an investment vehicle to manage operating reserves with a time horizon of three to seven years. This fund had an investment objective of growth and income and was invested in a diversified asset mix of liquid, semi-liquid, and illiquid securities. This fund can invest no more than 10% in illiquid assets.

Short Term Liquidity Pool Fund (effective July 1, 2020, merged with the LTRP to form the LCRP): The STLP served as an investment vehicle to manage operating reserves with a time horizon of one to three years. This fund was also used to balance the other funds when looking at the System’s entire asset allocation of operating reserves relative to its investment objectives. The STLP had an investment objective of income with preservation of capital and was invested in intermediate-term fixed income securities. The fund held at least one large mutual fund to provide daily liquidity.

Liquidity and Capital Reserve Pool: The LCRP serves as an investment vehicle to manage operating reserves of the System universities, hospital, and related entities with an investment strategy that matches the duration of reserves to their projected needs. The goals of the pool are to preserve and grow capital, maximize returns without undue exposure to risk, and maintain sufficient liquidity for credit ratings. The pool is invested in a diversified asset mix of liquid, semi-liquid, and illiquid securities. The pool can invest no more than 15% in illiquid assets and must invest no less than 60% in liquid assets as defined by Board Rule 404.

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

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

- **Level 2** – Inputs to the valuation methodology include:

    - Quoted prices for similar assets or liabilities in active markets;
    - Quoted prices for identical or similar assets or liabilities in inactive markets;
    - Inputs other than quoted prices that are observable for the assets or liabilities;
    - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- **Level 3** – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the University's own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk). Unobservable inputs are developed based on the best information available in the circumstances and may include the University's own data.

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

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

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

The following is a description of the valuation methods and assumptions used by the University to estimate the fair value of its investments. There have been no changes in the methods and assumptions used at September 30, 2020. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. University management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy. The University's Level 1 investments primarily consist of investments in mutual funds, exchange traded funds, and both domestic and foreign equity funds. When quoted prices in active markets are not available, fair values are based on evaluated prices received from the University's custodian of investments.

At September 30, 2020 and 2019, the fair value of the University's investments based on the inputs used to value them is summarized as follows:

	2020			
	Level 1	Level 2	Level 3	Total
Cash & Receivables:				
Compass	$ 136,233	-	-	$ 136,233
Wind Trust	40,850	-	-	40,850
Durkee Trust	348,601	-	-	348,601
Pei Ling Fund for Excellence	367,356	-	-	367,356
	893,040	-	-	893,040

UAH Portion of System Pool Investments:	
Pooled Endowment Fund	33,254,580
Liquidity and Capital Reserve Fund	60,263,041
Eminent Scholar Fund	2,469,318
Total Net Asset Value with System Pool Investments	$ 96,879,979

	2019			
	Level 1	Level 2	Level 3	Total
Cash & Receivables:				
Compass	$ 136,161	-	-	$ 136,161
Wind Trust	40,230	-	-	40,230
Durkee Trust	379,694	-	-	379,694
Pei Ling Fund for Excellence	257,362	-	-	257,362
	813,447	-	-	813,447

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

At September 30, 2020 and 2019, the fair value of investments for the System Pools based on the inputs used to value them is summarized as follows:

Pooled Endowment Fund

	2020				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	$ -	$ -	$ -	$ -	$ 588,314
Total Receivables	-	-	-	-	588,314
Cash Equivalents:					
Money Market Funds	42,770,410	-	-	-	42,770,410
Total Cash Equivalents	42,770,410	-	-	-	42,770,410
Equities:					
U.S. Common Stock	114,821,118	-	-	-	114,821,118
U.S. Preferred Stock	-				-
Foreign Stock	38,691,556	-	-	-	38,691,556
Total Equities	153,512,674	-	-	-	153,512,674
Fixed Income Securities:					
U.S. Government Obligations	-	6,061,927	-	-	6,061,927
Mortgage Backed Securities	-	13,435,270			13,435,270
Collateralized Mortgage Obligations	-	-	-	-	-
Corporate Bonds	-	19,124,922	-	-	19,124,922
Non-U.S. Bonds	-	3,975,272	-	-	3,975,272
Total Fixed Income Securities	-	42,597,391	-	-	42,597,391
Commingled Funds:					
U.S. Equity Funds	-	-	-	-	-
Non-U.S. Equity Funds	-	212,441,977	-	-	212,441,977
U.S. Bond Funds	-	38,073,557	-	-	38,073,557
Non-U.S. Bond Funds	-	-	-	-	-
Hedge Funds	-	-	-	508,475,822	508,475,822
Private Equity Funds	-	-	2,297,985	256,095,913	258,393,898
Timberland Funds		-	-	-	
Real Asset Funds	-	-	36,566,136	207,118,536	243,684,672
Total Commingled Funds	-	250,515,534	38,864,121	971,690,271	1,261,069,926
Total Fund Investments	196,283,084	293,112,925	38,864,121	971,690,271	1,499,950,401
Total Fund Assets					1,500,538,715
Total Fund Liabilities					(337,805)
Affiliated Entity Investments in Funds					(237,483,192)
Total Net Asset Value					$ 1,262,717,718

