

# **The University of Alabama in Huntsville**

**Report on Federal Awards in Accordance with OMB  
Circular A-133  
September 30, 2011  
EIN: 63-0520830**

# The University of Alabama in Huntsville

## Index

September 30, 2011

---

	Page(s)
<b>Part I – Federal Award Programs</b>	
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> .....	1–2
Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	3-5
Schedule of Expenditures of Federal Awards.....	6-11
Notes to Schedule of Expenditures of Federal Awards .....	12
<b>Part II – Findings and Questioned Costs</b>	
Schedule of Audit Findings and Questioned Costs .....	13-19
<b>Part III – Status of Prior Year Findings and Questioned Costs</b>	
Status of Prior Year Audit Findings and Questioned Costs .....	20
<b>Part IV – 2011 Financial Report</b>	

**Part I**

**Federal Award Programs**



**Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

To the Board of Trustees of The University of Alabama:

We have audited the financial statements of The University of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, as of and for the year ended September 30, 2011, and have issued our report thereon dated January 23, 2012. Our report was modified to include an additional paragraph regarding the presentation of the financial statements as discussed in Note 1 to the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of University of Alabama in Huntsville Foundation, the University's discretely presented component unit, as described in our report on the University's financial statements. The discretely presented component unit was not audited in accordance with *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not



identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in Section II of the accompanying Schedule of Audit Findings and Questioned Costs as finding number 2011-1, which we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the University in a separate letter dated January 25, 2012.

The University's response to the finding identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit the University's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees of the University of Alabama System, the University's management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

January 23, 2012



**Report of Independent Auditors on Compliance with Requirements  
That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over  
Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees of The University of Alabama:

Compliance

We have audited the compliance of The University of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. The University's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011. However, the results of our auditing procedures disclosed instances of



noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as findings 2011-2 and 2011-3.

#### Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University and its discretely presented component unit as of and for the year ended September 30 2011, and have issued our report thereon dated January 23, 2012, which contained an unqualified opinion on those financial statements. Our report was modified to include a reference to other auditors and to include an additional paragraph regarding the presentation of the financial statements as discussed in Note 1 to the financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying



Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees of the University of Alabama System, the University's management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*PricewaterhouseCoopers LLP*

January 23, 2012, except for Compliance and Internal Control over Compliance,  
which is dated June 28, 2012



**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
<b>Major Programs:</b>			
<b>Research and Development Cluster:</b>			
U.S. Department of Defense:			
Department of Army		12	40,336,447
Department of Navy		12	93,938
Other		12	122,919
			<u>40,553,304</u>
Pass-Through Funds:			
A/JHU/APL/Live-Virtual-Constructive	959198	12	29,185
A/Johns Hopkins University/APL/MDA	975929	12	10,765
C/SAIC/Amcom Express/Military Gamin	4600006511	12	1,811,357
O/ODURF/DoD M&S Standards Support	10-152-295251	12	6,180
C/Streamline Automation/SBIR Phase	1067-SC-01-R0	12	5,360
O/ODURF/Modeling and Simulation Sta	11-160-206401	12	86,169
C/Streamline Automation/Advanced Ex	2009-SC-02-R0	12	16,192
C/Subsystem Technologies, Inc./Desi	3474-004	12	44,119
C/AEgis/SBIR Phase II/Nominally Con	42-BMSTR-UAH-0013	12	8,843
C/AEgis/DET S&T Terahertz Imaging P	43-TIPA-UAH-0001	12	25,110
C/AEgis/DET S&T Terahertz Imaging P	67-TIPA-UAH-0001	12	1,216
C/Intuitive/Amcom Express/Non-Stand	AE-P-UAH-001	12	4,311
C/Intuitive/Amcom Express/Non-Stand	AE-P-UAH-001	12	22,375
A/Stevens/Modular Reconfigurable Ar	AGR DTD 2/4/10	12	6,934
A/Stevens/Verification, Validation,	AGR DTD 7/27/2010	12	100,145
C/Aquila/SBIR Phase II/World Advers	AGR DTD 8/25/09	12	48,671
C/ATK/SBIR Phase I/Support for SMP-	ATK-71926	12	6,147
C/CAS, Inc./AMCOM EXPRESS/CMD5 SLIN	CAS EXOC 1-05	12	22,382
C/ArguSight Subcontract	CON2010005C	12	4,975
A/UCB/Neutral Atmosphere Density In	CU1544149	12	135,073
C/DMS/STTR Phase I/Weather and Envi	DMSUBCONTRACT-05	12	14,918
C/DSN/Development of a Supply Chain	DSN 2010-001	12	(25)
C/Geocent LLC/Intelligent, Integrat	GEOCENT-UAH-102910	12	28,085
C/Gnosys Systems/STTR Phase II/Alte	GNOSYS SYSTEMS 09-001	12	62,566
C/Colsa/ARC/Lower-tier Missile	H07018000	12	122,485
C/COLSA Inc./SETAC/JAGMS Proposal R	HS-091028	12	9,169
C/John Tiller Software, Inc./Basic	JTS DATED 10/7/09	12	29,387
C/John Tiller/ STTR Phase I/ Innova	JTS DATED 6/8/10	12	17,950
C/John Tiller Software, Inc./Virtua	JTS DATED 8/8/2011	12	2,973
C/Platypus Techonolgy/Platypus	LTR DTD 3/17/11	12	1,302
C/ARTS/AMCOM Express/AMCOM End-to-E	MA 121608	12	1,522,951
C/Orbitec/SBIR Phase II/Acoustic Re	OTC-GS-0258-1	12	41,676
C/Metacomp Technologies, Inc./SBIR/	P.O. #0906	12	2,004
C/WESTAR/AMCOM EXPRESS/Fatigue Test	P.O. AMX-07-004	12	2,116
C/SAIC/Developing a Framework for D	P010053760	12	43,521
C/CFD/Research Corp/UAH Tooling and	PO 001491	12	1,001
C/JM Harwood/STTR Phase I/ Developm	PO 182	12	13,921
C/ARINC/Meeting with ARINC to Deter	PO 238136	12	396
O/NCMS/Turbine Blade Corrosion Test	PO 4193	12	8,547
C/SAIC/Masters of Science in Engine	PO 4400155775	12	1,303
A/MIT Lincoln Laboratory/Demonstrat	PO 7000151668	12	30,040
C/Northrop Grumman/Sector-by-Sector	PO 7500091325	12	129,596
C/ASI/SBIR Phase I/Qu Tubes for Eha	PO ASI528	12	9,963
C/AEgis/Prototype Development Speci	PO-100468	12	2,499
C/AEgis/Missile Rapid Prototyping	PO-110099	12	859
C/Torch Technologies/Amcom Express/	PO11160	12	2,460
C/ARINC/Improved Solar Observing Op	PO248104	12	45,484
S/SBDC/Alabama SBDC Network (PTAC)	PTAC-UAH-10-065	12	65,093
C/ArguSight/ArguSight Subcontract	PX 10-C016	12	24,636

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
<b>Research and Development Cluster, continued:</b>			
C/Techno-Sciences/SBIR/Phase II/Com	S340-10-UAH-01	12	41,587
S/UA/Small Busines Development Cent	SBA-UAH-11-039	12	71,209
C/MRC/Amcom Express/Fiber Optics ME	SK722-08-UAH-AMCOM-0019	12	13,577
C/Stanley Assoc. Inc./Reverse	SK904-10-UAH-WARHEADSBAA-T	12	38,426
C/CFD Research Corp/SBIR Phase II/A	SUBCONTRACT NO. 1432	12	6,303
C/CFD RESEARCH CORP/An Automated Hi	SUBCONTRACT NO. 1462	12	1,672
C/CFD Research Corp/Bio-Battery Pla	SUBCONTRACT NO. 1473	12	1,722
C/CFDRC/STTR/Phase I/Weather Charac	SUBCONTRACT NO. 1492	12	5,831
O/ATI/Anti-Counterfeiting & Configu	SUBCONTRACT NO. 2008-389	12	14,746
O/Academy of Applied Science/Resear	SUBGRANT 10-55	12	1,300
O/Academy of Applied Science/Resear	SUBGRANT 11-45	12	1,300
C/Torch/Amcom Express/Current Hardw	TO8S019	12	30,459
A/U of FL/Lightning Initiation, Pro	UF-EIES-1005014-UAH	12	184,942
			5,045,459
Total U.S. Department of Defense			45,598,763
U.S. Department of Health & Human Services:		93	252,091
ARRA Direct			
DHHS/NIH/ARRA/Investigations	1 R15 NS066391-01	93.701	80,701
DHHS/NIH/Analysis Of Ubiquitination Enzymes In C. Elegans	3R15GM065444-03	93.701	28,842
DHHS/NIH/Analysis Of Phd: A 73 Aa Protein With Multiple Ligands	2R15GM067668-04	93.701	56,789
DHHS/NIH/Novel Pattern Specific Isotopic Labeling of Aromatic	1R15GM093912-01	93.701	139,168
			305,500
Pass-Through Funds:			
Department of Health & Human Services			
iXpressGenes, Inc./STTR Phase I		93	30,365
ARRA Pass-Through Funds			
MIT/ARRA/Engineering Development	5710002629	93.701	99,055
Total U.S. Department of Health & Human Services			687,011
National Science Foundation:		47	2,044,894
ARRA Direct			
NSF/ARRA/Anomalous Diffusion in the Collisionless Solar Wind	904007	47.082	78,172
NSF/ARRA/CAREER:Transport of Ions	847719	47.082	72,371
NSF/Acquisition of Deterministic Polishing Tool	923157	47.082	37,208
NSF/ARRA/Alabama Cyber Connection in Nanotechnology	1006661	47.082	111,260
			299,011
Pass-Through Funds:			
National Science Foundation:			
AAMU/EPSCoR/Center for Interdisci	SUB-2008-EPS-0814103-CIDEN-	47	(3,468)
UAB/Alabama Louis Stokes Alliance	AGR DTD 7/21/06	47	15,592
UAB/Alabama Louis Stokes Alliance	AGR DTD 7/21/06	47	15,792
MSU/Assessment of Potential Impac	034900-362518-04 MOD 1	47	13,834
AURA/MHD Simulation AR Evolution	SUBAWARD NO. C10569A	47	49,119
Tuskegee University/EPSCoR	34-21530-200-76190	47	1,010
			91,879
Total National Science Foundation			2,435,784

# The University of Alabama in Huntsville

## Schedule of Expenditures of Federal Awards

### September 30, 2011

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
<b>Research and Development Cluster, continued:</b>			
National Aeronautics & Space Administration:		43	16,041,645
ARRA Direct			
NASA/MSFC/ARRA/Water Supply Management on California		43.006	174,092
<b>Pass Through Funds:</b>			
National Aeronautics & Space Administration:			
CRAFT/STTR Phase I/ Novel Design	NNX11C143P.002/C471	43	16,919
Norhtrop Grumman/Heavy Lift and P	PO 2765215	43	24,425
USRA/IMPLEMENT VI	SUBGRANTNO0348501	43	1,469
Jacobs-Sverdrup	SVT-0023	43	460,940
USRA/Visiting Researcher Exchange	03496-01	43	10,404
University of Maryland/Laboratory	Z634006 MOD G	43	142,015
USRA/Direct the Earth System Scie	0345004	43	41,623
UC/Heliospheric Foregrounds in th	SUBAWARD NO. 37102-2	43	40,134
KU/GRB Models for GLAST	FY2008-112	43	31,131
SWRI/STEREO Guest Investigators:	PO 886957E	43	24,151
JHU-APL/Understanding Propagation	SUBAWARD 948871	43	9,949
FIT/An Investigation Of Accelerat	FIT SUBAWARD 2009-001	43	36,742
UNH/Ion Distribution Function at	UNH 09-080	43	24,948
FIT/A Module of Particle Accelera	FIT SUBAWARD 201291	43	18,801
Johns Hopkins Univ./Applied Physi	SUBAWARD 957385	43	86,143
University of Colorado, Boulder/L	154-6632	43	25,586
University of Maryland/Thrust Cha	Z634006 MOD G	43	(2,855)
VCSI/Collaborative R&D Initiaitiv	AGR DTD 9/24/08	43	3,456
DFHS, LLC/Effect of Redox Systems	DFHS 10-001	43	3,941
Wyle/Implementing Multi-Variable	T71902	43	4,784
SI/SAO/Extending X-Ray and Synyae	GO1-12005X	43	32,730
USRA/Advancement of Engineering T	03496-05	43	2,828
ASI/SBIR Phase I/Facilities and T	PO ASI1379	43	3,700
Boeing/Engineering Design Support	PO 426597	43	21,341
SWRI/Supporting Science for the I	SUBCONTRACT A99132BT	43	90,506
Jacobs/Supportability Engineering	SVT0023	43	2,637
SGT/JWST Optics Support Task 82	SUBCONTRACT0759	43	50,018
Lockheed Martin/GOES-R Geostation	8100001543	43	647,365
SSAI/NASA/Advanced Satellite Aviat	SUBK UNDER NNL07AA00C	43	13,724
SSAI/2009 NASA Advanced Satellite	2616-08-021	43	50,382
Barber-Nichols Inc./Risk Memo for	22700	43	64,465
RiceUniversity/Application of Sat	R53141	43	72,283
SSAI/ASAP 2010 Program	2616-08-021	43	79,321
SI/SAO/Cosmology with a complete	GO0-11002X	43	37,333
SI/SAO/Studying Cluster Physics t	AR0-11015B	43	5,755
SI/SAO/X-Ray Circumnuclear Star F	GO0-11099B	43	16,282
Southern Research Institute/Micro	PO 057574	43	10,621
Stanley Assoc., Inc./Reverse Ball	ARMY/AMCOM	43	66,000
Teledyne Brown Engineering/Sensor	PO00080434	43	(5,503)
UNH/The Structure of Magnetic Clo	SUBAWARD NO. 11-091	43	35,544
USRA/Beamed Energy For Propulsion	04550-019	43	19,694
VCSI/PEOPLE2	AGR DTD 11/15/2010	43	9,968
VCSI/Assessment of Arcitic Environ	AGR DATED 4/13/11	43	85,776
Wyle/Implementing Multi-Variable	P.O. T72058	43	100,299
SSAI/Dual-Polarimetric Radar Retr	SUBCONTRACT UNDER NNG07EJ50C	43	4,561
Luna Innovations/STTR Phase II: N	1979NAS2T/UAH	43	25,704
Man Tech/NeXolve/Flextensional Mi	NXOLV-PSA-09-144	43	921
SGT/ESDSWG SPG Engineering Suppor	19268	43	10,571

