

THE UNIVERSITY OF ALABAMA
FINANCIAL REPORT
2009-2010

The University of Alabama

2009-2010 Financial Report

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Report of Independent Auditors

To the Board of Trustees of The University of Alabama:

In our opinion, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of The University of Alabama (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 aggregate discretely presented component units at September 30, 2010 and 2009, and the respective changes in financial position of the University and its aggregate discretely presented component units, and the 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 conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 provide a reasonable basis for our opinions.

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, 2010 and 2009, its changes in 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 on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principles. 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.

Our audit was conducted for the purpose of forming an opinion on the University's financial statements. The enrollment and financial ratio information on pages 16 through 19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

PricewaterhouseCoopers LLP

January 26, 2011

The University of Alabama

Management's Discussion and Analysis (Unaudited)

The Management's Discussion and Analysis ("MD&A") of The University of Alabama's (the "University") annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal years ended September 30, 2010 and 2009. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes and this discussion are the responsibility of management.

History and Mission

The University, the State of Alabama's (the "State") oldest institution of higher education, is the senior comprehensive doctoral-level institution in Alabama and began instructing students in 1831. Established by constitutional provision, with subsequent statutory mandates and authorizations, the University advances the intellectual and social condition of all the people of the State through quality programs of research, instruction and service. The University bases its activities on a broad range of research programs, many of which are recognized for their contributions to the economic, technological and cultural growth of the State and region. The University is a fully accredited institution of higher learning offering a wide variety of undergraduate, graduate and professional programs. The University is located in Tuscaloosa, Alabama.

The University is accredited by and is a member of the Southern Association of Colleges and Schools. All degree programs in professional schools and colleges subject to recognized accrediting agencies are fully accredited by the appropriate national organization. The University is a member of the Association of Public and Land-Grant Universities.

The University is governed by The Board of Trustees of The University of Alabama (the "Board"), a body corporate under Alabama Law. The Board also governs The University of Alabama at Birmingham and The University of Alabama in Huntsville, which along with the University make up The University of Alabama System (the "System"). The Board determines policy; approves operating budgets, educational programs, facilities and capital financings for each campus; and sets the separate tuition and fee schedules applicable at each campus. Oversight responsibilities of the Alabama Commission

on Higher Education ("ACHE") and annual requests for appropriations from the Alabama legislature are coordinated for each campus by the Chancellor of the System with the approval of the Board.

Overview of Financial Statements

The University's financial statements present the financial condition, the results of operations and cash flows of the University and its discretely presented component units through five primary financial statements and notes to the financial statements. The financial statements of certain affiliated foundations are presented discretely from the University. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements. A summary of new accounting standards and their anticipated effects conclude the footnotes with brief summations of Governmental Accounting Standards Board ("GASB") Statements 51, 59, 61 and 62.

Statement of Net Assets

The statement of net assets presents the financial position of the University at the end of the fiscal year. This statement reflects the various assets, liabilities and net assets of the University as of the fiscal years ended September 30, 2010 and 2009.

From the data presented, readers of the statement of net assets have the information to determine the assets available to continue the operations of the University. They may also determine how much the University owes vendors, bondholders and lending institutions. Finally, the statement of net assets outlines the net assets (assets minus liabilities) available to 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 category is restricted net assets, which is divided into two categories, non-expendable and expendable. The corpus of non-expendable 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 time or purpose restrictions on the use of the assets. The last category, unrestricted net assets, discloses the net assets available to the University for any lawful purpose of the University.

At September 30, 2010, the University's assets totaled \$2.4 billion, liabilities were \$905.8 million leaving net assets of \$1.5 billion, an overall increase in net assets of \$167.8 million from 2009.

The University's Assets

The University's cash and cash equivalents include both current and noncurrent balances of \$10.3 million and \$4.0 million, respectively, at the end of 2010. Noncurrent cash and cash equivalents are reported in Other Noncurrent Assets in the Condensed Statements of Net Assets. Noncurrent cash and cash equivalents are comprised of restricted cash balances of endowment funds. The University considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents. Total cash and cash equivalents decreased \$33.5 million in 2010 principally due to withdrawals to fund operating expenditures. Total cash and cash equivalents increased \$42.6 million in 2009 from the prior year principally due to a change in the classification of deposits held in the System-sponsored Short-Term Fund that were classified as investments, versus cash, as a result of being frozen as of September

30, 2008 by the Trustee of the Commonfund in which the Short-Term Fund was wholly invested. These funds were classified as both short and long-term investments due to a lack of liquidity at September 30, 2008.

Accounts receivable experienced an increase of approximately \$18.7 million in fiscal year 2010, largely as a result of increased enrollment and related student receivable accounts. Headcount enrollment for Fall 2009 increased 6.5% with 1,755 additional students attending the University. The current portion of notes receivable increased \$1.5 million due to an increase in the amount available to pay from the 1831 Foundation on the University's short-term note receivable in fiscal year 2011. Noncurrent notes receivable decreased \$2.2 million in fiscal year 2010 for payments received on the 1831 Foundation note and Greek housing loans. Fiscal year 2009 saw an increase of \$11.1 million, of which \$9.0 million resulted from an additional long-term note issued to the 1831 Foundation and \$2.1 million in additional long-term construction loans for Greek housing.

Total combined investments increased \$360.6 million in 2010 over the prior year. During this fiscal year the University had the opportunity to purchase as an investment, 168 acres contiguous to its campus from the Alabama Department of Mental Health. Property in proximity of, or contiguous to, the University of Alabama has continued to increase in value at a rate

CONDENSED STATEMENTS OF NET ASSETS

	2010	2009	2008
Current assets			
Cash and cash equivalents	\$ 10,341,562	\$ 43,361,763	\$ 883,324
Short-term investments	284,426,135	159,002,311	145,569,481
Accounts receivable, net	87,099,149	68,448,566	60,948,993
Other current assets	53,590,945	48,785,571	94,626,226
Noncurrent assets			
Endowment, and life income and other investments	900,120,799	664,955,708	709,055,287
Capital assets, net	1,022,994,438	900,256,377	835,790,255
Other noncurrent assets	81,609,158	86,029,361	71,981,198
Total assets	<u>\$ 2,440,182,186</u>	<u>\$ 1,970,839,657</u>	<u>\$ 1,918,854,764</u>
Current liabilities	295,824,349	235,959,365	212,097,050
Noncurrent liabilities	610,016,347	368,335,069	377,263,001
Total liabilities	<u>905,840,696</u>	<u>604,294,434</u>	<u>589,360,051</u>
Net Assets			
Invested in capital assets, net of related debt	535,715,079	544,163,550	477,171,844
Restricted	602,149,736	551,371,498	564,785,975
Unrestricted	396,476,675	271,010,175	287,536,894
Total net assets	<u>\$ 1,534,341,490</u>	<u>\$ 1,366,545,223</u>	<u>\$ 1,329,494,713</u>

of return in excess of the performance of either the stock market or property investments outside of the immediate campus. Due to the retail demands of the University's student population, retail leases in proximity of or contiguous to, the University have retained their rate of approximately \$20 per square foot over the past three years. The University views this investment as complementary to the land holdings currently in the Endowment. This purchase, commonly referred to as the Bryce Property, from the Alabama Department of Mental Health is composed of both land and associated buildings. In accordance with GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, the Bryce Property will be held in the endowment at fair value. As of September 30, 2010 the investment in the Bryce Property is valued at approximately \$87.4 million. Additionally, in fiscal year 2010, proceeds from the issue of the 2009A, 2009B, and 2010A General Revenue Bonds totaling \$200.0 million were received and increased investments for capital activities.

Investments classified as current are available for operating purposes while noncurrent investments relate to endowment, annuity and life income agreements and capital purposes. The University's investment portfolio is primarily invested in three separate investment pools sponsored by the System. The University's investment approach is intended to maximize current investment returns consistent with annual liquidity needs while protecting principal. The University adopts the broad objective of investing assets as to preserving their real value, enhancing the purchasing power of income, and keeping pace with inflation and evolving University needs. Short-term investments increased \$125.4 million in 2010, partially due to a \$23.0 million increase in CTF's short-term investments. The majority of the remaining increase results from the investment pool; the University sought to maximize investments in the pool over the course of the year due to its favorable performance.

Contributing to the make-up of other noncurrent assets, the Eminent Scholars Program, established by the State of Alabama Act No. 85-759 and administered by the ACHE, provides that donor gifts of \$600,000 held in a foundation affiliated with the University are eligible for \$400,000 in State matching funds. In prior years, the University received funds from donors intended to be matched in accordance with this program and transferred the corpus of these funds to The Capstone Foundation to be invested by The Capstone Foundation as agent for the University. In fiscal year 2010, the University's receivable from The Capstone Foundation Investment for the Eminent Scholars Program increased approximately \$51,000 following a decrease of \$1.4 million in 2009. The decrease in 2009 resulted from unrealized losses which

decreased the corpus of the payable to the University. The corpus was \$8.3 million in both 2010 and 2009 and \$9.7 million in 2008. Intangible assets of \$5.4 million and \$5.6 million at September 30, 2010 and 2009 also make up a portion of other noncurrent assets.

The "Our Students. Our Future." capital campaign concluded in June 2009, raising more than \$612 million, far surpassing its original goal of \$500 million. This campaign was the largest and most successful in the University's history. Through participation in our alumni association and with generous donations that fund scholarships, endowed chairs and other needs, our alumni and friends continue to demonstrate their support for the University's long-standing commitment to excellence. Pledges receivable (current and noncurrent) decreased \$1.8 million in 2010 to \$32.7 from \$34.5 million in 2009. The University is still a state-assisted institution, but the percentage of its annual budget provided by the taxes of Alabama's citizens has been on the decline in recent years. The State of Alabama appropriates money each year to the University for operating costs and nonoperating cash requirements. Because the State is mandated by its constitution to operate with a balanced budget, the State occasionally has reduced its appropriations, through a process known as proration, when its annual revenues are not expected to meet its own budget. Proration of 9.5% was implemented in 2010 and 11.0% in the 2009 fiscal year. In order to carry out our chartered mission of teaching, research, and service, the University relies on private giving as a dependable and important source of funding.