Pooled Endowment Fund

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

Liquidity and Capital Reserved Pool Fund

	2020				
	Level 1	Level 2	Level 3	NAV	Total Fair Value
Receivables:					
Accrued Income Receivables	$ -	$ -	$ -	$ -	$ 3,681,520
Total Receivables	-	-	-	-	3,681,520
Cash Equivalents:					
Money Market Funds	122,282,756	-	-	-	122,282,756
Total Cash Equivalents	122,282,756	-	-	-	122,282,756
Equities:					
U.S. Common Stock	210,853,767	-	-	-	210,853,767
U.S. Prerred Stock	-	-	-	-	-
Foreign Stock	76,692,824	-	-	-	76,692,824
Total Equities	287,546,591	-	-	-	287,546,591
Fixed Income Securities:					
U.S. Government Obligations	-	74,438,886	-	-	74,438,886
Mortgage Backed Securities	-	253,871,960	-	-	253,871,960
Collateralized Mortgage Obligation	-	22,981,714	-	-	22,981,714
Corporate Bonds	-	169,834,304	-	-	169,834,304
Non-U.S. Bonds	-	85,166,218	-	-	85,166,218
Total Fixed Income Securities	-	606,293,082	-	-	606,293,082
Commingled Funds:					
U.S. Equity Funds	-	145,228,505	-	-	145,228,505
Non-U.S. Equity Funds	-	356,462,581	-	-	356,462,581
U.S. Bond Funds	-	306,086,677	-	-	306,086,677
Non-U.S. Bond Funds	-	-	-	-	-
Hedge Funds	-	-	-	916,173,748	916,173,748
Private Equity Funds	-	-		-	-
Timberland Funds	-	-		-	-
Real Asset Funds	-	-	-	131,654,699	131,654,699
Total Commingled Funds	-	807,777,763	-	1,047,828,447	1,855,606,210
Total Fund Investments	409,829,347	1,414,070,845	-	1,047,828,447	2,871,728,639
Total Fund Assets	409,829,347	1,414,070,845	-	1,047,828,447	2,875,410,159
Total Fund Liabilities					(791,152)
Affiliated Entity Investments in Funds					(214,311,956)
Total Net Asset Value					$ 2,660,307,051

Long Term Reserve Pool Fund

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

Short Term Liquidity Pool Fund

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

Additional information on fair values, unfunded commitments, remaining life, and redemption for investments measure at the NAV for the System Pools at September 30, 2020 is as follows:

Pooled Endowment Fund

	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Hedge funds - absolute return, credit, long/short equities	$ 508,475,822	$ -	No limit	Monthly,Quarterly, and Annually	Lock-up provisions ranging from none to 2 years
Private equity - private credit, buyouts, venture, secondary	256,095,913	185,895,557	1-10 years	Partnerships ineligible for redemption	Not redeemable
Real assets - public real estate, natural resources, and infrastructure	44,328,885	-	No limit	Monthly and Quarterly	None
Real assets - private real estate, natural resources, and infrastructure	162,789,651	92,293,798	1-15 years	Partnerships ineligible for redemption	Not redeemable
	$ 971,690,271	$ 278,189,355			

Liquidity and Capital Reserve Pool

	Fair Value	Unfunded Commitments	Remaining Life	Redemption Notice Period	Redemption Restrictions
Hedge funds - absolute return, credit, long/short equities	$ 916,173,748	$ -	No limit	Monthly,Quarterly, and Annually	Lock-up provisions ranging from none to 2 years
Real assets - public real estate, natural resources, and infrastructure	131,654,699	-	No limit	Monthly and Quarterly	None
	$ 1,047,828,447	$ -			

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

Pooled Endowment Fund

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

Long Term Reserve Pool

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

Investment Risk Factors: Many factors can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed income securities.

Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

Credit Risk: Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain fixed income securities, primarily obligations of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have significant credit risk.

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the PEF and LCRP, and the credit quality of underlying fund investments is monitored on an ongoing basis. Fixed income investments within the PEF and LCRP include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds. In addition, approximately $202.6 million and $39.4 million in the PEF and LTRP (2019)/LCRP (2020), collectively, at September 30, 2020 and 2019, respectively, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds and money market funds were approximately $509.2 million and $299.5 million in the PEF and LTRP (2019)/LCRP (2020), collectively, at September 30, 2020 and 2019, respectively.

The STLP fixed income investments included corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds. As of September 30, 2019, approximately $173.2 million was invested by the STLP in unrated fixed income securities; excluding commingled bond funds and money market funds. Fixed income commingled funds and money market funds totaled approximately $263.1 million at September 30, 2019.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2020 and 2019 are as follows:

	Endowment Fund		LCRP Fund	LTRP Fund	STLP Fund
	2020	2019	2020	2019	2019
Fixed or Variable Income Securities					
U.S. Government Obligations	$ 6,061,927	$ 9,526,821	$ 74,438,886	$ 17,123,633	$ 106,695,991
Other U.S. and Non-U.S. Denominated:					
AAA	1,759,641	1,445,545	68,457,473	2,399,062	82,360,918
AA	2,522,307	4,937,086	36,093,014	8,500,014	49,502,664
A	6,820,070	8,922,674	113,181,471	16,639,285	87,465,527
BBB	9,988,712	10,537,413	110,647,518	19,983,283	91,050,594
BB	4,393,666	4,105,601	11,683,200	6,954,906	6,106,262
B	-	595,375	150,423	963,425	1,140,474
C and < C	-	-	46,695	-	343,702
Unrated	11,051,069	14,679,105	191,594,402	24,682,349	173,218,443
Commingled Funds:					
U.S. Bond Funds: Unrated	38,073,557	53,608,300	306,086,677	91,511,322	185,315,252
Non-U.S. Bond Funds: Unrated	-	-	-	41,238,753	-
Money Market Funds: Unrated	42,770,410	45,659,810	122,282,756	67,436,949	77,781,811
Total	$ 123,441,359	$ 154,017,730	$ 1,034,662,515	$ 297,432,981	$ 860,981,638

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

Concentration of Credit Risk: Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. As previously mentioned, credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2020 and 2019, there was no investment in a single issuer that represents 5% or more of total investments held by any single investment manager of the System Pools, except for investments issued by the U.S. government and money market fund investments.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time. The Board does not have a specific policy relative to interest rate risk. As such, there are no restrictions on weighted average maturity for each investment pool as they are managed relative to the investment objectives and liquidity demands of the investors.

The effective durations for fixed or variable income securities held by the System Pools at September 30, 2020 and 2019 are as follows:

	Endowment Fund		LCRP Fund	LTRP Fund	STLP Fund
	2020	2019	2020	2019	2019
U.S. Government Obligations	11.9	9.2	3.4	9.2	2.1
Corporate Bonds	7.3	6.3	3.0	6.3	1.8
Non-U.S. Bonds	7.3	6.3	3.0	6.3	1.8
Commingled Bond Funds	3.3	3.6	2.9	2.0	2.7

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

Investments may also include mortgage backed securities and collateralized mortgage obligations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. As of September 30, 2020 and 2019, the fair market value of these investments held by the System Pools are as follows:

	Endowment Fund		LCRP Fund	LTRP Fund	STLP Fund
	2020	2019	2020	2019	2019
Mortgage Backed Securities	$ 13,435,270	$ 16,998,880	$ 253,871,690	$ 28,505,448	$ 256,770,944
Collateralized Mortgage Obligations	-	-	22,981,714	-	18,530,989
Total Fixed	$ 13,435,270	$ 16,998,880	$ 276,853,674	$ 28,505,448	$ 275,301,933

Mortgage Backed Securities: These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying assets reduce the total expected rate of return.

Collateralized Mortgage Obligations: Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

As of September 30, 2020 and 2019, the effective durations for these securities are as follows:

	Endowment Fund		LCRP Fund	LTRP Fund	STLP Fund
	2020	2019	2020	2019	2019
Mortgage Backed Securities	2.9	3.6	2.0	3.7	1.5
Collateralized Mortgage Obligations	0	0	2.1	0	1.7

Foreign Currency Risk: The strategic asset allocation policy for the PEF and the LCRP includes an allocation to non-United States equity securities and fixed income securities. Currency hedging of foreign bonds and stocks is allowed under System Policy. As of September 30, 2020 and 2019, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for foreign stock and non-U.S. bond funds denominated in U.S. dollars and held by each of the three pools as disclosed in the previous tables. At September 30, 2020 and 2019, the University did not hold any foreign securities in its separately held investment portfolio.

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

At September 30, 2020 and 2019, there were no securities on loan from the investment pools.

Note 5 – Receivables

Pledges: The University receives pledges and bequests of financial support. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Pledges are recorded at their gross, undiscounted amount, net of a reasonable allowance for doubtful accounts. Endowment pledges do not meet eligibility requirements and are not recorded as assets until the related gift is received. Due to uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. The University's trust policies do not differ in nature from endowment policies.

The composition of accounts receivable as of September 30, 2020 and 2019 is summarized as follows:

	2020	2019
Tuition and fees	$ 14,906,747	$ 13,572,818
Auxiliary enterprises and other operating activities	77,960	153,032
Federal, state, and private grants and contracts	26,041,126	27,556,714
Other	1,079,362	1,175,586
Total accounts receivable	42,105,195	42,458,150
Less allowance for doubtful accounts	(2,721,191)	(2,486,814)
Accounts receivable, net	$ 39,384,004	$ 39,971,336

Note 6 – Capital Assets

Capital assets activity for the years ended September 30, 2020 and 2019 is summarized as follows:

	October 1, 2019	Additions	Retirements	Adjustments	September 30, 2020
Land	$ 14,050,899	$ -	$ -	$ -	$ 14,050,899
Land improvements and infrastructure	22,633,540	150,893	-	-	22,784,433
Buildings and building improvements	425,379,007	536,195	-	31,388,841	457,304,043
Construction in progress	20,630,254	14,166,988	-	(31,741,789)	3,055,453
Equipment	78,443,845	4,151,162	(1,293,554)	-	81,301,453
Library books	26,551,290	102,287	(19,010)	-	26,634,567
Computer software	3,238,818	58,500	-	-	3,297,318
Collections	1,124,402	-	-	-	1,124,402
Total cost of capital assets	592,052,055	19,166,025	(1,312,564)	(352,948)	609,552,568
Less accumulated depreciation	281,817,061	18,124,586	(1,235,038)	-	298,706,609
Capital assets, net	$ 310,234,994	$ 1,041,439	$ (77,526)	$ (352,948)	$ 310,845,959