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
<b>Research and Development Cluster, continued:</b>			
USRA/Beamed Energy for Propulsion	04550-012	43	41,906
Ball Aerospace/PMSA Cryogenic Test	PO04DLB10048	43	283,572
			<u>2,884,555</u>
ARRA Pass-Through Funds			
Dynetics (Orion) /ARRA/SBIR Phase		43.006	71,650
Total National Aeronautics & Space Administration			<u>19,171,942</u>
Department of Transportation:			
Pass Through Funds:		20	<u>308,697</u>
Department of Transportation:			
UA/UTCA/Multimedia Resources Pack	TASK ORDER 54	20	49,036
UA/UTCA/UTCA Operating Budget	TASK ORDER 57	20	19,735
UA/UTCA/Student Funding to Attend	TASK ORDER 53	20	16,635
UA/UTCA/Alabama Public Transporta	TASK ORDER 61	20	15,659
UA/UTCA/Analysis of Rural Public	TASK ORDER 62	20	26,209
ALDOT/Pilot Project: Retaining Wa	930-785	20	117,080
ALDOT/Transportation Modeling Sup	K-11-0191	20	49,909
ALDOT/Protege Program	K-11-0098	20	286,777
ALDOT/Upgrade of Axially Loaded P	930-769	20	21,812
UCSD/Assesment and Reliability of	10307912-SUB	20	74,512
UA/UTCA/Transportation Engineerin	TASK ORDER 58	20	25,474
ALDOT/Development of Multimedia R	PROJECT#93070303428	20	10,629
ALDOT/Methods for Forecasting Fre	930-768	20	62,701
JCDH/Operation and Maintenance of	MOU DTD 10/1/09	20	514
			<u>776,682</u>
Total Department of Transportation			<u>1,085,379</u>
Department of Commerce:			
Pass-Through Funds:		11	<u>1,174,184</u>
SURA/Testbed	2010-006	11	64,093
ATN/Program Funds for MEP Center	AGR DTD 10/1/10	11	178,314
ATN/Alabama E3 Program Expansion	2010-MEP-SDCC-01	11	67,496
Texas A&M/Lightning in the Nowca	S080079	11	38,022
U of Miami/Development of Improve	P151720	11	4,058
U of FL/The Southeast Climate Con	UF 10292	11	16,390
UMBC/CMAQ runs for Air Quality Pr	0000009378	11	34,911
EDPA/A Collaborative & Regional F	AGREEMENT DATED 6/27/11	11	11,548
WJOI/QA/QC Standards Integration	A100575	11	12,408
ATN/MEP/NIST/Program Funds for ME	AGR DTD 10/1/09	11	29,454
			<u>456,694</u>
Total Department of Commerce			<u>1,630,878</u>
Department of Energy:			
Pass-Through Funds:		81	<u>1,017,081</u>
Prism Computational Science/SBIR	UAH-PRISM 2011-01	81	750
Battelle, LLC/Effect of High Temp	4000093745	81	21,171
UChicago Argonne, LLC/Assignment	8F00041	81	(134)
HyperV Technologies/STTR/Modeling	AGR DTD 1/6/10	81	1,133
HiTek Services/Low Cost Heliostat	PO 021295	81	261,940
Tech-X/SBIR Phase II/ Modeling of	DE-SC0000833	81	42,499
UChicago Argonne, LLC/ Molecular	0F-34562	81	47,730

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
<b>Research and Development Cluster, continued:</b>			
UM/DOE Center for Predictive Cont	SUBAWARD NO. 3001421626	81	48,884
ADECA/Measure: Biomass Energy Pro	1STR10 01	81	112,955
ACHE/The Success Through Academic	AGREEMENT DTD 1/22/2010	81	40,662
			<u>577,590</u>
ARRA Pass-Through Funds			
ADECA/ARRA/Lean/Clean and Practice	1SEP ARRA 01	81.041	341,633
Total Department of Energy			<u>1,936,304</u>
Department of Agriculture:			
Pass-Through Funds:			
NFWF/Molecular methods	AGR DTD 2/5/2010	10	1,564
FSU/Decision Support System	R01320	10	29,795
FSU/UAH Research on Reduction	R01043	10	77,802
FSU/UAH Research on Risk Reduction	R01223	10	145,850
UCR/Water Sustainability in Desert Agriculture	S-000449	10	23,470
			<u>278,481</u>
Total Department of Agriculture			<u>517,719</u>
Tennessee Valley Authority:			
Pass-Through Funds:			
VCSI/TVA Rain Guage Initiative	VCSI20071		64,101
Total Tennessee Valley Authority			<u>90,020</u>
Department of State:			
Pass-Through Funds:			
VCSI/Advanced Defense Technology	SBA-010	19	99,230
<b>Total Research and Development</b>			<u><b>73,253,030</b></u>
<b>ARRA State Fiscal Stabilization Funds Cluster:</b>			
State of AL/Dept. of Finance/ARRA/SFSF-CGA	10-1330-A	84.394	<u><b>4,739,873</b></u>
<b>Student Financial Aid Cluster:</b>			
U.S. Department of Education:			
SEOG		84.007	141,719
PELL Grants		84.063	8,558,340
Work Study		84.033	156,437
Federal SMART Grant		84.376	348,000
Federal Academic Competitiveness		84.375	47,012
Total U.S. Department of Education			<u>9,251,508</u>
<b>Total Student Financial Aid</b>			<u><b>9,251,508</b></u>
<b>Total Major Programs</b>			<u><b>87,244,411</b></u>
<b>Other Programs:</b>			
Department of Education:			
DoEd/School Emergency Response to		84	106,900
Pass-Through Funds:			
ALSDE/Content Knowledge Enhanceme	U000713	84	126,342
ALSDE/Content Knowledge Enhanceme	U900641	84	84,520
ACHE/Success Through Academic Res	AGREEMENT DATED 1/21/2011	84	31,872
ALSDE/FY FY2011 Opening Doors Col	LETTER DATED 8/8/11	84	14,000
			<u>256,734</u>
Total Department of Education			<u>363,634</u>

**The University of Alabama in Huntsville**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
<b>Other Programs, continued:</b>			
Environment Protective Agency:			
Pass-Through Funds:			
JCDH/Operation and Maintenance of	MOU DTD 10/1/10	66	<u>13,113</u>
Department of State:			
Pass-Through Funds:			
AED/Study of the United States for Global Student Leaders 2009	AWARD #1592	19.430	9,685
World Learning/Public Health Education	AGREEMENT DATED 3/21/11	19.040	48,349
IREX/SUSI Azerbaijani Student Learning	FY11-SUSI-UAH-01	19.009	353,856
			<u>411,890</u>
Total Department of State			<u>411,890</u>
Department of Defense:			
Pass-Through Funds:			
DOD/ARMY/AMCOM/Master of Science	LTR DTD 1/28/08	12	39,035
Academy of Applied Science/Resear			
Optechnology/SBIR Phase II/Resili	SUBGRANT 10-71	12	1,300
SAIC/SAP Training & Curriculum De	OPTECH-10-001	12	9,606
Torch Technologies/Telescope Alig	C/SAIC/CHK # 0001886736	12	35,580
	PO11186		2,479
			<u>48,965</u>
Total Department of Defense			<u>88,000</u>
National Aeronautics & Space Administration:			
Pass-Through Funds:			
NASA/KSC/NASA Exploration Toolset	NNK10OD09P	43	7,820
NASA/GSFC/ASGC/Fellows & Scholars	NNX10AJ80H	43	43,940
NASA/MSFC/10.2.2/2011 NASA Academy	NNM11AA01A	43	796,033
Jacobs/MIT Forum: White Paper	SVT-0041	43	215,658
TBE/ISS Payload Operations Training	PO00081453	43	89,350
			<u>1,152,801</u>
National Endowment for the Arts:		45.024	<u>10,000</u>
Department of Transportation			
Pass-Through Funds:			
UA/UTCA/UTCA	UA11-027	20	<u>1,514</u>
<b>Total Other Federal Awards</b>			<u><b>2,040,952</b></u>
<b>Total Expenditures of Federal Awards</b>			<u><b>89,285,363</b></u>

# The University of Alabama in Huntsville

## Notes to Schedule of Expenditures of Federal Awards

### September 30, 2011

---

#### 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the federal expenditures of The University of Alabama in Huntsville (the "University") under programs of the federal government for the year ended September 30, 2011. The amounts reported as federal expenditures were obtained from the University's general ledger. This Schedule presents only a selected portion of the operations of the University, and, accordingly, is not intended to and does not present the net assets, changes in net assets, and cash flows of the University.

For purposes of this Schedule, federal awards include all grants, contracts, and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

The Catalog of Federal Domestic Assistance ("CFDA") and pass-through numbers have been provided to the extent they were available.

#### Subrecipients

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subrecipients and reimbursed by the University are presented in the Schedule. The University disbursed approximately \$2,700,951 of research and development cluster awards to subrecipients during the year ended September 30, 2011.

#### 2. Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures for federal award programs are recognized on the accrual basis of accounting. Expenditures for federal student financial aid programs include Federal Pell program grants to students, the federal share of students' Federal Supplemental Educational Opportunity Grants, Federal Academic Competitiveness Grants, Federal SMART Grants, Federal Direct Student Loan Program, and Federal Work-Study Program earnings and administrative cost allowances where applicable.

#### 3. Facilities and Administrative Costs (F&A Costs)

The University operates under predetermined fixed F&A cost rates which are effective from October 1, 2008 through September 30, 2012. The predetermined fixed rates were based on 2007 financial information. For fiscal year ending September 30, 2011, the base rate for on-campus research is 47.3%. Base rates for other F&A cost recoveries range from 26% to 47.3%.

#### 4. Federal Student Loan Programs

##### Federal Direct Student Loans (CFDA Number 84.268)

The Federal Direct Student Loan Program (FDSLPL) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL 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 FDSLPL 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 2011, the University disbursed approximately \$30,049,987 under the FDSLPL, which is not reflected on the Schedule.

## **Part II**

### **Findings and Questioned Costs**



**The University of Alabama in Huntsville**  
**Schedule of Audit Findings and Questioned Costs**  
**September 30, 2011**

---

**Section I – Summary of Auditors’ Results**

**Financial Statements**

Type of auditors’ report issued Unqualified

Internal control over financial reporting

    Material weakness(es) identified?  Yes  No

    Significant deficiency(ies) identified not considered to be material weaknesses?  Yes  None reported

    Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs

    Material weakness(es) identified?  Yes  No

    Significant deficiency(ies) identified not considered to be material weaknesses?  Yes  None reported

Type of auditors’ report issued on compliance for major programs Unqualified for all major programs

Any audit findings disclosed that are required to be reported with Circular A-133 (Section .510(a))  Yes  No

Identification of major programs <b>CFDS Number(s)</b> Various Various 84.394	<b>Name of Federal Program or Cluster</b> Research and Development Cluster Student Financial Aid Cluster State Fiscal Stabilization Funds Cluster
-------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------

Threshold used to determine Type A and Type B Programs \$3,000,000

Auditee qualified as low-risk auditee?  Yes  No

# The University of Alabama in Huntsville

## Schedule of Audit Findings and Questioned Costs

### September 30, 2011

---

#### Section II - Financial Statement Findings

##### Finding 2011-1 - Valuation of Capital Gift

###### Criteria

Government Accounting Standards Codification section 1400.102 requires a capital gift or donation to be reported at estimated fair value at the time of acquisition.

###### Condition

During 2011, the United States Department of the Navy donated a used super-computer to UAH, and UAH recorded this transaction as a \$10.2 million capital gift in the 2011 statement of revenues, expenses, and changes in net assets. Government accounting standards require that such capital gifts are recorded at fair value as of the date of donation. The information and process used by management to estimate the fair value of the computer resulted in a fair value measure that was outside a reasonable range, and accordingly, UAH recorded an approximate \$8.7 million adjustment during the audit.

###### Questioned Costs

None

###### Cause

The super-computer transaction was a highly unusual transaction that is not expected to recur. Management used the information available from the transaction to record the gift. Throughout the audit, management sought further information related to the valuation of the gift. The cause of the original recording error rests in the lack of available market and fair value information for this type of asset. Management did not have the necessary information to make a reasonable fair value estimate.

###### Effect

The impact was an overstatement of an asset and future depreciation expense. This internal control deficiency did not affect the administration of federal awards or the Schedule of Federal Awards.

###### Recommendation

We recommend that management consider the use of a third-party valuation specialist to assist in estimating the fair value of future capital gifts.



January 20, 2012

### Capital Gift Valuation (UAH) - Significant Deficiency

During 2011, the United States Department of the Navy donated a used super-computer to UAH, and UAH recorded this transaction as a \$10.2 million capital gift in the 2011 statement of revenues, expenses, and changes in net assets. Government accounting standards require that such capital gifts are recorded at fair value as of the date of donation. The information and process used by management to estimate the fair value of the computer resulted in a fair value measure that was outside a reasonable range, and accordingly, UAH recorded an approximate \$8.7 million adjustment during the audit. We consider this adjustment to be a significant deficiency in internal control over financial reporting.

We recommend management consider the use of a third-party valuation specialist to assist in estimating the fair value of future capital gifts.

### Management View

We concur with this audit recommendation.

### Corrective Action Plan

A gift of this type and magnitude to the University is a very infrequent transaction, and we have added an additional review process to our internal procedures. The value of future high-dollar value gifts of a similar nature will be evaluated by a third-party valuation specialist as recommended by PwC.

Respectfully,

Robert Leonard  
Assistant Vice President for  
Finance & Business Services

**The University of Alabama in Huntsville**  
**Schedule of Audit Findings and Questioned Costs**  
**September 30, 2011**

---

**Section III - Federal Award Findings and Questioned Costs**

**Finding 2011-2: Federal Equipment Inventory Procedures**

**Federal Agency:** Department of Defense, National Aeronautics and Space Administration  
**Program:** Research and Development Cluster  
**CFDA#:** Various  
**Award#:** Various  
**Award year:** 2005-2012

**Criteria**

Part 3F of the OMB Circular A-133 Compliance Supplement states that a physical inventory of equipment acquired under Federal awards is required every two years.