Capital assets include land and land improvements, infrastructure, buildings and improvements, equipment, construction in progress, and library materials and collections. Capital assets increased \$122.7 million in 2010, net of annual depreciation, from \$900.3 million in 2009 to \$1.0 billion in 2010. Capital assets increased \$64.5 million in 2009 from \$835.8 million in 2008. Capital spending remains a priority to provide the necessary facilities needed to accommodate both present and future enrollment growth. The University is committed to modernizing its older teaching and research facilities, constructing new facilities and funding its deferred maintenance commitments as it strives for a competitive edge for the recruitment of students and quality academic and research programs.

Major capital expenditures in 2010 include the Bryant Denny Stadium South End Zone expansion (\$39.1 million), Science and Engineering Building Phase III (\$13.8 million), Foster Auditorium renovation and expansion (\$11.7 million), Capstone College of Nursing

(\$10.5 million), Fraternity/Sorority construction and renovation (\$7.6 million), and Lloyd Hall renovations Phase IV (\$4.7 million). The University also recorded \$25.2 million of property and equipment in connection with the purchase of Capstone Village, a retirement community adjacent to the University's campus.

Major capital expenditures in 2009 included the Bryant Denny Stadium South End Zone expansion (\$22.8 million), Science and Engineering Building Phase II (\$24.0 million), Lloyd Hall renovations (\$7.4 million), Ridgecrest Residential Site development and support (\$5.8 million), and the Capstone College of Nursing (\$5.5 million).

Major capital expenditures in 2008 included the Science and Engineering Building Phase II (\$40.9 million), the Ridgecrest South Parking Deck (\$12.7 million), fraternity renovations (\$6.7 million), Northeast campus utilities and infrastructure (\$4.6 million), Brewer Porch Children's Center (\$1.8 million), Lloyd Hall renovation (\$1.2 million), and the Law School roof (\$1.1 million).

The University's Liabilities

Current liabilities consist primarily of accounts payable, accrued liabilities and deferred revenue related to operations. The majority of accounts payable and accrued liabilities represent amounts owed for salaries, wages and benefits and supplies and services. Deferred revenue consists primarily of tuition and dorm revenues for the fall semester and football ticket revenue for the portion of the season which occurs after September 30 each year. Current liabilities totaled \$295.8 million in 2010 compared to \$236.0 million in 2009, an increase of \$59.8 million resulting primarily from an increase in the current portion of long-term debt resulting from the Bryce Property acquisition and the 2009A, 2009B and 2010A bond issuances. Additionally, deferred revenue rose \$18.0 million primarily due to tuition rate increases. Current liabilities for fiscal year 2009 saw an increase of \$23.9 million from \$212.1 million in 2008; this increase also resulted primarily from an increase in deferred revenue.

During 2010, noncurrent liabilities rose \$241.7 million. Long-term debt increased \$227.7 million from the debt incurred from the acquisition of the Bryce Property and the issuance of the 2009A, 2009B and 2010A bonds. Additionally, other noncurrent liabilities grew \$14.0 million principally as a result of deferred revenue from Capstone Village entrance fees, a liability the University assumed upon its acquisition of Capstone Village. During 2009, noncurrent liabilities decreased \$9.0 million from \$377.3 million in 2008 to \$368.3 million in

2009. This decrease was the direct result in the reduction of net outstanding long term debt. The interest rates on long-term debt generally range from 0% to 7.0%.

The University's Net Assets

Net assets represent the residual interest in the University's assets after all liabilities are deducted. The University's net assets increased \$167.8 million, or 12.3% during the 2010 fiscal year, reaching \$1.5 billion. This change follows a 2.8% increase of \$37.1 million in fiscal year 2009 and a 2.5% decrease of \$34.2 million in 2008.

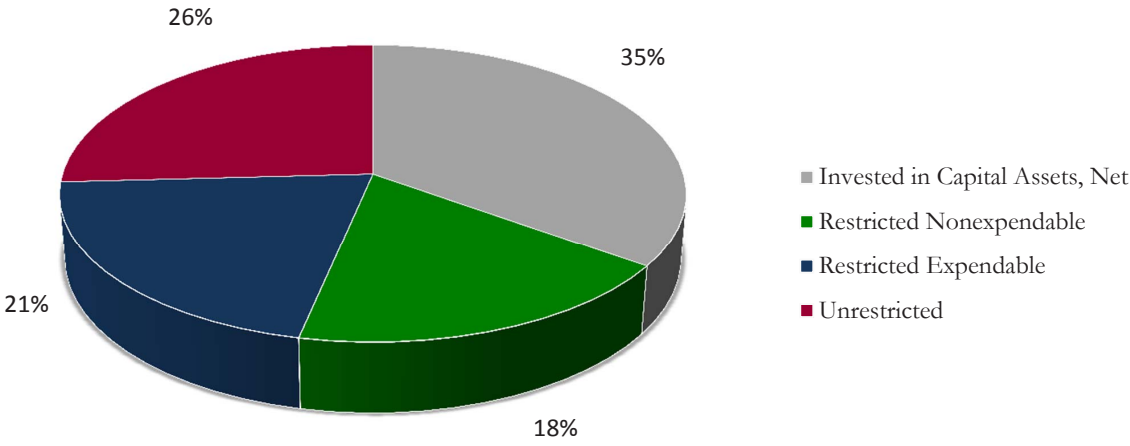
Net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, decreased \$8.5 million, from \$544.2 million in 2009 to \$535.7 million in 2010. The prior year saw a \$67.0 million increase over 2008.

Restricted nonexpendable net assets increased \$15.5 million because of additions to true endowments. During 2009, restricted nonexpendable net assets increased approximately \$17.2 million. This net asset type encompasses true endowments and life income/annuities.

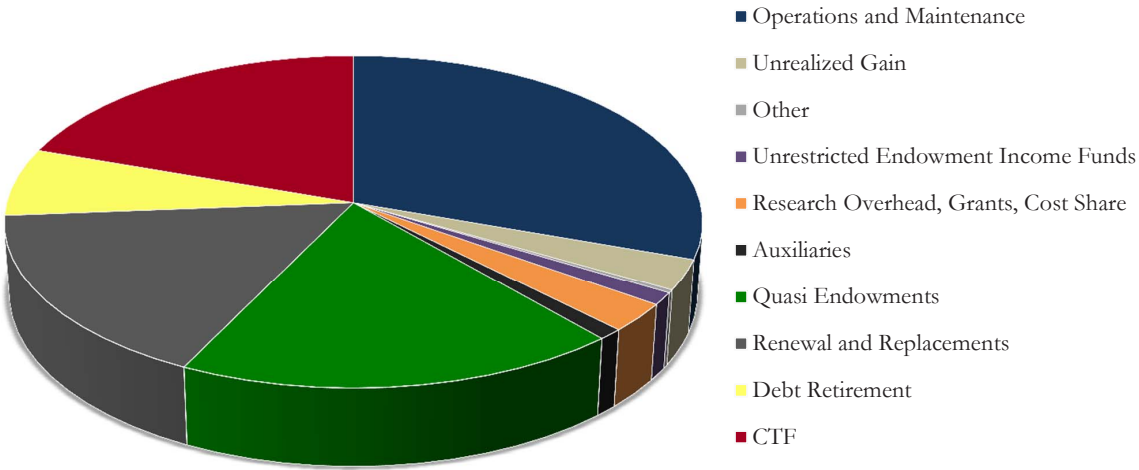
Restricted expendable net assets increased \$35.3 million. This net asset category includes restricted gifts, institutional loan funds, sponsored programs, and various other funds and their related income and earnings. Restricted expendable net assets are restricted by externally-imposed constraints.

Unrestricted net assets increased \$125.5 million during the 2010 year primarily due to the receipt of bond proceeds, unrestricted unrealized gains, and housing income. Unrestricted net assets were used to fund construction projects and later replenished with bond proceeds. The 2010 increase follows a decrease in unrestricted net assets of \$16.5 million in 2009.