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

Note 7 – Long-Term Debt

Long-term debt activity for the years ended September 30, 2020 and 2019 is summarized as follows:

Type/Supported by	October 1, 2019	New Debt	Principal Repayment	September 30, 2020
Bonds:				
Student housing revenue	$ 25,321,000	$ -	$ 25,245,000	76,000
General fee revenue	119,190,000	30,845,000	9,659,000	140,376,000
Lease obligations	228,005	-	194,149	33,856
Total debt	144,739,005	30,845,000	35,098,149	140,485,856
Less current portion	(5,308,149)			(5,258,856)
Premium, net	8,343,050			12,410,713
Total long-term debt	$ 147,773,906			$ 147,637,713

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

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

	Principal	Interest	Total
2021	$ 5,258,856	$ 5,992,198	$ 11,251,054
2022	5,327,000	5,807,840	11,134,840
2023	5,520,000	5,616,046	11,136,046
2024	5,727,000	5,404,577	11,131,577
2025	5,988,000	5,165,941	11,153,941
2026-2030	27,535,000	21,958,000	49,493,000
2031-2035	24,680,000	16,374,669	41,054,669
2036-2040	26,475,000	11,111,950	37,586,950
2041-2045	23,340,000	5,395,800	28,735,800
2046-2048	10,635,000	1,081,000	11,716,000
	$ 140,485,856	$ 83,908,021	$ 224,393,877

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

Description and Purpose	Date Issued	Final Maturity	Interest Rate - %	Original Indebtedness	Outstanding Indebtedness September 30, 2020	Outstanding Indebtedness September 30, 2019
Bonds Payable:						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	$ 2,180,000	$ -	$ 95,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	76,000	186,000
Revenue Bonds-Series 2009A	8/4/2009	7/1/2029	3.00-4.50	8,115,000	-	4,830,000
Student Housing Revenue Bonds-Series 2010-A	7/14/2010	6/1/2042	2.85-6.125	27,990,000	-	25,040,000
General Fee Revenue Bonds-Series 2012-A	4/3/2012	10/1/2031	0.73-4.28	11,170,000	6,985,000	7,570,000
General Fee Revenue Bonds-Series 2012-B	9/5/2012	12/1/2026	0.74-3.84	13,700,000	7,615,000	8,400,000
General Fee Revenue Bonds-Series 2013-A-1	4/4/2013	4/1/2023	1.57	7,550,000	2,390,000	3,160,000
General Fee Revenue Bonds-Series 2013-A-2	4/4/2013	4/1/2043	4.00	24,455,000	24,455,000	24,455,000
General Fee Revenue Bonds-Series 2014-A	12/15/2014	9/1/2034	3.00-5.00	11,860,000	8,005,000	8,415,000
General Fee Revenue Bonds-Series 2015-A	3/25/2015	6/1/2025	1.96	5,175,000	2,711,000	3,225,000
General Fee Revenue Bonds-Series 2018-A-1	3/22/2018	9/1/2027	5.00	5,400,000	4,395,000	4,910,000
General Fee Revenue Bonds-Series 2018-A-2	3/22/2018	9/1/2048	5.00	27,115,000	27,115,000	27,115,000
General Fee Revenue Bonds-Series 2018-B-1	10/30/2018	9/1/2028	5.00	5,290,000	4,365,000	4,800,000
General Fee Revenue Bonds-Series 2018-B-2	10/30/2018	9/1/2048	5.00	22,310,000	22,310,000	22,310,000
General Fee Revenue Bonds-Series 2019	10/16/2019	6/1/2042	3.00-5.00	30,845,000	30,030,000	-
Total Bonds Payable				205,757,000	140,452,000	144,511,000
Lease Obligation:						
Key Government Finance Inc	6/1/2018	6/1/2021		616,303	33,856	228,005
Total Lease Obligation				616,303	33,856	228,005

The University's general fee bonds and student housing bonds are subject to certain covenants. These covenants, among other things, require the University to establish and maintain reasonable fees, rates, and other charges to ensure pledged revenues are sufficient for debt service coverage; to maintain books and records pertaining to the pledged revenues; to furnish annual audits and other periodic reports that reflect the financial condition of the University, the project, other pledged facilities, and other pledged assets; and to comply with certain restrictions as to additional indebtedness. The University is in compliance with all restrictive financial covenants as of September 30, 2020.

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

Note 8 – Self-Insurance

The University participates with other campuses in the System in a self-insurance program for general liability risks. The Board established a separate revocable trust fund for payment of these self-insurance claims under its risk retention program. Annual contributions are made to the consolidated trust fund, at an actuarially determined rate, to provide funding for the retained risk. The accompanying statements of net position include a reserve of $485,640 and $457,038 for general liability for fiscal years 2020 and 2019, respectively.