**Condition**

Of 45 federally titled assets selected for inventory testing, the University failed to inspect 5 federally titled assets with a total cost of approximately \$69,000 during the biennial inventory procedures performed during the period of 10/1/2009-9/30/2011. The 5 assets represent 11% of federally titled equipment subject to physical inventory procedures as of September 30, 2011, or 5% of the cost value of this same equipment.

**Questioned Costs**

None

**Cause**

The finding resulted from the lack of appropriate reconciliation procedures between the physical inventory records and the equipment records within the ERP system.

**Effect**

There was no effect on the Schedule of Federal Awards; however, a lack of reconciliation procedures could facilitate misplacement of equipment going unnoticed.

**Recommendation**

We recommend management revisit their policies surrounding documentation of federally titled equipment, including the retention of records and system updates relating to the most recent physical inventories to ensure these policies are followed and clearly documented.



**June 26, 2012**

**Finding 2011-2 - Federal Equipment Physical Inventory Procedures**

Of 45 federally titled assets selected for inventory testing, the University failed to inspect 5 federally titled assets with a total cost of approximately \$69,000 during the biennial inventory procedures performed during the period of 10/1/2009-9/30/2011. The 5 assets represent 11% of federally titled equipment subject to physical inventory procedures as of September 30, 2011, or 5% of the cost value of this same equipment.

We recommend management revisit their policies surrounding documentation of federally titled equipment, including the retention of records and system updates relating to the most recent physical inventories to ensure these policies are followed and clearly documented.

**Management View**

We concur with this audit recommendation.

**Corrective Action Plan**

The University has evaluated its physical inventory procedures and will implement improvements to ensure that federally purchased equipment is inventoried and that all inventory records are maintained in accordance with University policy.

The University has implemented procedures to ensure that equipment inventoried is properly recorded in the University's fixed assets system.

Respectfully,

Robert Leonard  
Assistant Vice President for  
Finance & Business Services

**The University of Alabama in Huntsville**  
**Schedule of Audit Findings and Questioned Costs**  
**September 30, 2011**

---

**Finding 2011-3: Federal Funding Accountability and Transparency Act Reporting**

**Federal Agency:** National Science Foundation / Department of Defense  
**Program:** Research and Development Cluster  
**CFDA#:** 47.081 / 12  
**Award#:** EPS-1010607 / W31P4Q-09-D-0010  
**Award year:** 2010-2012

**Criteria**

Part 3 of the OMB Circular A-133 Compliance Supplement notes the Federal Funding Accountability and Transparency Act (FFATA) ensures recipients of federal grants and contracts disclose information about their sub-recipients and sub-contractors. Grant and cooperative agreement recipients and contractors must report information related to a sub-award by the end of the month following the month in which the sub-award or obligation of \$25,000 or greater was made and, for contracts, the month in which a modification was issued that changed previously reported information.

**Condition**

Of 5 sub-awards and sub-contracts selected for testing out of a total population of 43 sub-awards and sub-contracts over \$25,000 that could be subject to FFATA special reporting, the University failed to report 1 sub-award and 1 sub-contract greater than \$25,000 within the required reporting deadlines. However, when informed of this finding, management completed the reporting for each in June of 2012.

**Questioned Costs**

None

**Cause**

The finding resulted from an extended implementation period of the reporting policies for awards and contracts subject to FFATA reporting requirements.

**Effect**

The FFATA database was not updated on a timely basis which hinders the federal government's objective of improving accountability and transparency.

**Recommendation**

We recommend management review controls and procedures around FFATA grant and contract reporting to ensure appropriate timelines for reporting are met.



**June 26, 2012**

**Federal Funding Accountability and Transparency Act Reporting**

Of 5 sub-awards and sub-contracts selected for testing out of a total population of 43 sub-awards and sub-contracts over \$25,000 that could be subject to FFATA special reporting, the University failed to report 1 sub-award and 1 sub-contract greater than \$25,000 within the required reporting deadlines. However, when informed of this finding, management completed the reporting for each in June of 2012.

**Management View**

We concur with this audit recommendation.

**Corrective Action Plan**

The University has evaluated its procedures and has implemented modifications to identify awards that fall within the new FFATA reporting requirements. We will continue to enforce the already established process to monitor sub awards greater than \$25K that are subject to federal reporting.

Respectfully,

Robert Leonard  
Assistant Vice President for  
Finance & Business Services

### **Part III**

## **Prior Year Findings and Questioned Costs**



**The University of Alabama in Huntsville**  
**Status of Prior Year Audit Findings and Questioned Costs**  
**September 30, 2011**

---

**Findings and Questioned Costs:**

There are no findings from prior years which require an update.

**Other Matters:**

**Facilities and Administrative Cost Rate Application**

During the course of applying for a new award from a federal agency, the University determined there was an error in the application of the facilities and administrative cost rate during the period comprised of fiscal years ended September 30, 2006 through September 30, 2010. This error resulted in the over-collection of approximately \$1.1 million in facilities and administrative costs during that period.

**Status**

Management reached a settlement with its agency responsible for facilities and administrative cost rate negotiations for the amount of \$1.1 million, which was paid by the University during July 2011. In addition, the University has implemented an updated facilities and administrative cost rate policy in order to ensure these cost rates are applied appropriately.

**Part IV**

**2011 Financial Report**



## Report of Independent Auditors

To the Board of Trustees of The University of Alabama:

In our opinion, based upon our audits and the report of other auditors, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of The University of Alabama in Huntsville (the “University”), a campus of The University of Alabama System, which is a component unit of the State of Alabama, present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit at September 30, 2011 and 2010, and the respective changes in financial position of the University and its discretely presented component unit, and cash flows of the University for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of University of Alabama Huntsville Foundation, the University’s discretely presented component unit, as of September 30, 2011 and 2010 and for the years then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for University of Alabama Huntsville Foundation, is based solely on the report of the other auditors. We conducted our audits of the financial statements of the University in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University’s discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2012 on our consideration of the University’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, for the year ended September 30, 2011. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 1, the financial statements of the University are intended to present the financial position, the changes in financial position, and, where applicable, 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 the University. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2011 and 2010, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The management’s discussion and analysis for the years ended September 30, 2011 and 2010 on pages 3 through 14 is not a required part of the basic financial statements as of and for the years then ended but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*PricewaterhouseCoopers LLP*

January 23, 2012

---

*PricewaterhouseCoopers LLP, 1901 6th Ave. North, Suite 1600, Birmingham  
AL 35203*

**The University of Alabama in Huntsville**

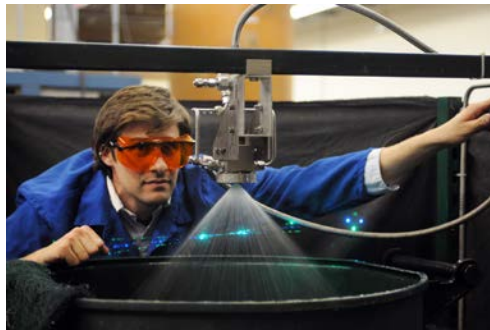
**Management’s Discussion and Analysis (Unaudited)**

This section of The University of Alabama in Huntsville (the “University”) annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal years ended September 30, 2011 and 2010. This discussion has been prepared by University management and should be read in conjunction with the financial statements and the related footnotes. The financial statements, footnotes and this discussion are the responsibility of University management.

**Introduction**

The University is a public research university that offers 69 degree-granting programs that meet the highest standards of excellence, including 33 bachelor's degree programs, 21 master’s degree programs, and 15 doctoral programs through its five colleges: Business Administration, Liberal Arts, Engineering, Nursing, and Science. The University is an autonomous campus within The University of Alabama System (the “System”).

The University received \$83.1 million for externally funded projects during fiscal year 2011. Sponsors of research include federal and state agencies, academic institutions, industry and private foundations. Research is conducted within the five individual colleges and through the University’s 14 independent research centers, laboratories and institutes. Major interdisciplinary research thrusts include: modeling and simulation; 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.



Located at the southern edge of the Appalachian Mountains, Huntsville is a national center of aerospace and high technology research and development. It is home to the National Aeronautical and Space Administration’s Marshall Space Flight Center, the U.S. Army Aviation and Missile Command, and the U.S. Army Space and Missile Defense Command. The University is strategically located in Cummings Research Park, the second largest university research park in the United States and home to numerous high technology and research companies.

**Financial and Enrollment Highlights**

- Total net assets increased \$5.7 million, primarily due to an increase in tuition and fees and a capital gift.

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Undergraduate	4477	4654	4906	4831	4767
Graduate	773	773	784	811	888
<b>Total</b>	<b>5250</b>	<b>5427</b>	<b>5690</b>	<b>5642</b>	<b>5655</b>

FTE calculated using Alabama Commission on Higher Education formula;  
Undergraduate credit hour production ( chp)/15; graduate I chp/12; graduate II chp/9.

	<b>2007*</b>	<b>2008*</b>	<b>2009*</b>	<b>2010</b>	<b>2011</b>
Graduates	1513	1538	1562	1609	1694
Seniors	1761	1560	1640	1817	1810
Juniors	1116	1178	1339	1323	1371
Sophomores	1087	1211	1257	1183	1127
Freshmen	1612	1753	1638	1424	1377
Others	175	191	245	258	250
<b>Total</b>	<b>7264</b>	<b>7431</b>	<b>7681</b>	<b>7614</b>	<b>7629</b>

\* Due to system conversion, class level is calculated differently. Students formerly classified as "Others" are now included in class level based on hours earned. As of Fall 2005, "Others" are second bachelor's students only.

- The total of full-time equivalent students increased 0.2% in 2011, compared to the 0.8% decrease in 2010. UAH also had a 0.2% increase in the total number of students attending in the fall semester in 2011, compared to the 0.9% decrease in 2010.

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Bachelor's	840	889	900	933	1028
Master's	299	322	384	364	337
Doctorate	30	37	32	38	41
Certificate	21	31	29	25	35
<b>Total</b>	<b>1190</b>	<b>1279</b>	<b>1345</b>	<b>1360</b>	<b>1441</b>

- Approximately \$42.7 million in appropriations for operations were received from the State of Alabama for fiscal year 2011. In comparison to the prior year, appropriations decreased 0.9% or \$369,000.

**Statement of Net Assets**

The statement of net assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the statement of net assets is to present a fiscal snapshot of the University to the readers of the financial statements. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

The statement of net assets provides a summary of assets available to continue the operations of the University. The statement also shows how much the University owes vendors, investors and lending institutions. Finally, the statement of net assets provides a picture of the net assets and the availability for expenditure by the University.

Net assets are divided into three major categories. The first category, **invested in capital assets, net of related debt**, provides the University’s equity in property, plant and equipment owned by the University. The second asset category is **restricted net assets**, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources, as it pertains to endowments, is only available for investment purposes. Donors have primarily restricted income derived from these investments to fund scholarships and fellowships. Expendable restricted net assets are 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 assets**, which are available to the University for any lawful purpose of the University. Many of the University’s unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, capital projects, future debt service, quasi-endowments, insurance reserves, research centers and instructional departments.

A summarized comparison of the University’s assets, liabilities, and net assets as of September 30 is as follows:

<b>Summary of Statements of Net Assets</b>			
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 131,568,438	\$ 120,537,020	\$ 98,599,124
Noncurrent assets:			
Endowment, life income and other investments	52,730,053	52,096,534	51,153,427
Capital assets, net	206,671,409	212,762,299	193,327,170
Legal settlement receivable	3,534,449	4,312,772	4,910,379
Other	2,507,239	2,672,705	2,147,925
<b>Total assets</b>	<b>397,011,588</b>	<b>392,381,330</b>	<b>350,138,025</b>
Current liabilities	48,413,908	46,734,545	46,582,274
Noncurrent liabilities	80,861,000	83,651,000	58,111,000
<b>Total liabilities</b>	<b>129,274,908</b>	<b>130,385,545</b>	<b>104,693,274</b>
Net assets			
Invested in capital assets, net of related debt	126,483,662	130,165,018	135,705,109
Restricted	11,410,878	9,720,007	9,619,562
Unrestricted	129,842,140	122,110,760	100,120,080
<b>Total net assets</b>	<b>\$ 267,736,680</b>	<b>\$ 261,995,785</b>	<b>\$ 245,444,751</b>

For the year ending September 30, 2011, the University's current assets increased \$11.0 million. Endowment, life income and other investments increased \$633,519. Capital assets, net of depreciation, decreased \$6.1 million due to depreciation offset by capital expenditures. The legal settlement receivable of \$3.5 million is the net present value of an amount to be received in future years. Current liabilities increased \$1.7 million. The majority of this increase is due to payroll related liabilities and deferred revenues. Noncurrent liabilities decreased \$2.8 million, the result of bond principal payments.

For the year ending September 30, 2010, the University's current assets increased \$21.9 million. Endowment, life income and other investments increased \$943,107. Capital assets, net of depreciation, increased \$19.4 million primarily due to the construction of Charger Village, a new four hundred bed residence hall. The legal settlement receivable of \$4.3 million is the net present value of an amount to be received in future years. Current liabilities increased \$152,272. Noncurrent liabilities increased \$25.5 million, the result of the issuance of Student Housing Revenue Bonds.

For the year ending September 30, 2009, the University's current assets increased \$18.1 million. Endowment, life income and other investments decreased \$2.1 million. Capital assets, net of depreciation, increased \$2.1 million primarily due to the renovation of Wilson Hall and the construction of a new residence hall. The legal settlement receivable of \$4.9 million is the net present value of an amount to be received in future years. Current liabilities increased \$7.0 million. Of this amount, \$2.2 million is due to payroll related liabilities and \$4.4 million in deferred revenue is due to the increased tuition and enrollment during the year. Noncurrent liabilities increased \$5.6 million, the result of the issuance of General Fee Revenue Bonds.

For the year ending September 30, 2011, the University's total net assets increased 2.2%. The University's investments in capital assets, net of related debt, decreased approximately \$3.7 million primarily due to a capital decrease in capital assets. Restricted net assets increased \$1.7 million. Unrestricted net assets increased approximately \$7.7 million. Although unrestricted net assets are not subject to



externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for capital projects, as well as various academic and research programs and initiatives.

For the year ending September 30, 2010, the University's total net assets increased 6.7%. The University's investments in capital assets, net of related debt, decreased approximately \$5.5 million primarily due to the issuance of Student Housing Revenue Bonds. Restricted net assets increased \$100,445. Unrestricted net assets increased approximately \$22.0 million. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for capital projects, as well as various academic and research programs and initiatives.