**Net Asset Composition
FY2010**



**Unrestricted Net Assets
FY2010**



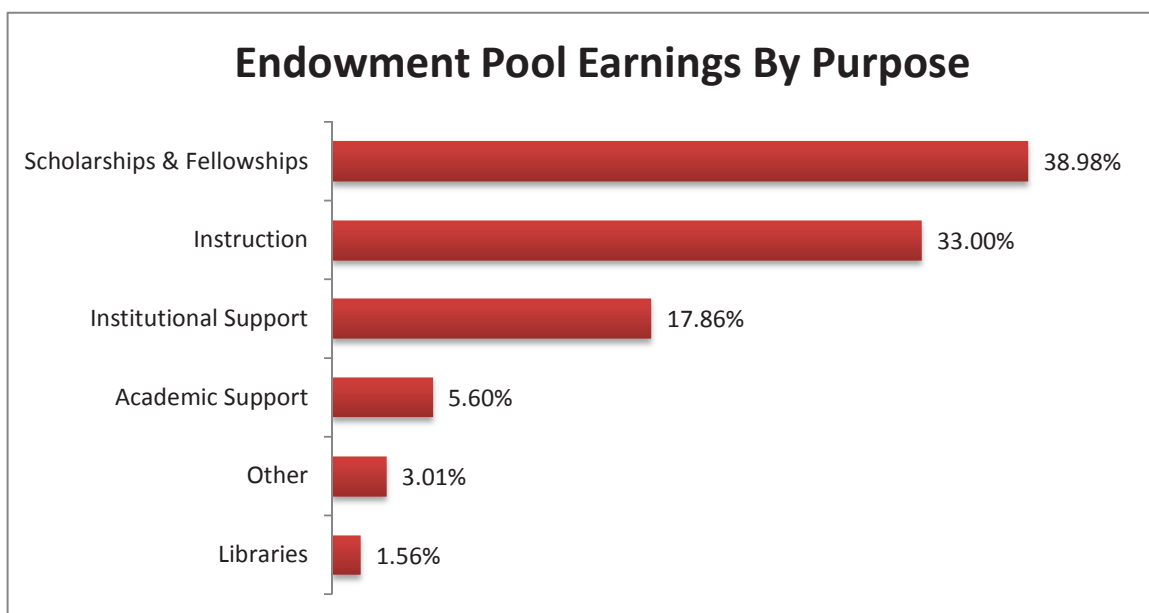
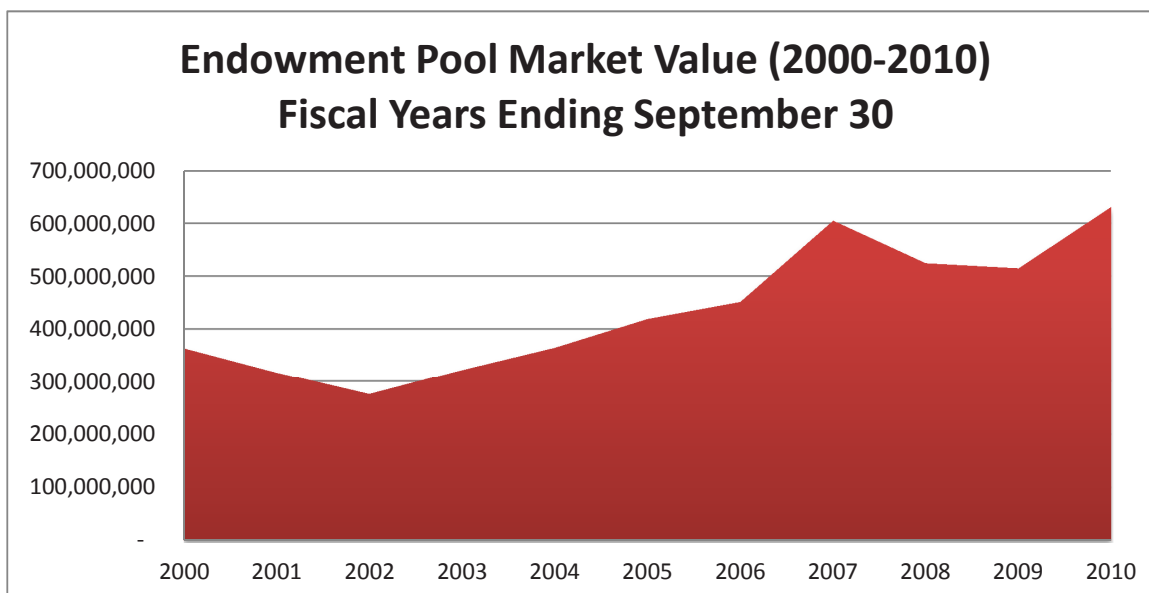
University Endowments

The University's endowments continued to recover in fiscal year 2010, growing \$116.7 million as opposed to the \$9.6 million decrease incurred during 2009. The Bryce Property was added as an endowment investment in 2010; the purchase of this real estate was funded by income from endowed mineral rights. The land endowment resolution dictates that said income may be used as deemed in the best interests of the University.

Ninety percent of all endowment earnings during the 2010 fiscal year were restricted for instruction, academic support and scholarship/fellowship purposes. Earnings restricted for institutional support are primarily a result of the Federal Land Grants awarded to the University that

support the Office of Land and Timber Management.

While strong investment returns have allowed endowments to grow significantly over the past decade and increases in spending have had a significant impact on the unique experience that is The University of Alabama, prudent management and investing strategies remain of utmost importance. With a continual commitment to excellence, funding given by the University's generous donors will continue to grow, leveraging those gifts for the benefit of our students for many years to come.



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 displayed in the statement of revenues, expenses and changes in net assets. The purpose of this statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, both operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the University. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

Generally speaking, operating revenues are received for

providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the State Legislature to the University without the State Legislature directly receiving commensurate goods and services in return for those revenues. A summary of the University's revenues, expenses and changes in net assets follows:

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Years ended September 30,		
	2010	2009	2008
Operating revenues			
Tuition and fees	\$ 337,623,787	\$ 282,803,052	\$ 239,247,877
Less: scholarship allowances	(73,467,255)	(54,898,543)	(45,731,438)
Tuition and fees, net	264,156,532	227,904,509	193,516,439
Sponsored programs	68,583,560	65,287,492	60,459,600
Sales and services of educational activities	13,602,206	12,227,393	11,104,288
Auxiliary sales and services, net	124,338,611	102,293,742	80,215,194
Other operating revenues	38,837,737	28,668,563	27,754,903
Total operating revenues	509,518,646	436,381,699	373,050,424
Operating expenses	683,936,848	636,814,723	598,539,848
Operating loss	(174,418,202)	(200,433,024)	(225,489,424)
Nonoperating revenues (expenses)			
State appropriations	138,540,845	156,521,464	199,417,373
State fiscal stabilization funds	14,699,372	-	-
Gifts	45,811,070	47,104,474	33,999,775
Grants	26,228,993	18,091,025	13,347,658
Investment income (loss), net	130,274,948	1,257,811	(94,490,214)
Interest expense	(24,948,682)	(17,939,615)	(17,982,003)
Other nonoperating revenues (expenses), net	(745,051)	(196,014)	(1,955,257)
Net nonoperating revenues	329,861,495	204,839,145	132,337,332
Income (loss) before other changes in net assets	155,443,293	4,406,121	(93,152,092)
Other changes in net assets			
State appropriations	15,939,908	9,749,544	-
Capital gifts and grants	28,956,006	8,766,955	37,960,384
Additions to permanent endowments	16,208,005	16,369,994	18,965,286
Intragovernmental transfers	(48,750,945)	(2,242,104)	2,069,340
Increase (decrease) in net assets	167,796,267	37,050,510	(34,157,082)
Net assets, beginning of year	1,366,545,223	1,329,494,713	1,363,651,795
Net assets, end of year	\$ 1,534,341,490	\$ 1,366,545,223	\$ 1,329,494,713

The statement of revenues, expenses and changes in net assets (the “SRECNA”) presents the increase in net assets of \$167.8 million and \$37.1 million, and the decrease of \$34.2 million, for the fiscal years ended September 30, 2010, 2009, and 2008, respectively. As noted in the SRECNA, the University experienced operating losses in all fiscal years presented of \$174.4 million, \$200.4 million, and \$225.5 million, respectively. These operating losses highlight the University’s dependency on nonoperating revenues, such as state appropriations and private gifts, to meet its cost of operations. Tuition rate increases have contributed to the reduction of operating losses as state appropriations have decreased over recent years..

Operating Revenues

Tuition and fees revenue, net of scholarship allowances, increased \$36.3 million to \$264.2 million in 2010 from \$227.9 million in 2009 due to student enrollment growth and a Board approved tuition rate increase. The University’s enrollment exceeded 30,000 for the first time in the Fall of 2010, with 30,232 enrolled. The University’s earlier initiative to increase enrollment to 28,000 in 2010 was actually achieved in the Fall 2009 semester with a record 28,807 students enrolled. Fall 2008 enrollment increased 1,472 students over Fall 2007. In 2009, tuition and fees, net of scholarship allowances increased \$ 34.4 million from \$193.5 million in 2008. Tuition rates are reviewed annually by the University and presented to the Board for approval.

The University receives grant and contract revenue from federal, state and local governments and private agencies. Federal grants and contracts experienced increases of \$1.9 million, \$2.7 million in 2010 and 2009, respectively. State and local grants and contracts increased \$2.0 million collectively, while private grants and contracts decreased by approximately \$600,000. During fiscal year 2010, the University continued receiving and expending federal funding under the American Recovery and Reinvestment Act (ARRA), primarily in the form of sponsored research grants and State Fiscal Stabilization Funds. Approximately \$17.5 million was expended, with approximately \$14.7 million of that provided to the University through State Fiscal Stabilization Funds. Based on awards received during fiscal years 2009 and 2010, ARRA expenditures are expected to be higher in fiscal year 2011.

The University’s auxiliary activities are comprised of Intercollegiate Athletics, food service, housing, supply store, telecommunications, and other miscellaneous auxiliary enterprises. Auxiliary income increased \$22.0

million in 2010 over the prior year, primarily from increases in athletic ticket sales, television revenue, and licensing income. Residence halls, the supply store, telecommunications and food services all experienced expected increases in revenue due to growth in the student population in all three years presented in the condensed statements. Total auxiliary income experienced a \$22.1 million increase in the prior year also.

The \$10.2 million increase in other operating revenues for 2010 results primarily from CTF revenue, income generated by the newly acquired Capstone Village retirement community, and management fees received from Ridgecrest Student Housing. In fiscal year 2009, other operating revenues experienced a modest increase due primarily to higher campus vending income and merchant commission income related to the Bama Cash debit card program.

Non-Operating Revenues and Expenses

The University’s non-operating revenues assist in offsetting the University’s operating loss of \$174.4 million for 2010. In fiscal year 2010, the University received \$138.5 million in state appropriations (a decrease of 11.5% or \$18.0 million) for operating purposes, \$45.8 million in private gifts, and \$130.3 million in investment income. In fiscal year 2009, the University received \$156.5 million in state appropriations (a decrease of 21.5% or \$42.9 million) to be used for operations, \$47.1 million in private gifts, and \$1.3 million in net investment income. In 2008, the University received \$199.4 million in state appropriations, \$34.0 million in gifts and experienced a net loss in investment income totaling \$94.5 million.

Gift revenues declined slightly in 2010 by \$1.3 million, followed by a \$13.1 million increase in fiscal year 2009, and a \$4.8 million increase in fiscal year 2008. The majority of the 2010 decline stems from lower gifts to The Crimson Tide Foundation and also a reduction in restricted gifts to the University. Fiscal year 2009 saw gifts increased mainly due to pledges and gifts made to CTF related to the Bryant-Denny Stadium expansion project. The increase in fiscal year 2008 primarily resulted from gifts related to the CTF scholarship initiative and donated concrete for capital projects.