The University also maintains a self-insured health plan. During 2020, the University paid $26.00 and $18.16 per month per health insurance contract for administrative charges and stop loss coverage, respectively. The accompanying statements of net position include a self-insurance reserve of $1,636,889 and $1,614,124 for health insurance for 2020 and 2019, respectively. Annual contributions are made to the health plan, utilizing an actuarially determined rate, to provide funding for the reserve. The changes in the total reported self-insurance liabilities are summarized as follows:

	2020	2019
Balance, beginning of year	$ 2,071,162	$ 2,092,524
Claims paid	(13,095,109)	(12,912,996)
Contributions and adjustments	13,146,476	12,891,634
Balance, end of year	$ 2,122,529	$ 2,071,162

Note 9 – Employee Benefits

Eligible employees of the University participate in the mandatory Teachers' Retirement System of Alabama ("TRS"), a cost sharing, multiple-employer public retirement system designated as a defined benefit plan. In addition, eligible employees may elect to participate in a voluntary UA System 403(b) defined contribution retirement plan. Prior to fiscal year 2020, the plan offered eligible employees a choice between two recordkeepers, Teachers Insurance and Annuity Association ("TIAA") and the Variable Annuity Life Insurance Company ("VALIC"). Effective in fiscal year 2020, the System, in conjunction with its participating universities and with the Board's approval, transitioned to a single recordkeeper with TIAA serving as sole-vendor for the plan.

Defined Benefit Plan – TRS

Plan description. The Teacher's Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama ("RSA"). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

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

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

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

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

The University's contractually required contribution rate for the year ended September 30, 2020 was 12.43% of annual pay for Tier 1 members and 11.34% of annual pay for Tier 2 members. The University's contribution rate for the year ended September 30, 2019 was 12.41% of annual pay for Tier 1 members and 11.35% of annual pay for Tier 2 members.

These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. The following is a comparative presentation of contributions:

	2020	2019
University contributions	$ 13,402,675	$ 12,657,364
Employee contributions	7,718,224	7,351,676
Total contributions	$ 21,120,899	$ 20,009,040

	2020 Tier 1	2020 Tier 2	2019 Tier 1	2019 Tier 2
University contribution regular rate	12.43%	11.34%	12.41%	11.35%
Employee contribution rate	7.50%	6.00%	7.50%	6.00%
Employee contribution law enforcement rate	8.50%	7.00%	8.50%	7.00%

Salaries and wages for covered employees participating in TRS were approximately $112.1 million during the year ended September 20, 2020 and $105.4 million during 2019.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At September 30, 2020 and 2019, the financial statements of the University reflected a liability of $161,346,000 and $150,951,000 for its proportionate share of the collective net pension liability, as prescribed by GASB 68. For the 2020 reported amounts the collective net pension liability was measured as of September 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018.

The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2019 the University's proportion was 1.46% which was a decrease of 0.06% from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the University recognized pension expense of $14.7 million. At September 30, 2020 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,385,000	$ 5,351,000
Changes of assumptions	4,971,000	-
Net difference between projected and actual earnings on pension plan investments	5,618,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,151,000	6,418,000
Employer contributions subsequent to the measurement date	13,402,359	-
Total	$ 27,527,359	$ 11,769,000

For the year ended September 30, 2019, the University recognized pension expense of $11.6 million. At September 30, 2019 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 3,257,000	$ 4,598,000
Changes of assumptions	8,391,000	-
Net difference between projected and actual earnings on pension plan investments	-	11,394,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,955,000	3,634,000
Employer contributions subsequent to the measurement date	12,659,120	-
Total	$ 26,262,120	$ 19,626,000

$13,402,359 of the amount reported as deferred outflows of resources resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:	
2021	($1,410,000)
2022	($783,000)
2023	$2,313,000
2024	$2,418,000
2025	($182,000)
Thereafter	-

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of September 30, 2018 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected salary increases	3.25% - 5.00%
Investment rate of return*	7.70%

*Net of pension plan investment expense.

The actuarial assumptions used in the September 30, 2018 valuation were based on the results of an actuarial experience study for the period October 1, 2010—September 30, 2015. Post-Retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disability Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return*
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100.00%	

*Includes assumed rate of inflation of 2.50%.

Discount rate. The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's proportionate share of the net pension liability to changes in the discount rate. The following table reflects the University's proportionate share of the net pension liability, as prescribed by GASB 68, and is calculated using the discount rate of 7.70%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage-point higher (8.70%) than the current rate:

	1% Decrease (6.7%)	Current Discount Rate (7.7%)	1% Increase (8.7%)
University's proportionate share of collective net pension liability (Dollar amounts in thousands)	$219,037	$161,346	$112,526

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2019. The auditor's report on the Schedule of Employer Allocations and Pension Amounts by Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB 68. The additional financial and actuarial information is available at http://www.rsa-al.gov/index.php/employers/financial-reports/gasb-68-reports/.