For the year ending September 30, 2009, the University's total net assets increased 2.0%. The University's investments in capital assets, net of related debt, decreased approximately \$3.9 million primarily due to the issuance of General Fee Revenue Bonds. Restricted net assets increased \$47,135. Unrestricted net assets increased approximately \$8.7 million. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for capital projects, as well as various academic and research programs and initiatives.

**Capital Assets**

At September 30, 2011, 2010 and 2009, the University had approximately \$389.9 million, \$386.6 million and \$356.7 million invested in capital assets and accumulated depreciation of \$183.2 million, \$173.8 million, and \$163.4 million, respectively. Depreciation charges for fiscal year 2011, 2010 and 2009 were \$12.2 million, \$11.2 million and \$11.3 million, respectively.

The following table summarizes the University's capital assets, net of accumulated depreciation, as of September 30:

<b>Capital Assets, Net</b>			
	<u><b>2011</b></u>	<u><b>2010</b></u>	<u><b>2009</b></u>
Land	\$ 3,910,290	\$ 3,910,290	\$ 3,871,290
Land improvements and infrastructure, net	1,921,904	2,125,825	2,300,240
Buildings and building improvements, net	184,777,581	188,820,790	171,233,440
Equipment, net	11,578,172	10,799,069	8,318,826
Library books, net	2,647,480	5,036,758	5,530,447
Computer software, net	1,325,677	1,619,652	1,913,627
Artwork	510,305	449,915	159,300
<b>Total capital assets, net</b>	<b><u>\$ 206,671,409</u></b>	<b><u>\$ 212,762,299</u></b>	<b><u>\$ 193,327,170</u></b>

Major capital additions during the year ended September 30, 2011, included the completion of the construction of Charger Village and a capital gift of a supercomputer.

Major capital expenditures during the year ended September 30, 2010, included the construction of Charger Village.

Major capital expenditures during the year ended September 30, 2009, included the renovation of Wilson Hall and the construction of a new residence hall.

Additional information about the University's capital assets is presented in Note 5 to the financial statements.



**Debt**

The following table summarizes outstanding long-term debt by type, as of September 30:

	<b>Debt</b>		
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Bonds - Current	\$ 2,790,000	\$ 2,575,000	\$ 2,490,000
Bonds - Long Term	80,861,000	83,526,000	58,111,000
Notes - Long Term	-	125,000	-
<b>Total debt outstanding</b>	<b><u>\$ 83,651,000</u></b>	<b><u>\$ 86,226,000</u></b>	<b><u>\$ 60,601,000</u></b>



Principal and interest on these revenue bonds are collateralized by a pledge of revenues produced by student housing and student tuition and fees.

**Statement of Revenues, Expenses, and Changes in Net Assets**

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenses, and changes in net assets, which presents the University’s results of operations. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the University. State appropriations are nonoperating 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 nonoperating 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 program.

A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended September 30 is as follows:

<b>Summary of Statements of Revenues, Expenses, and Changes in Net Assets</b>			
	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Operating revenues:			
Tuition and fees	\$ 62,722,011	\$ 57,539,507	\$ 49,171,895
Less: scholarship allowances	(17,691,842)	(15,866,010)	(11,842,131)
Tuition and fees, net	45,030,169	41,673,497	37,329,764
Federal, state and private grants and contracts	81,504,667	80,584,998	75,442,370
Sales and services of educational departments	5,229,509	3,382,871	3,267,819
Auxiliary, net of \$1,193,885 in 2011 and \$832,271 in 2010 of scholarship allowances	8,172,943	6,079,895	5,860,094
Total operating revenues	139,937,288	131,721,261	121,900,047
Operating expenses	191,821,815	175,666,077	169,352,221
Operating loss	(51,884,527)	(43,944,816)	(47,452,174)
Nonoperating revenues (expenses):			
State educational appropriations	42,703,771	43,072,625	45,861,449
Private gifts	3,313,101	2,827,316	3,017,524
Net investment income	306,941	5,177,809	865,840
Loss on disposal of capital assets	(139,164)	(268,920)	(1,045,093)
Interest expense	(3,413,201)	(2,531,893)	(2,323,481)
Capital gifts and grants	1,555,390	791,115	640,330
Pell grant revenue	8,558,340	7,894,629	5,205,261
State fiscal stabilization funds	4,739,873	3,529,066	98,925
Legal settlement	371	4,103	-
Net nonoperating revenues	57,625,422	60,495,850	52,320,755
Increase in net assets	5,740,895	16,551,034	4,868,581
Net assets, beginning of year	261,995,785	245,444,751	240,576,170
<b>Net assets, end of year</b>	<b>\$ 267,736,680</b>	<b>\$ 261,995,785</b>	<b>\$ 245,444,751</b>

Tuition and fees increased \$5.2 million in fiscal year ended September 30, 2011 due to a 15.1% increase in tuition. The \$8.4 and \$7.3 million increases in 2010 and 2009 were also the result of tuition increases. The following is a summary of revenues by source (both operating and nonoperating) for the years ended September 30, which are used to fund the University's operating activities. Significant recurring sources of the University's revenues, such as state appropriations, are considered nonoperating, as defined by GASB Statement No. 35, *Basic Financial Statements-Management Discussion and Analysis for Public colleges and Universities*.

	Revenue Sources					
	2011		2010		2009	
State educational appropriations	\$42,703,771	21.2%	\$43,072,625	22.1%	\$45,861,449	25.8%
Net investment income	306,941	0.1%	5,177,809	2.7%	865,840	0.5%
Grants and contracts	81,504,667	40.5%	80,584,998	41.3%	75,442,370	42.5%
Gifts	3,313,101	1.6%	2,827,316	1.5%	3,017,524	1.7%
Auxiliary	8,172,943	4.1%	6,079,895	3.1%	5,860,094	3.3%
Net tuition and fees	45,030,169	22.4%	41,673,497	21.4%	37,329,764	21.0%
Sales and services	5,229,509	2.6%	3,382,871	1.7%	3,267,819	1.8%
Capital gifts and grants	1,555,390	0.8%	791,115	0.4%	640,330	0.4%
Legal settlement	371	0.0%	4,103	0.0%	-	0.0%
Pell grants	8,558,340	4.3%	7,894,629	4.0%	5,205,261	2.9%
State fiscal stabilization funds	4,739,873	2.4%	3,529,066	1.8%	98,925	0.1%
<b>Total revenues</b>	<b>\$201,115,075</b>		<b>\$195,017,924</b>		<b>\$177,589,376</b>	

Investment income decreased \$4.9 million in fiscal year ended 2011 as considerable unrealized losses were recorded due to unfavorable market conditions and activity. In 2010, investment activity produced a net increase of \$4.3 million from the prior year. Investments experienced gains of \$0.9 million in 2009.

Grants and contracts increased \$0.9 million in fiscal year ended September 30, 2011 primarily due to an increase in federal contracts and grants. Grants and contracts increased \$5.1 million and \$7.8 million in fiscal year ended September 30, 2010 and 2009, respectively, primarily due to an increase in federal grants and contracts. Capital gifts and grants increased \$0.8 million during fiscal year 2011, due gifts received. Capital gifts and grants increased \$150,785 during fiscal year 2010. There was a decrease of \$10.8 million during fiscal year 2009, the result of the completion of a construction grant for the Intermodal Facility.

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 were received in exchange for services performed and are recorded as operating revenues. The chart reflects the funding sources for federal operating grant and contract revenue for the years ended September 30:

Detail of Federal Grants & Contracts Revenue			
	<u>2011</u>	<u>2010</u>	<u>2009</u>
National Aeronautics and Space Administration	\$ 19,920,857	\$ 20,969,792	\$ 20,886,686
Department of Defense	45,617,018	43,303,784	35,590,965
National Science Foundation	2,414,183	3,243,906	1,715,550
Department of Education	940,410	1,112,374	532,789
Other	7,094,679	6,855,061	7,867,802
<b>Total</b>	<b>\$ 75,987,147</b>	<b>\$ 75,484,916</b>	<b>\$ 66,593,792</b>

Department of Defense revenues increased \$2.3 million, \$7.7 million and \$6.5 million in fiscal year ended September 30, 2011, 2010 and 2009 respectively, primarily due to an increase in Army contracts.

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

<b>Operating expenses (by functional classification)</b>			
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Instruction	\$ 52,788,595	\$ 46,626,681	\$ 46,572,499
Research	72,161,096	70,977,492	65,218,878
Public service	1,271,245	492,098	267,414
Academic support	10,979,107	8,053,427	7,093,760
Student services	12,288,975	10,109,980	9,494,792
Institutional support	16,674,715	15,506,263	15,673,674
Operations and maintenance of plant	7,663,698	8,538,183	9,434,866
Scholarships and fellowships	1,286,400	981,010	928,253
Auxiliary enterprises	4,500,595	3,203,326	3,329,830
Depreciation	12,207,389	11,177,617	11,338,255
<b>Total operating expenses</b>	<b>\$ 191,821,815</b>	<b>\$ 175,666,077</b>	<b>\$ 169,352,221</b>
<b>Operating expenses (by natural classification)</b>			
Compensation and benefits	\$ 135,629,341	\$ 125,809,835	\$ 122,500,135
Supplies and services	42,698,685	37,697,615	34,585,578
Depreciation	12,207,389	11,177,617	11,338,255
Scholarships and fellowships	1,286,400	981,010	928,253
<b>Total operating expenses</b>	<b>\$ 191,821,815</b>	<b>\$ 175,666,077</b>	<b>\$ 169,352,221</b>

Instruction expense increased \$6.2 million in fiscal year 2011, primarily due to annual merit based salary increases, increases in health insurance, and State American Recovery and Reinvestment Act of 2009 funding. Instruction expense increased \$54,182 in fiscal year 2010. The increase of \$2.8 million in 2009 was primarily due to increases in health insurance and other benefit costs.

Research expense increased \$1.2 million, \$5.8 million and \$0.8 million in fiscal year ended September 30, 2011, 2010 and 2009, respectively, primarily due to an increase in contracts and grants.

The increase in compensation and benefits of \$9.8 million in fiscal year ended September 30, 2011 was primarily due to annual merit based salary increases and increases in health insurance and other benefit costs. Compensation and benefits increased \$3.3 million and \$2.8 million in fiscal year ended September 30, 2010, and 2009, respectively, primarily due to increases in health insurance and other benefit costs.

Scholarships and fellowships increased \$0.3 million and \$52,757 in fiscal year ended September 30, 2011 and 2010, respectively, due to increases in tuition. Supplies and services expense increased \$5.0 million in fiscal year 2011, primarily due to the write-off of electronic database and State American Recovery and Reinvestment Act of 2009 funding.

**Statement of Cash Flows**

The statement of cash flows presents the significant sources and uses of cash. The University’s cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts. The following is a condensed statement of cash flows for the years ended September 30:

<b>Condensed Statements of Cash Flows</b>		
	<b><u>2011</u></b>	<b><u>2010</u></b>
Cash received from operations	\$ 139,503,331	\$ 138,936,194
Cash payments for operations	(178,784,992)	(165,882,624)
Net cash used in operating activities	<u>(39,281,661)</u>	<u>(26,946,430)</u>
Net cash used in capital and related financing activities	(11,359,231)	(9,013,004)
Net cash used in investing activities	(399,617)	(30,775,257)
Net cash provided by noncapital financing activities	<u>58,388,597</u>	<u>57,715,914</u>
Net increase in cash and cash equivalents from other than operating activities	46,629,749	17,927,653
Net increase (decrease) in cash	7,348,088	(9,018,777)
Cash, beginning of year	29,880,175	38,898,952
Cash, end of year	<u><u>\$ 37,228,263</u></u>	<u><u>\$ 29,880,175</u></u>

The University used \$39.3 million of cash for operating activities in 2011, offset by approximately \$58.4 million of cash provided by noncapital financing activities. Similarly, in 2010, \$26.9 million of cash used for operating activities was offset by \$57.7 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses. The decrease in cash provided by noncapital financing activities was due to a decrease in state appropriations.

Cash of \$11.4 million and \$9.0 million in 2011 and 2010, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments. In 2010, these uses were offset by proceeds of approximately \$28.0 million from the issuance of our Series 2010-A Student Housing Revenue Bonds.

Cash used in investing activities totaled \$399,617 in 2011. Cash used in investing activities totaled \$30.8 million in 2010. The change is primarily the result of investments made to the System Intermediate Fund during 2010, which is the primary reason for the overall decrease in the University's cash from 2009 to 2010.



### **Economic Factors That Will Affect the Future**

The University's state educational appropriations have not kept pace with the amounts recommended by the Alabama Commission on Higher Education (ACHE). For fiscal year 2011, the University was funded at approximately 57.4% of the ACHE funding recommendation.

There is a direct relationship between the level of State support and the University's ability to control tuition growth as declines in State educational appropriations adversely affect tuition levels. Proration of 3.0% and 9.5% was enacted in fiscal year 2011 and 2010, respectively, reducing appropriations the University received. There can be no assurance of future State educational appropriations. The University expects to be able to absorb this loss of State funds, without material reduction of its budget, through a combination of increased tuition and any increased enrollment and internal reserves. State educational appropriations are not, and cannot lawfully be, pledged under debt indentures. Major financial strengths of the University include a diverse source of revenues, including State appropriations, tuition and fees (net of scholarship allowances), auxiliary units' revenue, private support and federally sponsored grants and contracts.

The University continues to attract federal grant and contract revenue. Over 86% of the University's federal operating revenue comes from two agencies: the National Aeronautical and Space Administration and the Department of Defense. The outcome of federal budget process has important ramifications for the University's research budget.

The University's achievement in recent years in obtaining private and federal support is a testament to the high regard in which the University is held. The level of support underscores the continued confidence among donors and grantors in the quality of the University's programs and the importance of its mission. The University must have a balanced array of many categories of facilities to meet its educational, research and public service goals and continues to assess long-term capital requirements. Support

for the University's recent capital expenditures has been provided primarily from federal funds, bond issues repaid through student rental and facility fees, and gifts.