Nonoperating grants consist primarily of Federal Pell grant awards. This program provides need-based grants to low-income undergraduate students to promote access to postsecondary education. This

revenue has risen \$8.1 million and \$4.7 million in 2010 and 2009, respectively, as a result of increased enrollment and regulatory changes in the Pell grant program.

Investment income increased \$129.0 million from \$1.3 million in 2009. Approximately \$61.6 million of the 2010 investment income relates to the adjustment made to record the Bryce Property investment at fair value since it was initially recorded at its net book value of \$25.8 million. The initial entry reflects the purchase (or transfer) of the assets from the State of Alabama Department of Mental Health which, like the University of Alabama is a component unit of the State of Alabama. Since the University holds the assets as an endowment investment, the assets are reported at fair value under GASB Statement No. 52. Refer to note three for further discussion. Prior year investment income rose \$95.8 million, rebounding from a net loss in 2008 of \$94.5 million. Both investment and endowment income, whose combined total is presented as investment income on the SRECNA, improved significantly over the prior year. Interest expense incurred by the University in fiscal year 2010 rose \$7.0 million, to \$25.0 million as interest

was incurred on the recent 2009A, 2009B and 2010A bonds. In 2009, interest expense totaled \$17.9 million, down slightly from \$18.0 million in the prior year.

Operating Expenses

Salaries, wages and benefits increased \$23.4 million to \$428.8 million in 2010 from \$405.4 million in 2009, which was a \$20.9 million increase over the prior year. The University maintains a competitive salary base to attract and retain talented faculty, staff and graduate students. During fiscal year 2010, \$15.3 million of the increase was attributable to compensation while \$8.1 million resulted from higher benefit costs.

Supplies and other services experienced an increase of \$19.1 million. A total of \$2.4 million of this change is a direct result of operating expenditures incurred by the newly acquired Capstone Village. A portion of the increase was also attributable to Intercollegiate Athletics who experienced higher post season expenditures from their appearances in the SEC Championship game and the BCS National Championship game.

Operating Expenses (by natural classification)

	Year ended September 30,		
	2010	2009	2008
Salaries, wages and benefits	\$ 428,794,945	\$ 405,443,493	\$ 384,521,879
Scholarships and fellowships	18,321,811	16,801,519	14,214,342
Supplies and other services	192,969,119	173,901,346	169,560,508
Depreciation	43,850,973	40,668,365	30,243,119
Total expenses	<u>\$ 683,936,848</u>	<u>\$ 636,814,723</u>	<u>\$ 598,539,848</u>



In addition to their natural classification, operating expenses are also reported by their functional classification as defined by the National Association of College and University Business Officers (“NACUBO”). The functional classification of an operating expense (Instruction, Research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. This method reflects, by function of the University, amounts expended in areas such as Instruction, Research and Operations and Maintenance and is used most commonly for comparative reporting purposes among colleges and universities.

2010 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 181,521,101	\$ -	\$ 29,203,739	\$ 11,029,866	\$ 221,754,706
Research	19,491,829	-	17,183,383	3,698,196	40,373,408
Public service	26,945,376	-	10,917,161	1,262,654	39,125,191
Academic support	46,002,887	-	30,883,644	6,852,612	83,739,143
Student services	22,280,484	-	11,493,499	2,330,610	36,104,593
Institutional support	48,563,495	-	12,408,546	11,573,618	72,545,659
Operations and maintenance	36,644,408	-	16,960,920	-	53,605,328
Scholarships and fellowships	-	13,275,279	-	-	13,275,279
Auxiliary enterprises	47,345,365	5,046,532	63,918,227	7,103,417	123,413,541
	<u>\$ 428,794,945</u>	<u>\$ 18,321,811</u>	<u>\$ 192,969,119</u>	<u>\$ 43,850,973</u>	<u>\$ 683,936,848</u>

2009 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 169,861,354	\$ -	\$ 33,484,821	\$ 10,232,133	\$ 213,578,308
Research	17,198,382	-	17,463,653	3,141,076	37,803,111
Public service	24,946,115	-	10,711,566	1,209,412	36,867,093
Academic support	44,696,185	-	26,704,436	6,404,494	77,805,115
Student services	20,787,273	-	10,441,440	2,178,323	33,407,036
Institutional support	49,418,385	-	9,428,716	10,582,573	69,429,674
Operations and maintenance	35,222,224	-	6,702,204	-	41,924,428
Scholarships and fellowships	-	13,630,942	-	-	13,630,942
Auxiliary enterprises	43,313,575	3,170,577	58,964,510	6,920,354	112,369,016
	<u>\$ 405,443,493</u>	<u>\$ 16,801,519</u>	<u>\$ 173,901,346</u>	<u>\$ 40,668,365</u>	<u>\$ 636,814,723</u>

Other Changes in Net Assets

Capital gifts and grants have fluctuated somewhat over the three years presented in the condensed SRECNA. Fiscal year 2010 experienced an increase in federal funding for capital grants over the prior year, particularly for phase three of the Science and Engineering Building (\$12.7 million) and the construction of the Capstone College of Nursing Building (\$6.4 million). Capital grant funding slowed somewhat in 2009 (\$8.8 million) after receipts of \$38.0 million in 2008 primarily for phase two of the Science and Engineering Building and the Ridgecrest South Parking Deck. In 2010, the University entered into a sale and donation agreement totaling \$8.3 million for the A.S. Williams III collection, which includes approximately 20,000 volumes and pamphlets of American history. The collection is exceptional in terms of size and scope, large parts of it being rare or unique and not yet studied by scholars. Mr. Williams formally presented his extensive library to the University, where it is maintained as a separate, non-circulating research collection in the Amelia Gayle Gorgas Library.

The other significant activity classified on the SRECNA as “other changes in net assets” relates to intragovernmental transfers. Prior to 2010, intragovernmental transfers were typically limited to transactions with the Crimson Tide Foundation, a blended component unit of the University. In 2010, an intragovernmental transfer of approximately \$55.5 million was recognized as the difference between the amount paid for the Bryce Property assets and the net book value of the assets as held by the State of Alabama Department of Mental Health, also a component unit of the State which is the primary government for both the University and the State of Alabama Department of Mental Health. As previously discussed, these assets were adjusted to fair value through investment income since the University holds this real estate as an endowment investment, whereas the Department of Mental Health held the assets as capital assets used in its operations. Note three also addresses this transaction further.



Capital Assets and Debt Administration

At September 30, 2010, the University had \$1.0 billion invested in capital assets, net of accumulated depreciation. Depreciation expense totaled \$43.9 million for the current fiscal year. Net of accumulated depreciation, buildings and fixed equipment increased

\$121.5 million and library materials and collections increased \$6.1 million. The following schedule summarizes the University's capital assets, net of accumulated depreciation.

Capital Assets, Net of Accumulated Depreciation

	2010	2009	2008
Land	\$ 13,698,674	\$ 13,687,174	\$ 12,875,689
Land improvements	24,996,047	25,401,067	17,928,257
Infrastructure	20,922,649	20,826,657	10,490,650
Buildings and fixed equipment	837,428,467	715,956,360	629,164,267
Construction in progress	46,630,106	45,575,429	110,865,600
Equipment	48,232,181	53,776,850	32,699,118
Library materials & collections	31,086,314	25,032,840	21,766,674
	<u>\$ 1,022,994,438</u>	<u>\$ 900,256,377</u>	<u>\$ 835,790,255</u>

Capital asset expenditures for fiscal year 2010 (in millions):

• Bryant Denny Stadium South End Zone	\$39.1
• Science & Engineering Building Phase III	\$13.8
• Foster Auditorium Renovation	\$11.7
• Capstone College of Nursing	\$10.5
• Fraternity/Sorority Renovations	\$7.6
• Lloyd Hall Renovation Phase IV	\$4.7

Capital asset expenditures for fiscal year 2009 (in millions):

• Science & Engineering Building Phase II	\$24.0
• Bryant Denny Stadium South End Zone	\$22.8
• Lloyd Hall Renovation Phase III	\$7.4
• Ridgecrest Residential Site Development and Support	\$5.8
• Capstone College of Nursing	\$5.5
• Jones Archaeology Museum	\$2.8

Capital asset expenditures for fiscal year 2008 (in millions):

• Science & Engineering Building Phase II	\$40.9
• Ridgecrest South Parking Deck	\$12.7
• Fraternity Renovations	\$6.7
• NE Campus Utilities & Infrastructure	\$4.6
• Brewer Porch Children's Center	\$1.8
• Lloyd Hall Renovation	\$1.2
• Law School Roof	\$1.1

The University plans to fund ongoing construction projects with debt proceeds, private gifts and various Federal and State grants.

In October 2009, the University issued the Series 2009A and 2009B General Revenue Bonds for \$183,485,000. Standard & Poor's Credit Markets Service assigned 'AA-' ratings and Moody's Investors Service assigned ratings of 'Aa3' for the 2009 series. The Series 2009A was issued as taxable direct-pay Build America Bonds. The University issued the 2010A General Revenue Bonds in June 2010 totaling \$16,495,000, which was also assigned an 'AA-' rating by Standard & Poor's Credit Markets Service and 'Aa2' by Moody's Investors Service. The 2010A series was issued as Taxable Recovery Zone Economic Development Bonds. The proceeds from these bond issuances fund various capital projects currently underway.

At September 30, 2010, the University had \$616.9 million of debt outstanding, \$35.6 million of which was classified as current. The large majority of debt obligations bear interest at fixed rates ranging from 0.0% to 7.0% and mature at various dates through fiscal year 2040.