Defined Contribution Plans

As previously noted, some employees participate in a voluntary UA System 403(b) defined contribution plan. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All employees, except those enrolled as students and regularly attending classes offered by a System university, are eligible to participate from the date of employment. Employer matching contributions are made for match-eligible participants by the System Office at a rate of 100% of elective deferrals up to a discretionary percentage of compensation per pay period, currently 5%. The University's contribution is funded as it accrues and, along with that of employees, is immediately and fully vested. In FY 2020, employer matching contributions in the voluntary UA System 403(b) plan (inclusive of The University of Alabama, The University of Alabama at Birmingham, The University of Alabama in Huntsville, and the UA System Office), and the UAB Hospital Management, LLC 403(b) plan were temporarily suspended for the period of May 2020 through September 2020. The suspension was due to uncertainty concerning the potential financial impacts of the COVID-19 pandemic and was a joint management decision by Senior Administration of the UA System and each University. The contribution for fiscal years 2020 and 2019, excluding amounts not eligible for matching, are summarized as follows:

	2020	2019
University contributions	$ 2,383,633	$ 3,240,596
Employee contributions	6,753,656	6,371,715
Total contributions	$ 9,137,289	$ 9,612,311

The University's total salaries and wages subject to benefit plan participation for the years ended September 30, 2020 and 2019 are summarized in the table below:

	2020	2019
Total Salaries and Wages	$131,322,689	$124,504,350
Salaries and Wages of employees participating in:		
TRS	$112,135,896	$105,412,352
TIAA - CREF	$ 67,121,034	$ 66,585,538

Compensated Absences

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. The statement of net position includes vacation pay and salary-related payments associated with vacation pay accruals of $5,255,179 and $4,829,058 for fiscal years 2020 and 2019, respectively. There is no such accrual recognized for sick leave benefits because no terminal cash benefit is available to employees for accumulated sick leave.

Note 10 – Post-Employment Benefits

Post-employment health care benefits are offered to all employees who officially retire from the University through the Alabama Retired Education Employees' Health Care Trust with TRS. TRS offers health care benefits through a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board ("PEEHIP"). Retired employees age sixty-five or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer and PEEHIP becomes the secondary insurer. Most retirees elect to participate in the PEEHIP with TRS, in which case the retirees pay a portion of the PEEHIP premium and the University pays an allocation toward the cost of retiree coverage.

PEEHIP. *Plan description.* The Alabama Retired Education Employees' Health Care Trust (Trust) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Plan (PEEHIP). In accordance with GASB, the Trust is considered a component unit of the State of Alabama (State) and is included in the State's Comprehensive Annual Financial Report.

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

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

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

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

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

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

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

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

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

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

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

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

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At September 30, 2020, the financial statements of the University reflected a liability of $23.3 million for its proportionate share of the net OPEB liability, as prescribed by GASB 75. The net OPEB liability was measured as of September 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018. The University's proportion of the net OPEB liability was based on a projection of the University's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2019, the University's proportion was 0.62%, which was a decrease of 0.07% from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the University recognized OPEB expense of ($1.8 million). At September 30, 2020 the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 771,087	$ 17,856,242
Changes of assumptions	1,113,307	9,646,032
Net difference between projected and actual earnings on OPEB plan investments	48,040	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	5,140,248	7,085,936
Employer contributions subsequent to the measurement date	1,876,852	-
Total	$ 8,949,534	$ 34,588,210

For the year ended September 30, 2019, the University recognized OPEB expense of $4.6 million. At September 30, 2019 the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,062,394	$ -
Changes of assumptions	-	2,748,635
Net difference between projected and actual earnings on OPEB plan investments	-	302,349
Changes in proportion and differences between Employer contributions and proportionate share of contributions	6,731,657	2,647,847
Employer contributions subsequent to the measurement date	1,753,547	-
Total	$ 9,547,598	$ 5,698,831

$1.9 million reported as deferred outflows of resources related to OPEB resulting from the University's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2021.

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

Year ended September 30:	
2021	($5,111,354)
2022	($5,111,354)
2023	($5,050,331)
2024	($5,552,644)
2025	($5,719,489)
Thereafter	(970,356)

Actuarial assumptions. The total OPEB liability was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases*	3.25% - 5.00%
Long-Term Investment Rate of Return**	7.25%
Municipal Bond Index Rate at the Measurement Date	3.00%
Municipal Bond Index Rate at the Prior Measurement Date	4.18%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2055
Single Equivalent Interest Rate the Measurement Date	5.50%
Single Equivalent Interest Rate the Prior Measurement Date	4.44%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	6.75%
Medicare Eligible	***
Ultimate Trend Rate	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024

*Includes 3.00% wage inflation.

**Compounded annually, net of investment expense, and includes inflation.

***Initial Medicare claims are set based on scheduled increases through plan year 2022

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000
Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

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

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the September 30, 2018 valuation, however updated Medicare Advantage premium rates which reflect the repeal of the ACA Health Insurer Fee, updated Optionals claims costs, and updated participation assumptions were used in this report.

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

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

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

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

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

* Geometric mean, includes 2.5% inflation

Discount rate. The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2019 was 5.50%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.44%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 24.25% of the employer contributions were used to assist in funding retiree benefit payments in 2019 and it is assumed that once benefit payments exceed employer contributions, this amount will increase by 1.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2117. The long-term rate of return is used until the assets are expected to be depleted in 2055, after which the municipal bond rate is used.

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

	1% Decrease (5.75% decreasing to 3.75% for pre-Medicare, Known decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (6.75% decreasing to 4.75% for pre-Medicare, Known decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% decreasing to 5.75% for pre-Medicare, Known decreasing to 5.75% for Medicare Eligible)
Net OPEB Liability	$ 18,672,798	$ 23,288,013	$ 29,100,668

The following table reflects the University's proportionate share of the net OPEB liability of the Trust, as prescribed by GASB 75, and is calculated using the discount rate of 5.50%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (4.50%)	Current Discount Rate (5.50%)	1% Increase (6.50%)
Net OPEB Liability	$ 28,148,962	$ 23,288,013	$ 19,318,222

OPEB plan Fiduciary Net Position. Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2019. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 11 – Federal Direct Student Loan Program

The Federal Direct Student Loan Program ("FDSLP") was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During the years ended September 30, 2020 and 2019, the University disbursed $32,019,179 and $33,968,402, respectively, under the FDSLP.