### **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.





## FINANCIAL STATEMENTS





**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENTS OF NET ASSETS**  
**September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 36,647,932	\$ 29,350,455
Operating investments	62,030,703	61,906,105
Accounts receivable, net	25,017,114	21,931,129
Other current assets	7,872,689	7,349,331
Total current assets	<u>131,568,438</u>	<u>120,537,020</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	580,331	529,720
Endowment investments	18,612,825	18,029,917
Investments for capital activities	33,536,897	33,536,897
Capital assets, net	206,671,409	212,762,299
Legal settlement receivable	3,534,449	4,312,772
Other noncurrent assets	2,507,239	2,672,705
Total noncurrent assets	<u>265,443,150</u>	<u>271,844,310</u>
<b>Total Assets</b>	<b><u>\$ 397,011,588</u></b>	<b><u>\$ 392,381,330</u></b>
 <b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 18,818,138	\$ 18,054,386
Deferred revenues	23,699,868	22,931,071
Current portion of long-term debt	2,790,000	2,575,000
Deposits held for others	3,105,902	3,174,088
Total current liabilities	<u>48,413,908</u>	<u>46,734,545</u>
Noncurrent Liabilities:		
Long-term debt	<u>80,861,000</u>	<u>83,651,000</u>
Total noncurrent liabilities	<u>80,861,000</u>	<u>83,651,000</u>
<b>Total Liabilities</b>	<b><u>129,274,908</u></b>	<b><u>130,385,545</u></b>
Net Assets:		
Invested in capital assets, net of related debt	126,483,662	130,165,018
Restricted:		
Nonexpendable	3,774,113	3,055,800
Expendable	7,636,765	6,664,207
Unrestricted	<u>129,842,140</u>	<u>122,110,760</u>
<b>Total Net Assets</b>	<b><u>267,736,680</u></b>	<b><u>261,995,785</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 397,011,588</u></b>	<b><u>\$ 392,381,330</u></b>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION  
DISCRETELY PRESENTED COMPONENT UNIT  
STATEMENTS OF FINANCIAL POSITION  
Years Ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 3,479,802	\$ 2,054,158
Investments	33,561,409	33,807,671
Investment real estate	2,813,018	2,813,018
Investment in trust	5,236,077	5,145,485
Accrued interest	396,246	413,105
Mortgages receivable	-	36,897
Pledges receivable, net	393,228	116,040
Trust receivable	484,959	484,959
Related party receivable	209,434	176,090
Income tax receivable	80,794	56,794
Collections	-	60,390
<b>Total Assets</b>	<b><u>\$ 46,654,967</u></b>	<b><u>\$ 45,164,607</u></b>
Accounts payable	\$ 2,221	\$ 1,669
Annuity payable	162,607	175,770
Payroll tax payable	3,624	2,224
<b>Total Liabilities</b>	<b><u>168,452</u></b>	<b><u>179,663</u></b>
Unrestricted net assets	20,741,788	21,566,649
Temporarily restricted net assets	6,483,273	6,110,077
Permanently restricted net assets	19,261,454	17,308,218
<b>Total Net Assets</b>	<b><u>46,486,515</u></b>	<b><u>44,984,944</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 46,654,967</u></b>	<b><u>\$ 45,164,607</u></b>

See Note 16

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**Years Ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Revenues</b>		
Tuition and fees	\$ 62,722,011	\$ 57,539,507
Less: scholarship allowances	(17,691,842)	(15,866,010)
Tuition and fees, net	<u>45,030,169</u>	<u>41,673,497</u>
Grants and contracts		
Federal	75,987,147	75,484,916
State	4,094,758	3,794,394
Private	1,422,762	1,305,688
Sales and services of educational departments	5,229,509	3,382,871
Auxiliary, net of \$1,193,885 in 2011 and \$832,271 in 2010 of scholarship allowances	8,172,943	6,079,895
<b>Total Operating Revenues</b>	<b><u>139,937,288</u></b>	<b><u>131,721,261</u></b>
<b>Operating Expenses</b>		
Compensation and benefits	135,629,341	125,809,835
Supplies and services	42,698,685	37,697,615
Depreciation	12,207,389	11,177,617
Scholarships and fellowships	1,286,400	981,010
<b>Total Operating Expenses</b>	<b><u>191,821,815</u></b>	<b><u>175,666,077</u></b>
Operating loss	(51,884,527)	(43,944,816)
<b>Nonoperating Revenues (Expenses)</b>		
State educational appropriations	42,703,771	43,072,625
Private gifts	3,313,101	2,827,316
Net investment income	306,941	5,177,809
Pell grant revenue	8,558,340	7,894,629
State fiscal stabilization funds	4,739,873	3,529,066
Legal settlement	371	4,103
Loss on disposal of capital assets	(139,164)	(268,920)
Interest expense	(3,413,201)	(2,531,893)
<b>Net Nonoperating Revenues</b>	<b><u>56,070,032</u></b>	<b><u>59,704,735</u></b>
Capital gifts	<u>1,555,390</u>	<u>791,115</u>
	<b>57,625,422</b>	<b>60,495,850</b>
Increase in net assets	5,740,895	16,551,034
Net Assets, Beginning of Year	<u>261,995,785</u>	<u>245,444,751</u>
<b>Net Assets, End of Year</b>	<b><u>\$ 267,736,680</u></b>	<b><u>\$ 261,995,785</u></b>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION  
DISCRETELY PRESENTED COMPONENT UNIT  
STATEMENTS OF ACTIVITIES  
Years Ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Changes in net assets</b>		
<b>Revenue, gains, and other support:</b>		
Contributions	\$ 3,428,910	\$ 300,660
Rent income	23,960	24,400
Investment income	1,806,928	1,915,221
Unrealized gain on investments	-	1,735,883
Equity in earnings of trust	690,802	520,262
Other income	61,307	390,234
<b>Total Revenues</b>	<u><b>6,011,907</b></u>	<u><b>4,886,660</b></u>
<b>Expenses:</b>		
Unrealized loss on investments	1,931,582	-
Realized loss on sale of investments	150,880	1,459,607
Contributions to UAH	696,352	2,325,839
Scholarships to UAH	1,205,728	1,180,055
Professional services	71,913	135,721
Income tax expense	215,173	167,565
Labor/Payroll expense	103,344	86,120
Bad debts expense	97,883	119,854
Change in value of split-interest agreement	2,238	86,502
Other expenses	35,243	39,675
<b>Total Expenses</b>	<u><b>4,510,336</b></u>	<u><b>5,600,938</b></u>
Change in net assets	1,501,571	(714,278)
Net Assets, Beginning of Year	<u>44,984,944</u>	<u>45,699,222</u>
<b>Net Assets, End of Year</b>	<u><b>\$ 46,486,515</b></u>	<u><b>\$ 44,984,944</b></u>

See Note 16

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENTS OF CASH FLOWS**  
**Years Ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 46,959,315	\$ 42,344,929
Federal grants and contracts	75,933,459	80,362,044
State grants and contracts	4,064,451	4,094,174
Local grants and contracts	272	-
Private grants and contracts	1,411,960	1,408,845
Sales and services of educational and other departmental activities	4,425,221	3,371,436
Auxiliary enterprises	6,708,653	7,354,766
Payments to suppliers	(41,963,442)	(38,265,613)
Payments to employees and related fringes	(135,014,029)	(125,551,251)
Payments for scholarships and fellowships	(1,807,521)	(2,065,760)
Net Cash Used in Operating Activities	<u>(39,281,661)</u>	<u>(26,946,430)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from issuance of bonds	-	27,990,000
Proceeds from issuance of note payable	-	125,000
Bond issuance cost	-	(657,214)
Purchase of capital assets	(5,728,816)	(31,674,480)
Principal payments on capital debt	(2,575,000)	(2,490,000)
Interest payments on capital debt	(3,055,415)	(2,306,310)
Net Cash Used in Capital and Related Financing Activities	<u>(11,359,231)</u>	<u>(9,013,004)</u>
<b>Cash Flows from Investing Activities</b>		
Gain (loss) from investments, net	1,416,495	1,276,999
Proceeds from sales and maturities of investments	3,054	921,426
Purchase of investments	(1,819,166)	(32,973,682)
Net Cash Used in Investing Activities	<u>(399,617)</u>	<u>(30,775,257)</u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State educational appropriations	42,703,771	43,072,625
Private gifts	3,313,101	2,827,316
Student direct lending receipts	28,593,707	28,647,367
Student direct lending disbursements	(30,049,987)	(28,687,822)
Amounts received from affiliates	79,812	54,729
Amounts paid to affiliates	(147,998)	(194,490)
Legal settlement	597,978	572,494
Pell grant revenue	8,558,340	7,894,629
State fiscal stabilization funds	4,739,873	3,529,066
Net Cash Provided by Noncapital Financing Activities	<u>58,388,597</u>	<u>57,715,914</u>
Net increase (decrease) in cash and cash equivalents	7,348,088	(9,018,777)
Cash and Cash Equivalents, Beginning of Year	29,880,175	38,898,952
<b>Cash and Cash Equivalents, End of Year</b>	<u><b>\$ 37,228,263</b></u>	<u><b>\$ 29,880,175</b></u>
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>		
Cash and cash equivalents in current assets	36,647,932	29,350,455
Restricted cash and cash equivalents	580,331	529,720
<b>Total Cash and Cash Equivalents</b>	<u><b>\$ 37,228,263</b></u>	<u><b>\$ 29,880,175</b></u>

See accompanying notes to financial statements

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENTS OF CASH FLOWS -- Continued**  
**Years Ended September 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (51,884,527)	\$ (43,944,816)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	12,207,389	11,177,617
Changes in allowance for doubtful accounts	160,093	83,967
Changes in assets and liabilities:		
Accounts receivable, net	(1,362,846)	5,252,218
Other current assets	(523,358)	(1,213,228)
Accounts payable and accrued liabilities	1,352,791	(180,936)
Deferred revenues	768,797	1,878,748
<b>Net Cash Used in Operating Activities</b>	<u><u>\$ (39,281,661)</u></u>	<u><u>\$ (26,946,430)</u></u>
 <b>Supplemental Noncash Activities Information</b>		
Loss on disposal of capital assets	\$ 139,165	\$ 268,920
Gift of capital assets	1,555,390	791,115
Capital assets acquired with a liability at year end	-	781,360

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE  
**Notes to Financial Statements**  
**Years Ended September 30, 2011 and 2010**

**Note 1 – Organization and Summary of Significant Accounting Policies**

**Financial Reporting Entity** - The University of Alabama in Huntsville (the “University”) is one of three campuses of The University of Alabama System (the “System”), which is a discretely presented 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. 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 Number 39, *Determining Whether Certain Organizations are Component Units* (GASB 39). This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

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 34-member board of trustees. Although the University does not control the timing or amount of receipts from UAHF, the majority of resources, or income thereon 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 of the difference in its reporting model, as further described below.

UAHF is a not-for-profit organization that reports its financial results under the Financial Accounting Standard 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 presentation features. No modifications have been made to UAHF’s financial information in the University’s financial reporting entity for these differences; however, significant note disclosures (see Note 16) to UAHF’s financial statements have been incorporated into the University’s

notes to the financial statements. During the years ended September 30, 2011 and 2010, UAHF distributed \$1,902,080 and \$3,505,894, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF can be obtained by calling 1-256-824-6350.

The University is also affiliated with the Eminent Scholars Foundation, Alabama Engineering Foundation, UAH Alumni Association, UAH Athletic Association and UAH Foundation for Excellence. These entities' resources are not significant to the University; therefore, they do not constitute component units under the provisions of GASB 39.

**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. Accordingly, the financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the GASB and all statements of the FASB through November 30, 1989, using the economic measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**Net Assets:** Net assets are classified into the following four categories according to external donor restrictions or availability of assets for satisfaction of University obligations:

- **Invested in capital assets, net of related debt:** 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 assets 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 assets 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 assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management. Substantially all unrestricted net assets are designated for academic, research, and capital programs.



**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 investments are primarily reported at fair value. The University's investment portfolio is primarily invested in three separate investment pools sponsored by the System. Fair value for the investment pools is provided 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, which primarily invest in readily marketable securities. Certain real estate and non-readily marketable securities held in the System-sponsored Endowment Fund and Prime fund (Note 3) are carried at cost, unless impaired. Fair value for investments held directly by the University is determined from quoted market prices or market prices of similar instruments. Net investment income, including realized and unrealized gains and losses, is reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net assets.

Investments are reported in three categories in the statement of net assets. 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, 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 contracts and grants, and amounts due to the University related to a legal settlement. Accounts receivable are recorded net of estimated uncollectible amounts; the legal settlement receivable is recorded at net present value as the term is greater than one year.

**Capital Assets:** Capital assets are recorded at cost at the date of acquisition, or fair 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.

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are capitalized and depreciated. Interest costs, net of any related investment earnings, for certain assets acquired with the proceeds of tax-exempt borrowings are capitalized as a component of the cost of acquiring those assets.

Depreciation of buildings and building improvements (5-50 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:** Collections are recognized as an asset on the accompanying statement of net assets in accordance with GASB 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. 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 fair 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 assets as changes in the appropriate net asset classes, depending on the existence and type of donor-imposed restrictions.

**Deferred Revenues:** Deferred revenues consist primarily of amounts received for fall semester student tuition and fees that are not earned until the next fiscal year. Deferred 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 assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's operating revenues are from exchange transactions. Certain significant revenue streams relied upon to support operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state educational appropriations, private gifts for other than capital purposes, investment income, federal pell grants and state fiscal stabilization funds.

Auxiliary enterprise revenues are primarily generated by University Housing.

Revenues received for capital activities are considered neither operating nor nonoperating activities, and are presented after nonoperating activities on the accompanying statement of revenues, expenses, and changes in net assets.

**Contract and grant revenue:** The University receives contract and grant revenue from governmental and private sources. The University recognizes revenue 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 continue to be 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.

**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.

**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. The Board approved a spending rate for the fiscal years ended September 30, 2011 and 2010 of 5.0% of a 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.

**Note 2 - Cash**

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.

The System sponsors a short-term investment pool for the System entities to invest operating cash reserves. The Short-Term Fund is invested in a treasury obligation money market fund managed by Federated. As of September 30, 2011, the University had approximately \$15.2 million in the Short-Term Fund all of which was invested in the money market fund. The assets held in the money market fund are presented in cash and cash equivalents. As of September 30, 2010, the University had approximately \$10.5 million in the Short-Term Fund all of which was invested in the money market fund. The assets held in the money market fund are presented in cash and cash equivalents and restricted cash and cash equivalents.

As of September 30, 2011 and 2010, the University had cash and cash equivalents totaling \$37,228,263 and \$29,880,175 respectively. Included in the amounts are deposits with trustees held for reserves, which totaled \$580,331 in 2011 and \$529,720 in 2010.