The University's outstanding debt obligations, exclusive of debt discount and deferred amounts on previous refunds, are summarized below:

Schedule of Long Term Debt

	2010	2009	2008
Bonds payable	\$ 543,185,000	\$ 352,915,000	\$ 356,805,000
Notes payable	73,758,425	8,978,027	9,907,024
Capital leases payable	-	-	284,012
	<u>\$ 616,943,425</u>	<u>\$ 361,893,027</u>	<u>\$ 366,996,036</u>

The \$64.8 million increase in notes payable was principally caused by the liability associated with the Bryce Property purchase.

Statement of Cash Flows

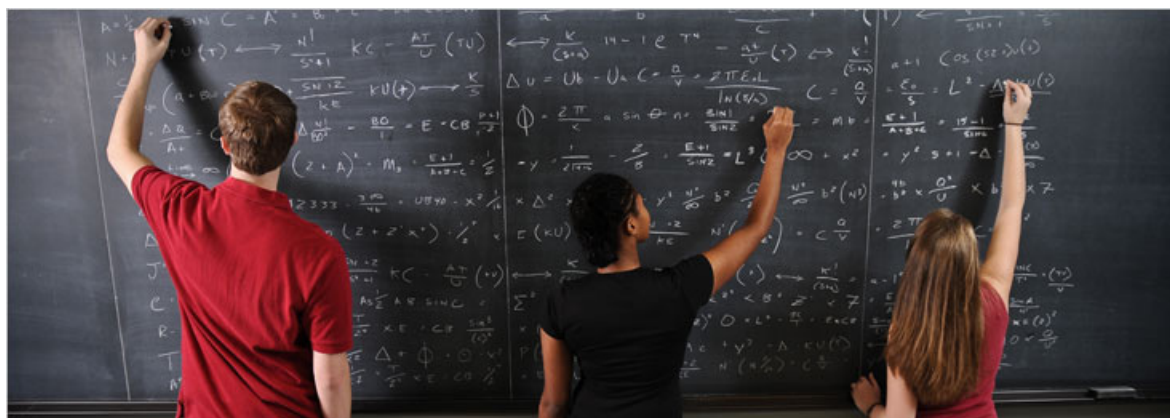
The statement of cash flows presents the significant sources and uses of cash. The University's cash is analyzed on a daily basis to meet liquidity needs and optimize earnings.

Condensed Statement of Cash Flows

	2010	2009	2008
Cash received from operations	\$ 523,927,080	\$ 449,389,983	\$ 435,707,349
Cash payments from operations	(633,472,046)	(602,573,390)	(564,340,371)
Net cash used in operating activities	(109,544,966)	(153,183,407)	(128,633,022)
Net cash provided by noncapital financing activities	188,317,464	239,707,534	276,312,995
Net cash provided by (used in) capital and related financing activities	53,622,640	(117,911,974)	(79,938,747)
Net cash (used in) provided by investing activities	(165,899,924)	74,022,093	(78,841,435)
Net increase (decrease) in cash and cash equivalents	(33,504,786)	42,634,246	(11,100,209)
Cash and cash equivalents, beginning of year	47,856,712	5,222,466	16,322,675
Cash and cash equivalents, end of year	<u>\$ 14,351,926</u>	<u>\$ 47,856,712</u>	<u>\$ 5,222,466</u>

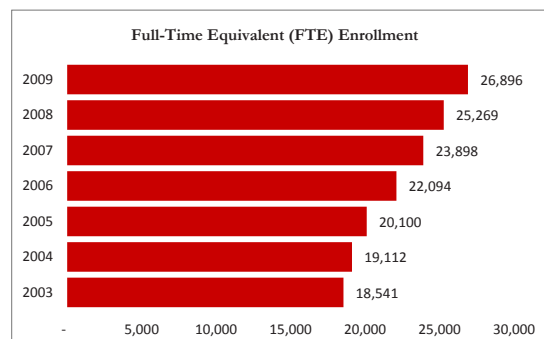
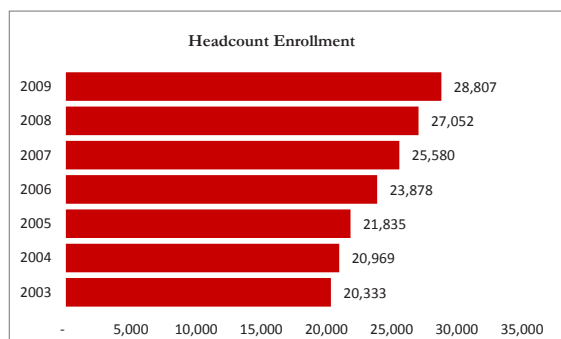
In 2010, the University used \$109.5 million of cash for operating activities, while \$188.3 million was received from noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses. The University used \$153.2 million of cash for operating activities in 2009, offset by approximately \$239.7 million of cash provided by noncapital financing activities. Similarly, in 2008, \$128.6 million of cash used for operating activities was offset by \$276.3 million in cash provided by noncapital financing activities.

Cash of \$53.6 million was provided by capital and related financing activities in 2010, while \$117.9 million and \$79.9 million was used in 2009 and 2008, respectively. Cash used in investing activities totaled \$165.9 million in 2010. Cash provided by investing activities totaled \$74.0 million in 2009, and \$78.8 million in cash was used in 2008.



Enrollment and Statistics*

Headcount enrollment at the University reached 28,807 in Fall 2009, a significant increase of 1,755, while Full-time equivalent (“FTE”) enrollment totaled 26,896, an increase of 1,627. The chart below displays counts taken for each fall semester; the last of which (2009), demonstrates enrollment figures occurring for the fall semester of the 2010 fiscal year.



Future Economic Outlook

The University has positioned itself to weather the uncertain times our economy is experiencing. Prudent management, cost containment, and sensible investment strategies ensure the University can remain dedicated to its mission of teaching, research and service.

A crucial element to the University’s future will continue to be our relationship with the State of Alabama as we work to maintain competitive tuition while providing an outstanding college education for our students. We continuously strive to attract the best students while increasing the intrinsic and marketable value of education offered at The University of Alabama.

There exists a direct relationship between the growth of State support and the University’s ability to control tuition growth as declines in State appropriations adversely affect tuition levels. Proration of 9.5% was enacted in fiscal year 2010, reducing appropriations the University received. There can be no assurance of future State 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, any increased enrollment and internal reserves. State 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 must have campus facilities that are competitive to meet student enrollment goals. The University continues to execute its long-term plan to modernize and expand its teaching, research and student facilities with a balance of new construction and technology. The continuous improvement of the University’s aesthetic appeal offers visitors, current and prospective students, employees and the surrounding communities an attractive and appealing atmosphere in which to live and work.

The University’s private support is fundamental in meeting budgetary needs. Gifts received are testaments to the high regard in which alumni, corporations, foundations and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University’s programs and the importance of its mission. At the same time, economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving. Our component units have also continued their level of support in the face of the current economic environment.

The University of Alabama
Statistical Highlights
Fall Semester

Fall Enrollment	2009	2008	2007	2006	2005	2004	2003	2002
Undergraduate	23,702	22,343	21,082	19,474	17,553	16,571	15,892	15,452
Graduate	4,473	3,978	3,851	3,781	3,687	3,756	3,763	3,542
Professional	632	731	647	623	595	642	678	639
Total Fall Enrollment	28,807	27,052	25,580	23,878	21,835	20,969	20,333	19,633

Fall First-Time Freshman Admission	2009	2008	2007	2006	2005	2004	2003	2002
Applications	19,518	18,500	14,313	12,513	10,707	9,106	8,298	7,322
Admits	11,194	11,172	9,140	8,766	7,755	7,021	7,194	6,196
Enrolled	5,116	5,116	4,538	4,378	3,735	3,368	3,077	2,655
Percent Admitted	57.4%	60.4%	63.9%	70.1%	72.4%	77.1%	86.7%	84.6%
Percent Enrolled	45.7%	45.8%	49.6%	49.9%	48.2%	48.0%	42.8%	42.9%

Degrees Conferred								
Academic Years Ending May	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Baccalaureate	4,284	3,713	3,398	3,131	2,815	2,931	3,024	2,892
Master's	1,287	1,265	1,237	1,183	1,151	1,283	1,072	1,070
Educational Specialist	52	51	83	62	50	107	103	60
First Professional	171	172	154	152	172	183	172	165
Doctoral	209	192	191	160	181	154	158	178
Total Degrees Conferred	6,003	5,393	5,063	4,688	4,369	4,658	4,529	4,365

Academic Years Ending May	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Undergraduate In-State Academic								
Year Tuition	\$7,000	\$6,400	\$5,700	\$5,278	\$4,864	\$4,630	\$4,134	\$3,556
Percent Increase Over Prior Year	9.4%	12.3%	8.0%	8.5%	5.1%	12.0%	16.3%	8.0%

Requests for Information

These financial statements are designed to provide a general overview of the University of Alabama and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information, including the separate financial reports of the discretely presented and blended component units of the University, should be addressed to the Office of Finance, The University of Alabama, Box 870136, Tuscaloosa, Alabama, 35487.

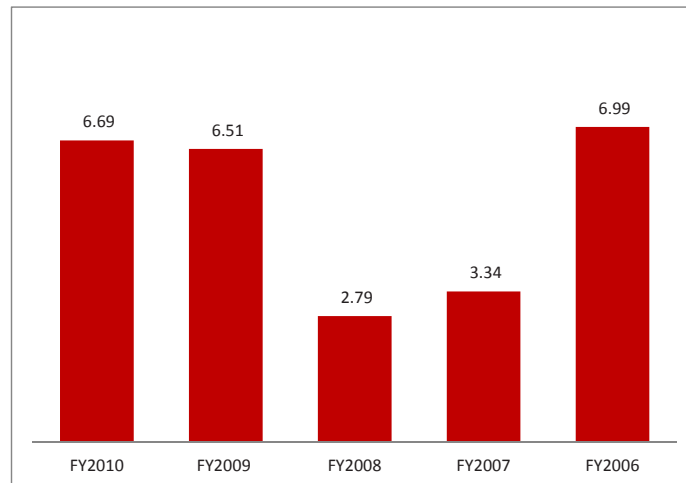
**Data provided by the Office of Institutional Research*

Financial Ratios*

Debt Service Coverage Ratio

The debt service coverage ratio measures the ability to cover debt service requirements from continuing operations. This ratio identifies whether or not the institution has a net revenue stream available to meet its debt burden should economic conditions change. A higher ratio is more desirable than a lower ratio. This ratio is calculated from the data for the years presented and is applicable to that year.