Note 12 – Contracts and Grants

As of September 30, 2020 and 2019, the University was awarded approximately $113.5 million and $83.4 million, respectively, in contracts and grants which have not been expended. These awards, which represent commitments of sponsors to provide funds for specific research, training, and service projects, have not been reflected in the financial statements.

Note 13 – Operating Expenses by Function

Operating expenses by functional classification for the years ended September 2020 and 2019 are summarized as follows:

	Year Ended September 30, 2020					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 44,701,497	$14,934,089	$ 3,158,835	$ -	$ -	$ 62,794,421
Research	52,620,157	17,685,184	24,047,374	-	-	94,352,715
Public service	3,024,474	1,062,527	6,257,932	-	-	10,344,933
Academic support	6,782,252	2,192,820	2,625,272	-	-	11,600,344
Student services	7,787,838	2,733,289	6,872,104	-	-	17,393,231
Institutional support	9,846,365	3,233,541	6,870,840	-	-	19,950,746
Operations and maintenance of plant	4,073,629	1,738,623	8,953,685	-	-	14,765,937
Scholarships and fellowships	-	-	-	-	4,310,626	4,310,626
Auxiliary enterprises	2,486,477	558,796	4,652,324	-	-	7,697,597
Depreciation	-	-	-	18,124,586	-	18,124,586
Total Operating Expenses	$131,322,689	$44,138,869	$ 63,438,366	$18,124,586	$ 4,310,626	$261,335,136

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

Note 14 – Contingencies and Commitments

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

The University has contracted for the renovation and addition of Morton Hall. At September 30, 2020, the estimated remaining cost to complete this project was $972 thousand and is expected to be funded from University bond proceeds.

Note 15 - Segment Reporting

The University constructed Southeast Housing and issued bonds in 1980 and 1981. The bonds were payable from revenues received by the University for the use and occupancy of the facility. Condensed financial information of the University's segment as of September 30, 2020 and 2019 is as follows:

Condensed Statements of Net Position

	Dorm Revenue Bonds 1980 2020	Dorm Revenue Bonds 1980 2019	Dorm Revenue Bonds 1981 2020	Dorm Revenue Bonds 1981 2019
Assets				
Current assets	$ -	$ 187,263	$ 161,456	$ 160,184
Capital assets, net of accumulated depreciation	572,833	672,185	165,509	302,269
Total assets	572,833	859,448	326,965	462,453
Liabilities				
Current liabilities	1,739,237	2,075,421	4,560,768	3,420,916
Noncurrent liabilities	-	-	275,223	348,319
Total liabilities	1,739,237	2,075,421	4,835,991	3,769,235
Net assets				
Net investment in capital assets	572,833	577,185	89,509	116,269
Restricted				
Expendable	240,000	240,000	280,000	280,000
Unrestricted	(1,979,237)	(2,033,158)	(4,878,535)	(3,703,051)
Total net position	(1,166,404)	(1,215,973)	(4,509,026)	(3,306,782)
Total liabilities and net position	$ 572,833	$ 859,448	$ 326,965	$ 462,453

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Dorm Revenue Bonds 1980 2020	Dorm Revenue Bonds 1980 2019	Dorm Revenue Bonds 1981 2020	Dorm Revenue Bonds 1981 2019
Operating revenues	$ 691,996	$ 670,929	$ 749,831	$ 836,919
Operating expenses	(540,661)	(902,693)	(1,809,639)	(1,582,976)
Depreciation expense	(99,352)	(150,792)	(136,761)	(136,761)
Operating income (loss)	51,983	(382,556)	(1,196,569)	(882,818)
Nonoperating expenses	(2,414)	(2,291)	(5,675)	(8,886)
Transfers from general funds	-	208,525	-	17
Changes in net position	49,569	(176,322)	(1,202,244)	(891,687)
Net position, beginning of year	(1,215,973)	(1,039,651)	(3,306,782)	(2,415,095)
Net position, end of year	$ (1,166,404)	$ (1,215,973)	$ (4,509,026)	$ (3,306,782)

Condensed Statements of Cash Flows

	Dorm Revenue Bonds 1980 2020	Dorm Revenue Bonds 1980 2019	Dorm Revenue Bonds 1981 2020	Dorm Revenue Bonds 1981 2019
Cash flows from				
Operating activities	$ (338,923)	$ (232,889)	$ (718,749)	$ (724,356)
Capital and related financing activities	338,923	232,889	718,749	724,356
Net increase (decrease) in cash	-	-	-	-
Cash, beginning of year	-	-	-	-
Cash, end of year	$ -	$ -	$ -	$ -

Note 16 – Recently Issued Pronouncements

The GASB issued Statement No. 84, Fiduciary Activities, in January 2017. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement is effective for reporting periods beginning after December 15, 2019. The University is evaluating whether there will be any material impact from its adoption of GASB 84.