**Note 3 – 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.

At September 30, 2011 and 2010, the University's investments included custodial credit risk category I investments (investments that are insured or registered, or securities held by the University or its agent in the University's name) and other investments not categorized by risk category as follows:

	2011	2010
Category I:		
Time deposits	\$ 135,081	\$ 134,619
Not categorized:		
Mutual funds	36,319	41,147
System Short-term Fund	15,204,407	10,505,856
System Intermediate Fund	57,865,155	56,953,381
System Prime Investment Fund	35,293,979	35,938,637
Pooled Endowment Fund	18,612,825	18,029,917
Agency Funds	2,237,066	2,375,218
Total Investments	<u>\$ 129,384,832</u>	<u>\$ 123,978,775</u>

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 has established four distinct investment pools based primarily on the projected investment time-horizons for system funds. These investment pools are the Endowment Fund, Prime Fund, Intermediate Fund and the Short-Term Fund (collectively, the System Pools). 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 are resident 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.

**Endowment Fund:** The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over a perpetual time frame. Accordingly, the primary investment objectives of the Endowment Funds 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 Endowment Fund 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. Of the \$18,612,825 invested by the University at September 30, 2011, \$5,221,265 is donor restricted. Of the \$18,029,917 invested by the University in 2010, \$4,564,400 is donor restricted. These donor restricted amounts also include unrealized gains. As discussed in Note 1, the Endowment Fund invests in securities with non-readily determinable market values which are valued at cost, unless impaired. The portion of the University’s investment in the Endowment Fund which is reported at cost is approximately \$2,276,007 and \$1,943,000 at September 30, 2011 and 2010, respectively. The remainder of the investment is reported at fair value.

**Prime Fund:** The Prime Fund is a longer-term fund used as an investment vehicle to manage operating reserves with a time horizon of seven to ten years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid and semi-liquid securities. This fund is not currently invested in long-term lockup funds with illiquid assets. As discussed in Note 1, certain investments within the Prime Fund are valued at cost, unless impaired. The University's portion of investments in the Prime fund which are measured at cost totaled approximately \$591,000 and \$545,000 at September 30, 2011 and 2010, respectively. The remainder of the investment is reported at fair value.

**Intermediate Fund:** The Intermediate Fund serves as an investment vehicle to manage operating reserves with a time horizon of two to six years. This fund is 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 Intermediate Fund has an investment objective of income with preservation of capital and is invested in intermediate-term fixed income securities. System policy states that at least one of the investment managers must be a large mutual fund providing daily liquidity.

**Short-Term Fund:** The Short-Term Fund contains the operating reserves of the various System entities. Because of the different income and disbursement requirements of each entity, consolidation of these funds reduces daily cash fluctuations and minimizes the amount of short-term cash reserves needed. Assets held in the Short-Term Fund are invested with the primary objective of stability of principal and liquidity. Such investments are restricted to high quality, liquid, money market funds and other fixed income obligations with a maturity of one year or less. Refer to Note 2 for additional information related to the Short-Term Fund.

The composition of the System's investments, by investment type for the System Pools, at September 30, 2011 and 2010 is as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>RECEIVABLES:</b>								
ACCRUED INCOME RECEIVABLES	\$ 1,107,419	\$ 1,022,703	650,770	\$ 730,638	\$ 4,991,584	\$ 3,394,772	\$ -	\$ -
<b>TOTAL RECEIVABLES</b>	<b>1,107,419</b>	<b>1,022,703</b>	<b>650,770</b>	<b>730,638</b>	<b>4,991,584</b>	<b>3,394,772</b>	-	-
<b>CASH EQUIVALENTS:</b>								
CERTIFICATES OF DEPOSIT	-	-	-	-	9,083,787	2,700,000	-	-
COMMERCIAL PAPER	-	-	-	-	16,200,000	27,000,000	-	-
MONEY MARKET FUNDS	32,523,163	20,090,042	27,318,415	15,547,782	67,192,267	15,395,631	119,243,909	168,718,531
<b>TOTAL CASH EQUIVALENTS</b>	<b>32,523,163</b>	<b>20,090,042</b>	<b>27,318,415</b>	<b>15,547,782</b>	<b>92,476,054</b>	<b>45,095,631</b>	<b>119,243,909</b>	<b>168,718,531</b>
<b>EQUITIES:</b>								
U.S. COMMON STOCK	61,441,298	63,959,778	47,156,571	46,906,064	-	-	-	-
FOREIGN STOCK	3,693,290	3,734,348	2,813,145	2,708,329	-	-	-	-
<b>TOTAL EQUITIES</b>	<b>65,134,588</b>	<b>67,694,126</b>	<b>49,969,716</b>	<b>49,614,393</b>	-	-	-	-
<b>FIXED INCOME SECURITIES:</b>								
U.S. GOVERNMENT OBLIGATIONS	32,642,178	33,786,763	11,255,896	19,534,274	237,375,819	192,236,728	-	-
MUNICIPAL GOVERNMENT OBLIGATIONS	-	-	-	-	5,348,375	2,093,673	-	-
MORTGAGE BACKED SECURITIES	-	911,352	-	566,328	47,674,103	19,764,250	-	-
COLLATERALIZED MORTGAGE OBLIGATIONS	824,701	1,525,678	1,616,040	1,900,449	80,738,496	30,978,826	-	-
CORPORATE BONDS	45,242,909	31,889,288	20,786,125	21,567,664	349,240,996	256,027,315	-	-
NON-U.S. BONDS	-	-	-	-	20,105,488	7,756,995	-	-
<b>TOTAL FIXED INCOME SECURITIES</b>	<b>78,709,788</b>	<b>68,113,081</b>	<b>33,658,061</b>	<b>43,568,715</b>	<b>740,483,277</b>	<b>508,857,787</b>	-	-
<b>COMMINGLED FUNDS:</b>								
BANK COMMON TRUST FUND	-	-	-	-	-	-	-	-
U.S. EQUITY FUNDS	97,341,436	130,953,359	95,624,301	101,565,158	-	-	-	-
NON-U.S. EQUITY FUNDS	204,708,799	209,620,702	190,506,910	173,321,023	-	-	-	-
U.S. BOND FUNDS	19,459,731	74,155,378	48,810,114	93,914,279	106,131,492	108,159,733	-	-
NON-U.S. BOND FUNDS	56,083,738	51,744,077	48,033,757	38,096,317	-	-	-	-
HEDGE FUNDS	141,883,144	126,056,610	109,604,285	93,416,606	-	-	-	-
PRIVATE EQUITY FUNDS	53,444,269	50,904,793	-	-	-	-	-	-
TIMBERLAND FUNDS	5,624,452	8,527,039	-	-	-	-	-	-
REAL ESTATE FUNDS	111,363,985	69,314,611	87,120,952	40,046,944	-	-	-	-
<b>TOTAL COMMINGLED FUNDS</b>	<b>689,909,254</b>	<b>721,276,569</b>	<b>579,700,319</b>	<b>540,360,327</b>	<b>106,131,492</b>	<b>108,159,733</b>	-	-
<b>TOTAL FUND INVESTMENTS</b>	<b>866,277,093</b>	<b>877,173,818</b>	<b>690,646,511</b>	<b>649,091,217</b>	<b>939,090,823</b>	<b>662,113,151</b>	<b>119,243,909</b>	<b>168,718,531</b>
<b>TOTAL FUND ASSETS</b>	<b>867,384,512</b>	<b>878,196,521</b>	<b>691,297,281</b>	<b>649,821,855</b>	<b>944,082,407</b>	<b>665,507,923</b>	<b>119,243,909</b>	<b>168,718,531</b>
<b>TOTAL FUND LIABILITIES</b>	<b>(141,349)</b>	<b>(108,538)</b>	<b>(96,905)</b>	<b>(78,054)</b>	<b>(431,667)</b>	<b>(253,747)</b>	-	-
<b>AFFILIATED ENTITY INVESTMENTS IN FUNDS</b>	<b>(108,310,387)</b>	<b>(109,872,550)</b>	<b>(46,104,160)</b>	<b>(1,891,880)</b>	<b>(63,559,098)</b>	<b>(8,165,066)</b>	-	-
<b>TOTAL NET ASSET VALUE</b>	<b>\$ 758,932,777</b>	<b>\$ 768,215,433</b>	<b>\$ 645,096,216</b>	<b>\$ 647,851,921</b>	<b>\$ 880,091,643</b>	<b>\$ 657,089,110</b>	<b>119,243,909</b>	<b>\$ 168,718,531</b>

**Investment Risk Factors:** There are many factors that 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.

A bond’s credit quality is an assessment of the issuer’s ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody’s Investors Service (Moody’s) or Standard and Poor’s (S&P). The lower the rating, the greater the chance—in the rating agency’s opinion—that the bond issuer will default, or fail to meet its payment obligations.

Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Board policy recognizes that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark.

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. Fixed income holdings in a single entity (excluding obligations of the U.S. government and its agencies) may not exceed 5% of a manager's portfolio measured at market value. At least 95% of these fixed income investments must be in investment grade securities (securities with ratings of BBB- or Baa3) or higher. However, multi-strategy fixed income managers may have up to 20% of their investments in non-investment grade securities. Securities of foreign entities denominated in U.S. dollars are limited to 10% of a manager's portfolio. Securities denominated in currencies other than U.S. dollars are not permissible unless part of a multi-strategy fixed income account where the limitation is 20% of the manager's portfolio.

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Government Credit Index for U.S. investments and the Citigroup WGBI Index for international investment benchmarks for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate, mortgage backed, asset backed and U.S. treasury and/or agency bonds with a minimum BBB- rating and an average duration of four years. In addition, approximately \$1,600,000 and \$3,800,000 in the Endowment and Prime Funds, at September 30, 2011 and 2010, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$232,200,000 and \$293,500,000, in the Endowment and Prime Funds, at September 30, 2011 and 2010, respectively.

The Intermediate Fund is benchmarked against the 1-3 year Barclays Government Credit Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For September 30, 2011 and 2010, respectively, approximately \$59,200,000 and \$62,000,000 was invested by the Intermediate Fund in unrated fixed income securities, excluding commingled bond funds, money market funds and commercial paper. Fixed income commingled funds and commercial paper totaled approximately \$189,500,000 and \$150,600,000 at September 30, 2011 and 2010, respectively. For September 30, 2011 and 2010, \$9,100,000 and \$2,700,000, respectively, was invested by the Intermediate Fund in certificates of deposit.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the System campuses and hospital. The Short-Term Fund is invested in a money market fund, which in turn invests mostly in U.S. Treasury securities and repurchase agreements that are collateralized by U.S. Treasury securities. These funds are all commingled with funds of other investors. Refer to Note 2 for additional information related to the Short-Term Fund.



The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2011 and 2010 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2011	2010	2011	2010	2011	2010	2011	2010
Fixed or Variable Income Securities								
U.S. Government Obligations	\$ 32,642,178	\$ 33,786,763	\$ 11,255,896	\$ 19,534,274	\$ 237,375,819	\$ 192,236,728	\$ -	\$ -
Municipal Government Obligations	-	-	-	-	5,348,375	2,093,673	-	-
Other U.S. Denominated:								
AAA	601,838	1,352,251	259,069	1,180,794	82,551,910	60,795,483	-	-
AA	9,442,755	3,644,101	4,280,773	2,393,581	82,527,357	58,634,075	-	-
A	20,810,897	16,695,249	10,696,427	11,416,560	155,173,567	87,821,004	-	-
BBB	14,989,257	10,994,544	5,808,925	6,919,747	93,358,572	38,692,339	-	-
BB	-	-	-	-	19,361,524	5,937,675	-	-
B	-	-	-	-	1,357,676	436,225	-	-
C and < C	-	-	-	-	4,257,867	197,792	-	-
Unrated	222,863	1,640,173	1,356,971	2,123,759	59,170,610	62,012,793	-	-
Commingled Funds:								
U.S. Bond Funds: Unrated	19,459,731	74,155,378	48,810,114	93,914,279	106,131,492	108,159,733	-	-
Non-U.S. Bond Funds: Unrated	56,083,738	51,744,077	48,033,757	38,096,317	-	-	-	-
Money Market Funds: Unrated	32,523,163	20,090,042	27,318,415	15,547,782	67,192,267	15,395,631	119,243,909	168,718,531
Commercial Paper: Unrated	-	-	-	-	16,200,000	27,000,000	-	-
Certificate of Deposits	-	-	-	-	9,083,787	2,700,000	-	-
<b>TOTAL</b>	<b>\$ 186,776,420</b>	<b>\$ 214,102,578</b>	<b>\$ 157,820,347</b>	<b>\$ 191,127,093</b>	<b>\$ 939,090,823</b>	<b>\$ 662,113,151</b>	<b>\$ 119,243,909</b>	<b>\$ 168,718,531</b>

**Custodial Credit Risk:** Custodial credit risk is the risk that in the event of the corporate failure of the 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, 2011 and 2010, 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 held by the Short Term Fund.

**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 portfolio as they are managed relative to the investment objectives and liquidity demands of the investors. The effective durations for fixed or variable income securities, for the System Pools, at September 30, 2011 and 2010 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2011	2010	2011	2010	2011	2010
U.S. GOVERNMENT OBLIGATIONS	4.1	3.4	4.9	3.3	2.6	3.0
CORPORATE BONDS	5.8	6.4	5.8	6.0	2.3	2.0
COMMINGLED BOND FUNDS	4.2	5.8	3.8	5.2	2.2	2.4

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

Investments may also include mortgage pass through 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. At September 30, 2011 and 2010, the fair market value of these investments for the System Pools, are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2011	2010	2011	2010	2011	2010
MORTGAGE BACKED SECURITIES	\$ -	\$ 911,352	\$ -	\$ 566,328	\$ 47,674,103	\$ 19,764,250
COLLATERALIZED MORTGAGE OBLIGATIONS	824,701	1,525,678	1,616,040	1,900,449	80,738,496	30,978,826
<b>TOTAL FIXED</b>	<b>\$ 824,701</b>	<b>\$ 2,437,030</b>	<b>\$ 1,616,040</b>	<b>\$ 2,466,777</b>	<b>\$ 128,412,599</b>	<b>\$ 50,743,076</b>

**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 asset 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.

At September 30, 2011 and 2010 the effective durations for these securities are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2011	2010	2011	2010	2011	2010
MORTGAGE BACKED SECURITIES	-	2.3	-	2.2	2.7	2.9
COLLATERALIZED MORTGAGE OBLIGATIONS	2.4	2.2	1.2	1.6	0.9	1.6

**Foreign Currency Risk:** The strategic asset allocation policy for the Endowment Fund and the Prime Fund includes an allocation to non-United States equity securities. Each international equity manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager’s portfolio, measured at market value. Currency hedging of foreign bonds and stocks is allowed under System Policy. As of September 30, 2011 and 2010, 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 approximately \$20,100,000 and \$7,800,000 of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2011 and 2010, respectively.