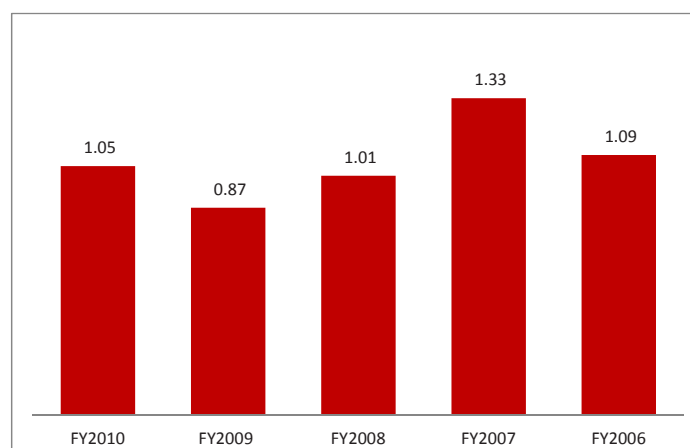
At the University: The University has maintained a healthy ratio for debt service coverage. The improved results for 2009 were affected by a decreased operating loss (resulting from increased tuition revenue and positive investment income as opposed to a loss in the prior year).



Primary Reserve Ratio

The Primary Reserve Ratio measures the financial strength of the institution by comparing expendable net assets to total expenses and indicates the ability of the institution to support current operations from net assets (reserves) without depending on additional revenue. No set target or range exists for this ratio. It should be viewed as a trend over time with a negative trend indicating a weakening financial condition with expenditures growing faster than reserves and a positive trend indicating an improving financial condition with reserves.

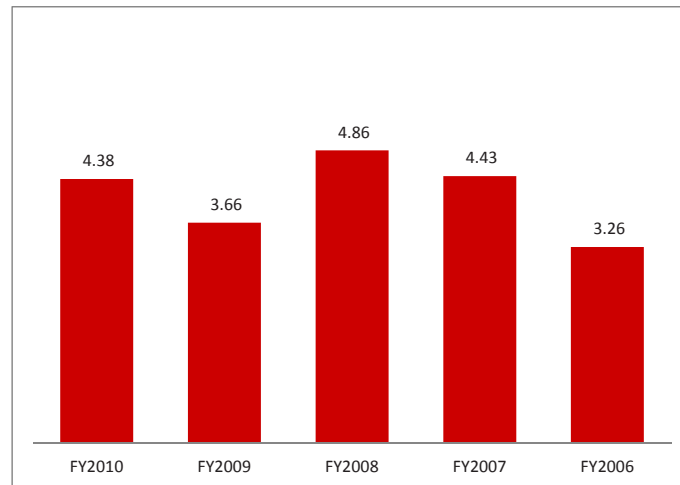
At the University: Although this ratio has fluctuated slightly during the five years presented, the ratio remains strong. The University consistently strives to remain competitive in the areas of compensation/benefits and scholarship/fellowship awards, both of which are factors directly impacting the Primary Reserve Ratio.



Debt Service Burden Ratio

This measurement is defined by normalized annual debt service as a percentage of the University's total operating expenses. This ratio examines the University's dependence on borrowed funds as a financing source and the relative cost of borrowing to overall expenditures. The target ratio is seven or less.

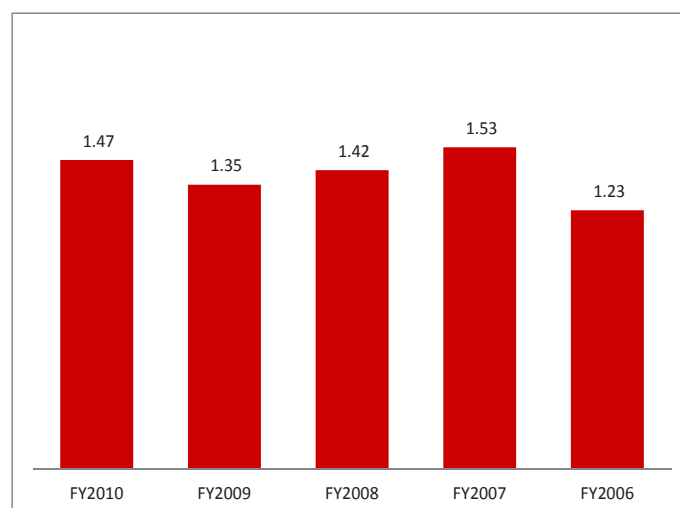
At the University: This ratio is notably less than the target of seven in all years presented in the graph below, which is a considerable achievement in response to significant new debt issuances financing capital activities, particularly in 2010.



Current Ratio

The current ratio indicates the institution's ability to meet short-term obligations at a point in time. The ratio should be greater than 1.0, as such implies current assets can sufficiently cover 100% of current liabilities.

At the University: This ratio exceeds the target of 1.0 in all years presented as a result of strategic management of receivables and short-term investments, as well as prudent control over payables, liabilities and deferred revenue.



**These financial ratios are presented for purposes of additional analysis and are not a required part of the basic financial statements. These ratios include only the University's financial statements and its blended component unit and may not be comparable to other institutions.*

THE UNIVERSITY OF ALABAMA
STATEMENTS OF NET ASSETS
September 30, 2010 and 2009

Assets	2010	2009
Current assets		
Cash and cash equivalents	\$ 10,341,562	\$ 43,361,763
Short-term investments	284,426,135	159,002,311
Accounts receivable, net	87,099,149	68,448,566
Current portion of notes receivable, net	3,368,918	1,835,342
Current portion of student loans receivable	2,292,669	2,625,572
Current portion of pledges receivable	8,018,042	9,445,434
Inventories	6,313,739	5,934,309
Prepaid and deferred expenses	32,679,255	27,913,690
Other current assets	918,322	1,031,224
Total current assets	<u>435,457,791</u>	<u>319,598,211</u>
Noncurrent assets		
Restricted cash and cash equivalents	4,010,364	4,494,949
Endowment, and life income investments	631,947,260	515,235,330
Investments for capital activities	167,044,917	37,434,544
Other long-term investments	101,128,622	112,285,834
Notes receivable, net	27,736,996	29,942,707
Student loans receivable, net	8,053,311	10,046,104
Pledges receivable, net	24,708,339	25,096,172
Capital assets, net	1,022,994,438	900,256,377
Other noncurrent assets	17,100,148	16,449,429
Total noncurrent assets	<u>2,004,724,395</u>	<u>1,651,241,446</u>
Total assets	<u><u>\$ 2,440,182,186</u></u>	<u><u>\$ 1,970,839,657</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 92,547,496	\$ 83,293,199
Current portion of deferred revenue	150,155,625	132,186,526
Deposits	17,493,586	12,215,040
Current portion of long-term debt	35,627,642	8,264,600
Total current liabilities	<u>295,824,349</u>	<u>235,959,365</u>
Noncurrent liabilities		
Federal refundable loans	8,094,406	9,971,933
Other liabilities	5,279,637	5,084,520
Deferred revenue	15,654,277	-
Long-term debt, net	580,988,027	353,278,616
Total noncurrent liabilities	<u>610,016,347</u>	<u>368,335,069</u>
Total liabilities	<u>905,840,696</u>	<u>604,294,434</u>
Net Assets		
Invested in capital assets, net of related debt	535,715,079	544,163,550
Restricted		
Nonexpendable	282,418,649	266,927,421
Expendable	319,731,087	284,444,077
Unrestricted	396,476,675	271,010,175
Total net assets	<u>1,534,341,490</u>	<u>1,366,545,223</u>
Total liabilities and net assets	<u><u>\$ 2,440,182,186</u></u>	<u><u>\$ 1,970,839,657</u></u>

See accompanying notes to financial statements.

THE UNIVERSITY OF ALABAMA
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues		
Tuition and fees	\$ 337,623,787	\$ 282,803,052
Less: scholarship allowances	(73,467,255)	(54,898,543)
Tuition and fees, net	264,156,532	227,904,509
Federal grants and contracts	42,367,250	40,478,261
State grants and contracts	21,476,009	19,661,706
Local grants and contracts	474,619	283,355
Private grants and contracts	4,265,682	4,864,170
Sales and services of educational activities	13,602,206	12,227,393
Auxiliary sales & services, net of \$6,207,088 in 2010 and \$7,186,345 in 2009 of scholarship allowances	124,338,611	102,293,742
Other operating revenues	38,837,737	28,668,563
Total operating revenues	<u>509,518,646</u>	<u>436,381,699</u>
Operating expenses		
Salaries, wages and benefits	428,794,945	405,443,493
Scholarships and fellowships	18,321,811	16,801,519
Supplies and other services	192,969,119	173,901,346
Depreciation	43,850,973	40,668,365
Total operating expenses	<u>683,936,848</u>	<u>636,814,723</u>
Operating loss	<u>(174,418,202)</u>	<u>(200,433,024)</u>
Nonoperating revenues (expenses)		
State appropriations	138,540,845	156,521,464
State fiscal stabilization funds	14,699,372	-
Gifts	45,811,070	47,104,474
Grants	26,228,993	18,091,025
Investments income, net (Note 3)	130,274,948	1,257,811
Interest expense	(24,948,682)	(17,939,615)
Other nonoperating revenues (expenses), net	(745,051)	(196,014)
Net nonoperating revenues	<u>329,861,495</u>	<u>204,839,145</u>
Income before other changes in net assets	155,443,293	4,406,121
Other changes in net assets		
Capital appropriations	15,939,908	9,749,544
Capital gifts and grants	28,956,006	8,766,955
Additions to permanent endowments	16,208,005	16,369,994
Intragovernmental transfers (Note 3)	(48,750,945)	(2,242,104)
Increase in net assets	167,796,267	37,050,510
Net assets, beginning of year	<u>1,366,545,223</u>	<u>1,329,494,713</u>
Net assets, end of year	<u>\$ 1,534,341,490</u>	<u>\$ 1,366,545,223</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF ALABAMA