The GASB issued Statement No. 87, Leases, in June 2017. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement is effective for reporting periods beginning after June 15, 2021. The University is evaluating whether there will be any material impact from its adoption of GASB 87.

The GASB issued Statement No. 90, Majority Equity Interest - An Amendment of GASB Statements No. 14 and No. 61, in August 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This statement is effective for reporting periods beginning after December 15, 2019. The University is evaluating whether there will be any material impact from its adoption of GASB 90.

The GASB issued Statement No. 91, Conduit Debt Obligations, in May 2019. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate 75 diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This statement is effective for reporting periods beginning after December 15, 2021. The University is evaluating whether there will be any material impact from its adoption of GASB 91.

The GASB issued Statement No. 92, Omnibus 2020, in January 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The statement is effective for reporting periods beginning after June 15, 2021. The University is evaluating whether there will be any material impact from its adoption of GASB 92. The GASB issued Statement No. 93, Replacement of Interbank Offered Rates, in March 2020. The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of the IBOR. The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years periods beginning after June 15, 2021, and all reporting periods thereafter. The University is evaluating whether there will be any material impact from its adoption of GASB 93.

The GASB issued Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, in March 2020. The objective of this Statement is to improve financial reporting by addressing issues related to public-private partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The statement is effective for reporting periods beginning after June 15, 2022. The University is evaluating whether there will be any material impact from its adoption of GASB 94.

The GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance, in May 2020. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements 83 - 93. The effective dates disclosed above have been adjusted to reflect this deferral. The Foundation is evaluating whether it will postpone implementation of certain of the applicable GASB Statements.

The GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements, in May 2020. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The statement is effective for reporting periods beginning after June 15, 2022. The University is evaluating whether there will be any material impact from its adoption of GASB 96.

The GASB issued Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, in June 2020. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The University is evaluating whether there will be any material impact from its adoption of GASB 97.

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

Schedule of the University's Proportionate Share of the Collective Net Pension Liability
Teachers' Retirement Systems of Alabama

	2020	2019	2018	2017	2016	2015
Employer's proportion of the collective net pension liability	1.459237%	1.518226%	1.500009%	1.525333%	1.532529%	1.609851%
Employer's proportionate share of the collective net pension liability	$161,346,000	$150,951,000	$147,428,000	$165,132,000	$160,390,000	$146,248,000
Employer's covered payroll during measurement period	$105,412,352	$103,210,401	$100,416,137	$98,670,645	$97,998,750	$97,032,526
Employer's proportionate share of the collective net pension liability as percentage of its covered payroll	153.06%	146.26%	146.82%	167.36%	163.67%	150.72%
Plan fiduciary net position as a percentage of the total collective pension liability	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

Schedule of University Contributions
Teachers' Retirement System of Alabama

	2020	2019	2018	2017	2016	2015
Contractually Required Contribution	$13,402,675	$12,186,202	$12,184,536	$11,711,569	$11,474,249	$11,311,261
Contributions in relation to the contractually required contribution	($13,402,675)	($12,186,202)	($12,184,536)	($11,711,569)	($11,474,249)	($11,311,261)
Contribution deficiency (excess)	-	-	-	-	-	-
University's covered payroll	$112,135,896	$105,412,352	$102,231,521	$100,416,137	$98,670,645	$97,998,750
Contributions as a percentage of covered payroll	11.95%	11.56%	11.92%	11.66%	11.63%	11.54%

Notes to Schedules

Employer's covered payroll: The payroll on which contributions to a pension plan are based.

Measurement period: For fiscal year 2020, the measurement period is October 1, 2018 - September 30, 2019.

Measurement period: For fiscal year 2019, the measurement period is October 1, 2017 - September 30, 2018.

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

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

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

Measurement period: For fiscal year 2015, the measurement period is October 1, 2013 - September 30, 2014.

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

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

	2020	2019	2018
Employer's proportion of the net OPEB liability	0.617266%	0.686596%	0.724951%
Employer's proportionate share of the net OPEB liability	$23,288,013	$56,429,447	$53,845,219
Employer's covered payroll during measurement period	$105,412,352	$103,210,401	$100,416,137
Employer's proportionate share of the net OPEB liability as a percentage of its covered payroll	22.09%	54.67%	53.62%
Plan fiduciary net position as a percentage of the total OPEB liability	28.14%	14.81%	15.37%

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

	2020	2019	2018
Contractually required contribution	$1,876,852	$1,753,547	$1,685,254
Contributions in relation to the contractually required contribution	($1,876,852)	($1,753,547)	($1,685,254)
Contribution deficiency (excess)	$ -	$ -	-
University's covered-employee payroll	$112,135,896	$105,412,352	$102,231,521
Contributions as a percentage of covered-employee payroll	1.67%	1.66%	1.65%

Notes to Schedules

Employer's covered payroll: The payroll on which contributions to a pension plan are based.

Measurement period: For fiscal year 2020, the measurement period is October 1, 2018 - September 30, 2019.

Measurement period: For fiscal year 2019, the measurement period is October 1, 2017 - September 30, 2018.

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

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THE UNIVERSITY OF
ALABAMA IN HUNTSVILLE