**Securities Lending:** Board policies permit 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, 2011 and 2010, there were no securities on loan from the investment pools.

**Note 4 – Accounts Receivable**

The composition of accounts receivable at September 30, 2011 and 2010 is summarized as follows:

	<u>2011</u>	<u>2010</u>
Tuition and fees (net of allowance for doubtful accounts of \$222,045 in 2011 and \$250,545 in 2010)	\$ 4,912,571	\$ 5,161,429
Auxiliary enterprises and other operating activities	172,126	128,049
Federal, state, and private grants and contracts (net of allowance for doubtful accounts of \$511,282 in 2011 and \$322,688 in 2010)	17,840,078	15,534,316
Legal settlement receivable, net present value	778,323	597,607
Other	1,314,016	509,728
Net accounts receivable	\$ 25,017,114	\$ 21,931,129

**Note 5 – Capital Assets**

Capital assets activity for the years ended September 30, 2011 and 2010 is summarized as follows:

	October 1, 2010	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, 2011
Land	\$ 3,910,290	\$ -	\$ -	\$ -	\$ 3,910,290
Land improvements and infrastructure	8,059,384	198,546	-	-	8,257,930
Buildings and building improvements	257,248,721	3,221,343	-	25,259,406	285,729,470
Construction in progress	25,259,406	720,876	-	(25,259,406)	720,876
Equipment	60,561,407	3,825,632	(2,284,496)	-	62,102,543
Library books	28,173,265	51,841	(2,539,340)	-	25,685,766
Computer software	2,939,750	-	-	-	2,939,750
Artwork	449,915	60,390	-	-	510,305
Total cost of capital assets	<u>386,602,138</u>	<u>8,078,628</u>	<u>(4,823,836)</u>	<u>-</u>	<u>389,856,930</u>
Less accumulated depreciation	173,839,839	12,207,389	(2,861,707)	-	183,185,521
Capital assets, net	<u>\$ 212,762,299</u>	<u>\$ (4,128,761)</u>	<u>\$ (1,962,129)</u>	<u>-</u>	<u>\$ 206,671,409</u>

	October 1, 2009	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, 2010
Land	\$ 3,871,290	\$ 39,000	\$ -	\$ -	\$ 3,910,290
Land improvements and infrastructure	7,783,526	275,858	-	-	8,059,384
Buildings and building improvements	249,320,921	3,748,668	(304,967)	4,484,099	257,248,721
Construction in progress	8,448,111	21,295,394	-	(4,484,099)	25,259,406
Equipment	56,611,597	4,641,685	(691,875)	-	60,561,407
Library books	27,573,616	599,649	-	-	28,173,265
Computer software	2,939,750	-	-	-	2,939,750
Artwork	159,300	290,615	-	-	449,915
Total cost of capital assets	<u>356,708,111</u>	<u>30,890,869</u>	<u>(996,842)</u>	<u>-</u>	<u>386,602,138</u>
Less accumulated depreciation	163,380,941	11,177,617	(718,719)	-	173,839,839
Capital assets, net	<u>\$ 193,327,170</u>	<u>\$ 19,713,252</u>	<u>\$ (278,123)</u>	<u>\$ -</u>	<u>\$ 212,762,299</u>

**Note 6 – Long-term Debt**

Long-term debt activity for the years ended September 30, 2011 and 2010 is summarized as follows:

Type/Supported by	October 1, 2010	New Debt, net	Principal Repayment	September 30, 2011
Bonds:				
Student housing revenue	\$ 53,661,000	\$ -	\$ 1,260,000	\$ 52,401,000
General fee revenue	32,440,000	-	1,315,000	31,125,000
Note Payable	125,000	-	-	125,000
Total debts	<u>86,226,000</u>	<u>\$ -</u>	<u>\$ 2,575,000</u>	<u>83,651,000</u>
Less current portion	<u>2,575,000</u>			<u>2,790,000</u>
Total long-term debt	<u><u>\$ 83,651,000</u></u>			<u><u>\$ 80,861,000</u></u>

Type/Supported by	October 1, 2009	New Debt, net	Principal Repayment	September 30, 2010
Bonds:				
Student housing revenue	\$ 26,886,000	\$ 27,990,000	\$ 1,215,000	\$ 53,661,000
General fee revenue	33,715,000	-	1,275,000	32,440,000
Note Payable	-	125,000	-	125,000
Total debts	<u>60,601,000</u>	<u>\$ 28,115,000</u>	<u>\$ 2,490,000</u>	<u>86,226,000</u>
Less current portion	<u>2,490,000</u>			<u>2,575,000</u>
Total long-term debt	<u><u>\$ 58,111,000</u></u>			<u><u>\$ 83,651,000</u></u>

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

	Principal	Interest	Total
2012	\$ 2,790,000	\$ 3,452,646	\$ 6,242,646
2013	3,160,000	3,359,567	6,519,567
2014	3,280,000	3,251,003	6,531,003
2015	3,395,000	3,134,177	6,529,177
2016	3,540,000	3,008,676	6,548,676
2017-2021	15,726,000	13,168,024	28,894,024
2022-2026	19,180,000	9,453,839	28,633,839
2027-2031	13,945,000	5,357,618	19,302,618
2032-2036	8,770,000	2,925,511	11,695,511
2037-2041	7,970,000	1,366,961	9,336,961
2042	1,895,000	75,444	1,970,444
	<u>\$ 83,651,000</u>	<u>\$ 48,553,466</u>	<u>\$ 132,204,466</u>

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

<u>Description and Purpose</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate - %</u>	<u>Original Indebtedness</u>	<u>Outstanding Indebtedness September 30, 2011</u>	<u>Outstanding Indebtedness September 30, 2010</u>
<b>Bonds Payable:</b>						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	\$ 2,180,000	\$ 755,000	\$ 825,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	951,000	1,036,000
Student Housing Revenue Bonds-Series 2001	12/27/2001	12/1/2031	3.00 - 5.30	9,370,000	7,860,000	8,065,000
Revenue Bonds-Series 2002-A	12/19/2002	9/30/2027	1.40 - 4.75	3,965,000	3,150,000	3,265,000
Revenue Bonds-Series 2003-A	2/3/2003	9/30/2027	1.45 - 4.70	17,890,000	13,910,000	14,460,000
Student Housing Revenue Bonds-Series 2004-A	9/30/2004	9/1/2034	3.00 - 4.63	13,130,000	11,305,000	11,590,000
Student Housing Revenue Bonds-Series 2004-B	9/30/2004	9/1/2016	3.00 - 3.63	7,515,000	3,540,000	4,155,000
Revenue Bonds-Series 2005-A	10/1/2005	6/1/2025	3.00 - 4.38	8,580,000	6,545,000	6,895,000
Revenue Bonds-Series 2009A	8/4/2009	7/1/2029	3.0-4.50	8,115,000	7,520,000	7,820,000
Student Housing Revenue Bonds-Series 2010-A	7/14/2010	6/1/2042	2.85-6.125	27,990,000	27,990,000	27,990,000
<b>Total Bonds Payable</b>				<u>101,337,000</u>	<u>83,526,000</u>	<u>86,101,000</u>
<b>Note Payable:</b>						
UAH Foundation	9/20/2010	7/31/2012		125,000	125,000	125,000
<b>Total Note Payable</b>				<u>125,000</u>	<u>125,000</u>	<u>125,000</u>
<b>Total Debt</b>				<u>\$ 101,462,000</u>	<u>\$ 83,651,000</u>	<u>\$ 86,226,000</u>

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 Borrower, 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, 2011.

### Note 7 – 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 assets include a reserve of \$230,232 and \$183,664 for general liability at September 30, 2011 and 2010, respectively.

The University also maintains a self-insurance health plan. For the year ended September 30, 2011, the University paid \$20.00 and \$4.65 per month per health insurance contract for administrative charges and stop loss coverage, respectively. The accompanying statements of net assets include a self-insurance reserve of \$2,788,987 and \$1,791,510 for health insurance at September 30, 2011 and 2010, 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:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 1,975,174	\$ 2,176,064
Claims paid	(7,299,238)	(8,211,200)
Contributions	8,343,283	8,010,310
Balance, end of year	<u>\$ 3,019,219</u>	<u>\$ 1,975,174</u>

**Note 8 – Retirement Plans**

Most employees of the University participate in the Teachers’ Retirement System of Alabama (TRS), a cost sharing, multiple-employer public retirement system. In addition, certain employees meeting eligibility requirements participate in optional programs with the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA - CREF). TRS is a defined benefit plan while the TIAA - CREF programs are defined contribution plans.

The TRS was established as of September 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 of the general administration and operation of TRS is vested in its Board of Control.

Participants in TRS who retire at age 60 with 10 years of credited service, or after completing 25 years of credited service, regardless of age, are entitled to an annual benefit, payable monthly for life. Service retirement benefits are calculated by three methods with the participants receiving payments under the method which yields the highest monthly benefit. These methods include (1) minimum guaranteed, (2) money purchase, or (3) formula. Under the formula method, participants are allowed 2.0125% of their final average salary (average of three highest years of annual compensation during the last 10 years of service) for each year of service. A participant terminating before reaching retirement age, but after completing 10 years of credited service, is eligible for a vested allowance at age 60 provided accumulated employee contributions are not withdrawn. TRS also provides death and disability benefits.

Covered employees are required by statute to contribute to TRS. All regular employees of the University are members of TRS with the exception of temporary employees who, by definition, are those employees hired for a predetermined period of employment of less than one year and employees working less than one half of a regular schedule.

The following is a comparative presentation of contributions:

	<u>2011</u>		<u>2010</u>
University contributions	\$ 11,109,253	\$	10,435,095
Employee contributions	4,448,201		4,175,331
Total contributions	\$ 15,557,454	\$	14,610,426
University contribution regular rate	12.51%		12.51%
Employee contribution rate	5.00%		5.00%
Employee contribution law enforcement rate	6.00%		6.00%

The 10-year historical trend information shows TRS’s progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases, and postretirement benefit increases presented in the September 30, 2010 annual financial report of the TRS. That report is publicly available and may be obtained by contacting the TRS Communication Department at 1-877-517-7000.

The actuarial accrued liability (AAL), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL at September 30, 2010 (the most recent valuation date) and September 30, 2009 for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately as follows:

	<u>2010</u>		<u>2009</u>
Actuarial accrued liability (AAL)	\$ 28,299,523,000	\$	27,537,400,000
Actuarial valuations of assets	20,132,779,000		20,582,348,000
Underfunded AAL	\$ (8,166,744,000)	\$	(6,955,052,000)

As previously noted, some employees participate in the optional TIAA-CREF programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All full time regular monthly exempt employees are eligible to participate from the date of employment. The University contributes a matching amount up to 5% of total salaries for participating employees. The University’s contributions are funded as it accrues and, along with that of employees, is immediately and fully vested.



The contributions for fiscal years 2011 and 2010, excluding amounts from employees who are not eligible for matching, are summarized as follows:

	<u>2011</u>	<u>2010</u>
University contributions	\$ 2,742,869	\$ 2,560,021
Employee contributions	4,524,094	4,177,155
Total contributions	<u>\$ 7,266,963</u>	<u>\$ 6,737,176</u>

The University's total salaries and wages for fiscal years 2011 and 2010 are summarized in the table below:

	<u>2011</u>	<u>2010</u>
Total Salaries and Wages	\$ 102,338,508	\$ 96,105,428
Salaries and Wages of employees participating in:		
TRS	\$ 92,496,080	\$ 83,807,517
TIAA - CREF	\$ 57,385,980	\$ 54,609,262

**Note 9 – Other Post-Employment Benefits**

The University offers postemployment health care benefits to all employees who officially retire from the University. Health care benefits are offered through the Alabama Retired Education Employees' Health Care Trust, or Public Education Employee Health Insurance Plan (PEEHIP), with TRS or certain retired employees may elect to continue to participate in the University's group health plan until they are eligible for Medicare by paying the full cost of the plan premium. 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 the University's health care plan becomes the secondary insurer. Despite the availability of the University's plan, most retirees elect to participate in the PEEHIP with TRS, in which case the retirees pay a portion of the PEEHIP premium, with the University paying an allocation toward the cost of retiree coverage.

Certain retirees may also elect to continue their basic term life insurance coverage and accidental death and dismemberment insurance up to certain maximum amounts. The retirees pay the full amount of the premiums in such cases. Retirees are eligible for tuition assistance benefits for themselves as well as for their spouse and unmarried dependent children.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services.

GASB 45 does not have a material impact on the University's financial statements financial statements principally because most retirees elect to participate in the State-sponsored PEEHIP. PEEHIP is a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board. PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan are subject to a lifetime contract maximum of \$1,000,000 for each covered individual. The *Code of Alabama 1975*, Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers. The required rates of retirees are as follows as of September 30, 2011:

*Retired Member Rates:*

- Individual Coverage/Non-Medicare Eligible - \$146.00
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents - \$381.00
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$245.00
- Individual Coverage/Medicare Eligible Retired Member - \$10.00
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$245.00
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109.00
- For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium, and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium
- Tobacco surcharge - \$27.00 per month

The required contribution rate of the employer was \$420 per employee per month in the year ended September 30, 2011. The University paid \$1,691,340 and \$1,478,340 for 338 and 331 retirees for the year ended September 30, 2011 and 2010, respectively. The required contribution rate is determined by PEEHIP in accordance with State statute. The complete financial report for PEEHIP can be obtained at the Public Education Employees' Health Insurance Plan website <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Statements tab.

**Note 10 – 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 assets includes accruals of \$4,339,074 and \$3,881,132 as of September 30, 2011 and 2010, respectively, for accrued vacation pay and salary-related payments associated with vacation pay. There is no such accrual recognized for sick leave benefits because no terminal cash benefit is available to employees for accumulated sick leave.