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Student tuition and fees, net	\$ 268,793,244	\$ 237,882,568
Grants and contracts	70,776,986	64,142,898
Receipts from sales and services of:		
Educational activities	13,604,869	14,771,844
Other receipts	40,785,669	27,367,666
Other disbursements	(305,096)	(4,426,265)
Payments to suppliers	(181,800,641)	(177,781,381)
Payments to employees	(428,522,111)	(398,351,220)
Payments for scholarships and fellowships	(22,844,198)	(22,014,524)
Student loan collections	2,325,695	443,094
Auxiliary enterprises	127,640,617	104,781,913
Net cash used in operating activities	<u>(109,544,966)</u>	<u>(153,183,407)</u>
Cash flows from noncapital financing activities		
State appropriations	138,540,845	156,521,464
Private gifts	63,667,918	56,798,101
Grants	26,228,993	18,091,025
Student direct lending receipts	150,639,731	130,971,068
Student direct lending disbursements	(151,717,352)	(132,011,988)
Deposits from affiliates, net	1,077,621	1,220,728
Other disbursements, net	(881,068)	(370,894)
Intragovernmental transfers	(53,938,596)	8,488,030
State fiscal stabilization funds	14,699,372	-
Net cash provided by noncapital financing activities	<u>188,317,464</u>	<u>239,707,534</u>
Cash flows from capital and related financing activities		
Proceeds from issuance of notes and bonds payable	199,980,000	-
Bond issuance costs	(984,828)	-
Capital gifts, grants and contracts	23,512,475	8,766,955
Capital state appropriations	15,939,909	9,749,544
Purchase of capital assets	(155,836,783)	(103,294,114)
Principal payments on capital debt	(10,679,602)	(4,835,797)
Interest payments on capital debt	(23,496,182)	(17,568,429)
Intragovernmental transfers	5,187,651	(10,730,133)
Net cash provided by (used in) capital and related financing activities	<u>53,622,640</u>	<u>(117,911,974)</u>
Cash flows from investing activities		
Interest and dividends on investments	95,748,091	84,182,886
Purchase of investments	(347,050,859)	(211,480,442)
Proceeds from sales and maturities of investments	85,634,670	157,189,982
Payments received on note to 1831 Foundation	1,252,218	83,948,498
Disbursements from issuance of note to 1831 Foundation	(1,484,044)	(39,818,831)
Net cash (used in) provided by investing activities	<u>(165,899,924)</u>	<u>74,022,093</u>
Net (decrease) increase in cash and cash equivalents	(33,504,786)	42,634,246
Cash and cash equivalents, beginning of year	47,856,712	5,222,466
Cash and cash equivalents, end of year	<u>\$ 14,351,926</u>	<u>\$ 47,856,712</u>

See accompanying notes to financial statements.

	2010	2009
Reconciliation of cash and cash equivalents to the statement of net assets		
Cash and cash equivalents-current	\$ 10,341,562	\$ 39,965,660
Restricted cash and cash equivalents-noncurrent	4,010,364	7,891,052
Total cash and cash equivalents	\$ 14,351,926	\$ 47,856,712
 Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (174,418,202)	\$ (200,433,024)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	43,850,973	40,668,365
Bad debt expense	1,095,117	1,170,492
Changes in assets and liabilities		
Accounts and other receivables	(5,990,340)	(6,060,195)
Inventories and other assets	(2,744,765)	(6,836,317)
Accounts payable and accrued liabilities	10,693,152	524,339
Deferred revenue	17,969,099	17,782,933
Net cash used in operating activities	\$ (109,544,966)	\$ (153,183,407)
 Supplemental noncash activities information		
Gift of capital assets	\$ 5,443,531	\$ 5,135,515
Gift of investments	9,623	-
Assets acquired with a liability	81,404,277	2,127,779
Loss on the disposal of capital assets	(1,299,417)	(765,739)

See accompanying notes to financial statements.



THE UNIVERSITY OF ALABAMA
DISCRETELY PRESENTED COMPONENT UNITS
Statements of Financial Position
2010 and 2009

Assets	2010	2009
Cash and cash equivalents	\$ 1,294,216	\$ 1,538,058
Investments	80,165,390	75,548,807
Contributions receivable, net	1,181,977	1,278,712
Other receivables	1,105,251	1,036,431
Other assets	21,501,189	20,375,316
Property, plant and equipment, net	89,488,018	90,883,141
Total assets	\$ 194,736,041	\$ 190,660,465
Liabilities and net assets		
Accounts payable and accrued liabilities	\$ 2,748,048	\$ 3,059,088
Deferred revenue	3,770,616	3,475,164
Annuities payable	4,837,738	4,981,756
Note payable	110,758,721	110,841,895
Other liabilities	8,587,591	8,620,986
Total liabilities	130,702,714	130,978,889
Net assets		
Unrestricted	6,894,693	8,563,236
Temporarily restricted	17,400,806	15,382,779
Permanently restricted	39,737,828	35,735,561
Total net assets	64,033,327	59,681,576
Total liabilities and net assets	\$ 194,736,041	\$ 190,660,465

See accompanying notes to financial statements.

THE UNIVERSITY OF ALABAMA
DISCRETELY PRESENTED COMPONENT UNITS
Statements of Activities and Changes in Net Assets
2010 and 2009

Revenues, gains and other support	2010	2009
Gifts	\$ 9,114,986	\$ 10,438,186
Investment income (loss)	5,890,264	(9,171,019)
Royalties	1,195,979	1,218,348
Rental income	11,260,237	5,401,831
Other	805,745	1,755,577
Total revenues, gains and other support	28,267,211	9,642,923
Expenses and losses		
Program services	8,996,898	8,934,735
Fundraising	593,565	607,394
General and administrative	1,136,949	1,187,279
Supplies and services	3,564,608	2,150,725
Depreciation	2,320,497	1,008,809
Interest expense	6,893,341	5,290,798
Change in value of split-interest agreements	409,602	332,015
Total expenses and losses	23,915,460	19,511,755
Increase (decrease) in net assets	4,351,751	(9,868,832)
Net assets, beginning of year	59,681,576	69,550,408
Net asset, end of year	\$ 64,033,327	\$ 59,681,576

See accompanying notes to financial statements.

The University of Alabama

Notes to Financial Statements

Years Ended September 30, 2010 and 2009

Note 1 – Summary of Significant Accounting Policies

The University of Alabama (the “University”), Tuscaloosa, Alabama is one of three campuses of The University of Alabama System (the “System”) which is a component unit of the State of Alabama. These 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 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 System that are attributable to the transactions of the University. 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.

The University, as a public institution, prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (“GASB”), including all applicable effective statements of the GASB and all statements of the Financial Accounting Standards Board (“FASB”) through November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- 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 these assets 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 with the passage of time.

- Unrestricted net assets 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 internally designated for academic, research and capital programs.

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. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University’s policy for defining operating activities as reported on the statements 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. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, private gifts and investment income.

Auxiliary enterprise revenues primarily represent revenues generated by university housing, Intercollegiate Athletics and the supply store. Revenues received for capital activities are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying statements of revenues, expenses and changes in net assets.

All internal sales between University departments from sales and service units (fleet services, postal services,

telecommunications, etc.) have been eliminated in the accompanying financial statements.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The estimates susceptible to significant changes include those used in determining the allowance for uncollectible accounts, useful lives of capital assets, the valuation of investments (including endowed real estate), reserves for self insurance and reserves for general and professional liability claims. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate.

Scope of Statements – GASB Statement No. 14, *The Financial Reporting Entity*, as amended, requires governmental entities to include in their financial statements as a component unit, organizations that are legally separate entities for which the governmental entity, as a primary organization, is financially accountable.

The Crimson Tide Foundation (“CTF”), chartered on October 1, 2004 with a fiscal year end of June 30, is presented as a blended component unit within the University’s financial statements. CTF is a nonprofit corporation organized exclusively to promote and encourage a continuing interest in and loyalty to the Intercollegiate Athletics program at the University; to promote, encourage and support the construction, improvement and renovation of athletic facilities; to encourage alumni and friends of the University to generously support the University and its Athletics Department by gifts, devises and bequests; to support, promote and encourage the education of University students; and to conduct any and all appropriate activities, in accordance with National Collegiate Athletic Association and Southeastern Conference policies on institutional control, in order to accomplish the above objects and purposes. CTF is governed by a Board of Directors that is appointed by the University’s Board.

CTF financial information for the years ended June 30, 2010 and June 30, 2009 is summarized and included in the University’s financial statements as follows:

Assets	2010	2009
Cash	\$ 187,006	\$ 31,340
Investments	70,572,034	47,529,764
Current contributions receivable	5,751,001	7,343,116
Other receivables	2,290,038	1,887,028
Restricted cash	92,260	35,925
Endowment investments	4,067,830	2,409,241
Noncurrent contributions receivable	17,456,708	17,949,024
Equipment, net	3,320,017	3,745,059
Total assets	<u>\$ 103,736,894</u>	<u>\$ 80,930,497</u>
Liabilities and net assets		
Current liabilities	\$ 7,738,705	\$ 5,882,674
Noncurrent liabilities	2,335,083	2,845,381
Net assets	93,663,106	72,202,442
Total liabilities and net assets	<u>\$ 103,736,894</u>	<u>\$ 80,930,497</u>
Major components of revenues, expenses and changes in net assets		
Operating revenues	\$ 50,237,493	\$ 49,984,466
Operating expenditures	(3,469,647)	(2,249,479)
Net nonoperating revenues (expenses)	10,748,913	(484,650)
Additions to permanent endowments	1,546,165	915,088
Intragovernmental transfers	(37,602,260)	(37,595,293)
Increase in net assets	<u>\$ 21,460,664</u>	<u>\$ 10,570,132</u>

During 2010, CTF determined that certain net asset funds had been misclassified between unrestricted net assets and restricted-expendable net assets for the year ended June 30, 2009. Additionally, the calculation and presentation of the fair market value of dealer car donations to CTF for the year ended June 30, 2009 was misstated. The accompanying 2009 financial statements were revised to correct for these items resulting in 1) an increase in unrestricted assets and a corresponding decrease in restricted-expendable net assets of approximately \$22.5 million and 2) a decrease in operating revenue of approximately \$1.5 million with a corresponding decrease in expenses split between benefits expense (approximately \$980,000) and rental expense (approximately \$500,000). These revisions had no material impact on the financial statements of CTF or the University; there was no impact on total net assets or the increase (decrease) in net assets.