**Note 11 – Federal Direct Lending Program**

The Federal Direct Student Loan Program (“FDSLPL”) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL 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 FDSLPL 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. For fiscal years ended September 30, 2011 and 2010, the University disbursed \$30,049,987 and \$28,687,822 respectively, under the FDSLPL.

**Note 12 – Contracts and Grants**

At September 30, 2011, the University has been awarded approximately \$66.9 million 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.

During fiscal year 2011 and 2010, the University received and expended federal funding under the American Recovery and Reinvestment Act (“ARRA”), primarily in the form of sponsored research grants and State Fiscal Stabilization Funds, in the amount of \$6,081,178 and \$5,328,517, respectively.

**Note 13 – 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 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.

**Note 14 – Operating Expenses by Function**

Operating expenses by functional classification for the years ended September 30, 2011 and 2010 are summarized as follows:

	Year Ended September 30, 2011					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 32,890,203	\$ 11,220,130	\$ 8,678,262	\$ -	\$ -	\$ 52,788,595
Research	45,830,453	13,464,715	12,865,928	-	-	72,161,096
Public service	381,380	111,095	778,770	-	-	1,271,245
Academic support	5,028,037	1,608,194	4,342,876	-	-	10,979,107
Student services	5,013,992	1,632,318	5,642,665	-	-	12,288,975
Institutional support	8,452,965	3,565,251	4,656,499	-	-	16,674,715
Operations and maintenance of plant	3,674,958	1,419,372	2,569,368	-	-	7,663,698
Scholarships and fellowships	-	-	-	-	1,286,400	1,286,400
Auxiliary enterprises	1,066,520	269,758	3,164,317	-	-	4,500,595
Depreciation	-	-	-	12,207,389	-	12,207,389
Total Operating Expenses	\$ 102,338,508	\$ 33,290,833	\$ 42,698,685	\$ 12,207,389	\$ 1,286,400	\$ 191,821,815

	Year Ended September 30, 2010					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 30,806,533	\$ 9,882,169	\$ 5,937,979	\$ -	\$ -	\$ 46,626,681
Research	43,307,821	12,525,411	15,144,260	-	-	70,977,492
Public service	156,441	28,878	306,779	-	-	492,098
Academic support	4,514,310	1,383,940	2,155,177	-	-	8,053,427
Student services	4,454,603	1,312,005	4,343,372	-	-	10,109,980
Institutional support	8,601,058	3,049,484	3,855,721	-	-	15,506,263
Operations and maintenance of plant	3,443,504	1,303,765	3,790,914	-	-	8,538,183
Scholarships and fellowships	-	-	-	-	981,010	981,010
Auxiliary enterprises	821,158	218,755	2,163,413	-	-	3,203,326
Depreciation	-	-	-	11,177,617	-	11,177,617
Total Operating Expenses	\$ 96,105,428	\$ 29,704,407	\$ 37,697,615	\$ 11,177,617	\$ 981,010	\$ 175,666,077

## Note 15 – Recently Issued Accounting Standards

The GASB issued Statement No. 59, *Financial Instruments Omnibus*, in June 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments (e.g. derivatives) and external investment pools. The University does not hold derivatives, and the System Pools are internal investment pools. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. This Statement did not have a material impact on the University's financial statements.

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Managements Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Also, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The University is currently evaluating the impact of this Statement on the University's financial statements.

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, in December 2010. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB Statements and Interpretations, Accounting Principles Board Opinions and AICPA Accounting Research Bulletins issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB 63”), in June 2011. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. GASB 63 also renames the measure “net assets” to be “net position”. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University is currently evaluating the impact, if any, that GASB 63 will have on its financial statements.

The GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an Amendment of GASB Statement No. 53* (“GASB 64”), in June 2011. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2011. Since the University does not hold any derivative instruments, GASB 64 will not have an impact on its financial statements.

#### **Note 16 – Discretely Presented Component Unit-University of Alabama Huntsville Foundation**

**Basis of Accounting-** The 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.

**Basis of Presentation-** Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed stipulations. Accordingly, net assets of UAHF and changes therein are classified and reported as follows:

- **Unrestricted-** Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted-** Net assets subject to donor-imposed stipulations that may or will be met either by actions of UAHF and/or the passage of time.

- **Permanently Restricted**- Net assets subject to donor-imposed stipulations to be maintained permanently by UAHF. Generally, the donors of these assets restrict UAHF to use all or a part of the income earned on the related investments for specific purposes.

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-imposed stipulations.

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 and changes in net assets. All interest income and realized gains and losses are reported in the statement of activities and changes in net assets.

**Investments** – The cost and reported value of investments at September 30, 2011 and 2010 are presented below:

	<u>2011</u>		<u>2010</u>	
	<u>Reported Value</u>	<u>Cost</u>	<u>Reported Value</u>	<u>Cost</u>
Certificates of deposit	\$ 92,286	\$ 92,286	\$ 92,286	\$ 92,286
Pooled Endowment Fund	31,229,872	33,562,486	31,285,213	31,917,606
Marketable debt securities	318,949	314,203	368,144	354,892
Marketable equity securities	1,167,723	1,220,848	1,286,933	1,161,779
Mutual funds	752,579	806,252	775,095	781,090
Total	<u>\$ 33,561,409</u>	<u>\$ 35,996,075</u>	<u>\$ 33,807,671</u>	<u>\$ 34,307,653</u>

UAHF invests certain amounts in a commingled investment pool (“Pooled Endowment Fund”) sponsored by The University of Alabama System (the “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. Marketable investment securities held by the investment pool are carried at fair value. The investment pool reports certain investments which do not have readily determinable fair values at cost. The portion of UAHF’s investment in the Pooled Endowment Fund, presented above, which is reported at cost, is \$3,818,626 and \$3,371,923 at September 30, 2011 and 2010, respectively. The remainder of the investment in the Pooled Endowment Fund is reported at fair value.

**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 businesses in Huntsville Alabama, 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 percent. 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 were 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 in under the equity method of accounting. During the years ended September 30, 2011 and 2010, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of \$690,802 and \$520,262, respectively. In addition, UAHF received distributions from Chambers of \$600,210 and \$486,329 in 2011 and 2010, respectively. Big Springs did not make any distributions in either 2011 or 2010.

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 after the termination of the second lead interest.

The following summarizes the combined results of operations of Big Springs and Chambers (on a 100% basis):

	2011	2010
Net sales	\$ 70,015,916	\$ 68,688,045
Operating expenses	12,951,207	12,796,338
Net income	3,498,252	2,888,276



**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(s) 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 adopted guidance provided by the FASB relevant to endowments of not-for-profit organization and the related net asset classification of endowment funds subject to an enacted version of UPMIFA and enhanced disclosures for all endowment funds. The impact of this guidance on the classification of net assets for UAHF was not material to UAHF and is disclosed in UAHF's financial statements. The earnings distributions are appropriated for expenditure by the governing Boards 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.

**Restricted Net Assets** – Restricted net assets are classified as either temporarily restricted net assets and available for the following purposes, or permanently restricted net assets, which are restricted to investment in perpetuity, the income from which is expendable for the following purposes at September 30, 2011 and 2010:

	Temporarily Restricted		Permanently Restricted	
	2011	2010	2011	2010
Student support	\$ 3,132,388	\$ 3,537,993	\$ 9,966,741	\$ 9,747,731
Faculty support	1,594,739	1,758,692	5,932,992	3,863,455
Academic support	1,504,092	765,182	3,311,293	3,646,604
Facilities renovation	118,948	-	-	-
Research	87,338	4,000	-	-
Library	45,768	44,210	50,428	50,428
Total	<u>\$ 6,483,273</u>	<u>\$ 6,110,077</u>	<u>\$ 19,261,454</u>	<u>\$ 17,308,218</u>

**Note 17-Segment Information**

The University constructed Southeast Housing and issued bonds in 1980 and 1982. 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 for the years ended September 30, 2011 and 2010, is as follows:

<b>Condensed Balance Sheets</b>				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Assets</b>				
Current assets	\$ 403,374	\$ 314,001	\$ 154,891	\$ 251,842
Capital assets, net of accumulated depreciation	<u>925,782</u>	<u>1,034,362</u>	<u>1,237,196</u>	<u>1,367,325</u>
<b>Total assets</b>	<u>\$ 1,329,156</u>	<u>\$ 1,348,363</u>	<u>\$ 1,392,087</u>	<u>\$ 1,619,167</u>
<b>Liabilities</b>				
Current liabilities	\$ 86,009	\$ 81,884	\$ 358,749	\$ 99,226
Noncurrent liabilities	680,000	755,000	1,043,344	1,112,121
<b>Total liabilities</b>	<u>\$ 766,009</u>	<u>\$ 836,884</u>	<u>\$ 1,402,093</u>	<u>\$ 1,211,347</u>
<b>Net assets</b>				
Invested in capital assets, net of related debt	170,782	209,362	286,196	331,325
Restricted				
Expendable	112,000	92,000	280,000	280,000
Unrestricted	<u>280,365</u>	<u>210,117</u>	<u>(576,202)</u>	<u>(203,505)</u>
<b>Total net assets</b>	<u>563,147</u>	<u>511,479</u>	<u>(10,006)</u>	<u>407,820</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,329,156</u>	<u>\$ 1,348,363</u>	<u>\$ 1,392,087</u>	<u>\$ 1,619,167</u>
<b>Condensed Statements of Revenues, Expenses and Changes in Net Assets</b>				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 606,549	\$ 586,914	\$ 483,515	\$ 547,922
Operating expenses	(440,572)	(444,042)	(739,870)	(564,621)
Depreciation expense	<u>(108,580)</u>	<u>(108,580)</u>	<u>(130,129)</u>	<u>(130,129)</u>
<b>Operating income (loss)</b>	57,397	34,292	(386,484)	(146,830)
Nonoperating expenses	<u>(5,729)</u>	<u>(7,825)</u>	<u>(31,342)</u>	<u>(33,805)</u>
<b>Changes in net assets</b>	51,668	26,467	(417,826)	(180,635)
Net assets, beginning of year	<u>511,479</u>	<u>485,012</u>	<u>407,820</u>	<u>588,455</u>
<b>Net assets, end of year</b>	<u>\$ 563,147</u>	<u>\$ 511,479</u>	<u>\$ (10,006)</u>	<u>\$ 407,820</u>
<b>Condensed Statements of Cash Flows</b>				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
<b>Cash flows from</b>				
Operating activities	\$ 185,101	\$ 161,996	\$ 19,392	\$ (22,307)
Capital and related financing activities	(95,728)	(97,828)	(116,359)	(113,813)
Investing activities	<u>-</u>	<u>2</u>	<u>16</u>	<u>8</u>
<b>Net decrease in cash</b>	89,373	64,170	(96,951)	(136,112)
Cash, beginning of year	<u>134,808</u>	<u>70,638</u>	<u>96,951</u>	<u>233,063</u>
<b>Cash, end of year</b>	<u>\$ 224,181</u>	<u>\$ 134,808</u>	<u>\$ -</u>	<u>\$ 96,951</u>

**Note 18 - Legal Settlement**

In July 2006, Nektar Therapeutics (Nektar) and the University announced the settlement of the University's litigation against Nektar and Dr. Milton Harris, in exchange for a total cash payment of \$25,000,000. Under the terms of the agreement, Nektar and Dr. Harris jointly made an upfront payment totaling \$15,000,000 to the University during fiscal year 2006 with remaining payments due through 2016. Included in the statements of net assets is the net present value of the remaining payments owed to the University of \$4,312,772 and \$4,910,379 as of September 30, 2011 and 2010, respectively.

**THE BOARD OF TRUSTEES  
OF THE UNIVERSITY OF ALABAMA**

**The Honorable Robert Bentley**  
Governor of the State of Alabama  
President *ex officio*

**Larry E. Craven, J.D.**  
Interim State Superintendent of Education  
*ex officio*

Trustees by Congressional District:

**Trustees Emeriti:**

---

First District  
Angus R. Cooper, II  
Marietta M. Urquhart

---

Frank H. Bromberg, Jr.

Oliver H. Delchamps, Jr.

---

Second District  
Joseph C. Espy, III  
Wallace Malone, III

Garry Neil Drummond

Jack Edwards

---

Third District  
Vanessa Leonard  
James W. Wilson, III

Joseph L. Fine

Dr. Sandral Hullett

---

Fourth District  
Finis E. St. John, IV, President pro  
tempore  
William "Britt" Sexton

Olin B. King

Peter L. Lowe

---

Fifth District  
Ronald W. Gray

Sidney L. McDonald

John T. Oliver, Jr.

---

Sixth District  
Paul W. Bryant, Jr., President pro  
tempore  
John J. McMahan, Jr.

Joe H. Ritch

Yetta G. Samford, Jr.

Cleophus Thomas, Jr.

---

Seventh District  
Judge John H. England, Jr.  
Andria S. Hurst  
Karen P. Brooks

John Russell Thomas

---

Dr. Malcolm Portera  
Chancellor

**ADMINISTRATION**

Malcolm Portera  
Interim President

John Horack  
Vice President for Research

Vistasp Karbhari  
Provost, Executive Vice President for  
Academic Affairs

Ray M. Pinner  
Vice President for Finance & Administration  
& Interim Vice President for University  
Advancement

Delois H. Smith  
Vice President for Diversity and Student  
Support Services

Glenn T. Dasher  
Dean, College of Liberal Arts

Shankar Mahalingam  
Dean, College of Engineering

John D. Fix  
Dean, College of Science

David Moore  
Interim Dean, M. Louis Salmon Library

Rhonda Gaede  
Interim Dean, Graduate Studies

C. Fay Raines  
Dean, College of Nursing

Caron St. John  
Dean, College of Business Administration

**FINANCIAL STAFF**

Robert C. Leonard  
Assistant Vice President for Finance &  
Business Services

Debbie S. Allen  
Senior Staff Assistant

Melanie C. Newby  
Director, Accounting & Financial Reporting

Tanya K. Smith  
Associate Director, Accounting & Financial  
Reporting

Charles A. Burns  
Assistant Director, Accounting & Financial  
Reporting

Betty M. Eley  
Senior Accountant

Brandy L. Nicholson  
Senior Accountant

Alicia B. Glenn  
Senior Accountant

Jeremy D. Holden  
Accountant II

Amanda Jones  
Accountant I

Patricia D. Ewert  
Manager, Accounts Payable

Valarie L. King  
Director, Contracts & Grants Accounting

Winnet H. Leonard  
Bursar

---

Photographs courtesy of University Relations  
and University Athletics