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, is an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. The primary objective of GASB Statement No. 14 is to determine whether all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. GASB Statement No. 39 amended Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting as a component unit an organization that raises and holds economic resources for the direct benefit of a governmental unit.

The University reports four discretely presented foundations which have been organized exclusively for charitable, scientific and educational purposes for the benefit of certain constituents of the University. The four foundations are The National Alumni Association of The University of Alabama, The Capstone Foundation, The 1831 Foundation and The University of Alabama Law School Foundation (the "Foundations"). Because of the relationship between the University and the Foundations, the Foundations are considered component units of the University and are discretely presented in the accompanying financial statements in accordance with GASB Statement No. 39.

The Foundations are not-for-profit organizations that report financial results under principles prescribed by the FASB, except for The 1831 Foundation which reports financial results under principles prescribed

under the GASB. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the FASB reporting Foundations' financial information in the University's financial reporting entity for these differences.

Basis of Accounting-FASB-Reporting Discretely Presented Component Units – The financial statements of the Foundations have been prepared on the accrual basis.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the FASB-reporting Foundations and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category included unrestricted gifts and earnings on these unrestricted gifts.

Temporarily Restricted – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Foundations or the passage of time. Items that affect this net asset category include restricted gifts and earnings on endowment funds expendable for purposes stipulated by the donor. These amounts are reclassified to unrestricted net assets when such purpose or time restrictions are met.

Permanently Restricted – Net assets subject to donor-imposed restrictions to be maintained permanently by the Foundations. Items that affect this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and only the income be made available for expenditure.

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

Investments - Discretely Presented Component Units - The FASB-reporting Foundations' investments in debt securities, equity securities and mutual funds with readily determinable market values are reported at their fair market values based on published market prices.

Investments without readily determinable market values are reported at cost, unless impaired. These Foundations invest certain amounts in System-sponsored investment pools, the Endowment Fund and Intermediate Fund (Note 3). The value of the Foundations' beneficial interests in the pools is determined by the System and based on the Foundations' proportionate shares of the net asset value of the pools. The pools invest in various investment securities, including both marketable and non-readily marketable securities. The pools value investments that do not have readily determinable market values at cost, unless impaired.

Investments received by gift are stated at fair value at date of receipt. Changes in market values are reported as unrealized gains or losses on the statement of activities and changes in net assets. All interest income and realized and unrealized gains and losses are reported in the statement of activities and changes in net assets.

Endowments - Discretely Presented Component Units - The Alabama Uniform Prudent Management

of Institutional Funds Act ("UPMIFA") was enacted by the Alabama State Legislature and signed into law effective January 1, 2009. UPMIFA 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 more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The earnings distributions are appropriated for expenditure by the governing Boards of Directors of the Foundations 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, each Foundation's Board of Directors 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.



Summary information for the Foundations, the University's discretely presented component units, is as follows:

Statements of Financial Position

	National Alumni Association June 30, 2010	Law School Foundation June 30, 2010	Capstone Foundation Sept. 30, 2010	1831 Foundation Sept. 30, 2010	Total 2010
Assets					
Cash and cash equivalents	\$ 251,213	\$ 245,634	\$ 190,001	\$ 607,368	\$ 1,294,216
Investments	31,710,480	23,069,893	20,434,306	4,950,711	80,165,390
Contributions receivable	1,033	815,264	365,680	-	1,181,977
Other receivables	-	6,500	959,156	139,595	1,105,251
Other assets	694,907	282,086	170,737	20,353,459	21,501,189
Property, plant and equipment	-	-	173,589	89,314,429	89,488,018
Total assets	<u>\$ 32,657,633</u>	<u>\$ 24,419,377</u>	<u>\$ 22,293,469</u>	<u>\$ 115,365,562</u>	<u>\$ 194,736,041</u>
Liabilities and net assets					
Accounts payable & accrued liabilities	\$ 91,245	\$ 5,242	\$ 70,636	\$ 2,580,925	\$ 2,748,048
Deferred revenue	-	-	-	3,770,616	3,770,616
Annuities payable	-	-	4,837,738	-	4,837,738
Note payable	-	-	-	110,758,721	110,758,721
Other liabilities	-	-	8,587,591	-	8,587,591
Total liabilities	<u>91,245</u>	<u>5,242</u>	<u>13,495,965</u>	<u>117,110,262</u>	<u>130,702,714</u>
Net Assets					
Unrestricted	10,165,122	1,524,527	(40,001)	(4,754,955)	6,894,693
Temporarily restricted	2,606,553	4,090,550	8,819,614	1,884,089	17,400,806
Permanently restricted	19,794,713	18,799,058	17,891	1,126,166	39,737,828
Total net assets	<u>32,566,388</u>	<u>24,414,135</u>	<u>8,797,504</u>	<u>(1,744,700)</u>	<u>64,033,327</u>
Total liabilities and net assets	<u>\$ 32,657,633</u>	<u>\$ 24,419,377</u>	<u>\$ 22,293,469</u>	<u>\$ 115,365,562</u>	<u>\$ 194,736,041</u>

	National Alumni Association June 30, 2009	Law School Foundation June 30, 2009	Capstone Foundation Sept. 30, 2009	1831 Foundation Sept. 30, 2009	Total 2009
Assets					
Cash and cash equivalents	\$ 257,598	\$ 318,226	\$ 146,781	\$ 815,453	\$ 1,538,058
Investments	27,918,688	21,180,214	21,676,914	4,772,991	75,548,807
Contributions receivable	-	841,128	437,584	-	1,278,712
Other receivables	-	9,100	1,016,206	11,125	1,036,431
Other assets	456,510	300,833	107,061	19,510,912	20,375,316
Property, plant and equipment	-	-	178,079	90,705,062	90,883,141
Total assets	<u>\$ 28,632,796</u>	<u>\$ 22,649,501</u>	<u>\$ 23,562,625</u>	<u>\$ 115,815,543</u>	<u>\$ 190,660,465</u>
Liabilities and net assets					
Accounts payable & accrued liabilities	\$ 27,658	\$ 143,655	\$ 106,110	\$ 2,781,665	\$ 3,059,088
Deferred revenue	-	-	-	3,475,164	3,475,164
Annuities payable	-	-	4,981,756	-	4,981,756
Note payable	-	-	-	110,841,895	110,841,895
Other liabilities	-	-	8,515,252	105,734	8,620,986
Total liabilities	<u>27,658</u>	<u>143,655</u>	<u>13,603,118</u>	<u>117,204,458</u>	<u>130,978,889</u>
Net Assets					
Unrestricted	8,303,186	1,023,706	1,357,076	(2,120,732)	8,563,236
Temporarily restricted	2,342,080	3,724,312	8,584,570	731,817	15,382,779
Permanently restricted	17,959,872	17,757,828	17,861	-	35,735,561
Total net assets	<u>28,605,138</u>	<u>22,505,846</u>	<u>9,959,507</u>	<u>(1,388,915)</u>	<u>59,681,576</u>
Total liabilities and net assets	<u>\$ 28,632,796</u>	<u>\$ 22,649,501</u>	<u>\$ 23,562,625</u>	<u>\$ 115,815,543</u>	<u>\$ 190,660,465</u>

Statements of Activities and Changes in Net Assets

	National Alumni Association June 30, 2010	Law School Foundation June 30, 2010	Capstone Foundation Sept. 30, 2010	1831 Foundation Sept. 30, 2010	Total 2010
Revenues, gains and other support					
Gifts	\$ 3,676,429	\$ 1,884,157	\$ 3,097,000	\$ 457,400	\$ 9,114,986
Investment income	1,747,562	1,367,127	413,481	377,024	3,905,194
Unrealized and realized gains on investments, net	867,843	448,024	547,483	121,720	1,985,070
Royalties	1,195,979	-	-	-	1,195,979
Rental income	-	-	-	11,260,237	11,260,237
Other	14,167	208,941	376,357	206,280	805,745
Total revenues, gains, and other support	<u>7,501,980</u>	<u>3,908,249</u>	<u>4,434,321</u>	<u>12,422,661</u>	<u>28,267,211</u>
Expenses and losses					
Program services	2,384,144	1,539,328	5,073,426	-	8,996,898
Fundraising	531,669	61,896	-	-	593,565
General and administrative	624,917	398,736	113,296	-	1,136,949
Supplies and services	-	-	-	3,564,608	3,564,608
Depreciation	-	-	-	2,320,497	2,320,497
Interest expense	-	-	-	6,893,341	6,893,341
Change in value of split-interest agreements	-	-	409,602	-	409,602
Total expenses and losses	<u>3,540,730</u>	<u>1,999,960</u>	<u>5,596,324</u>	<u>12,778,446</u>	<u>23,915,460</u>
Change in net assets	3,961,250	1,908,289	(1,162,003)	(355,785)	4,351,751
Net assets, beginning of year	28,605,138	22,505,846	9,959,507	(1,388,915)	59,681,576
Net assets, end of year	<u>\$ 32,566,388</u>	<u>\$ 24,414,135</u>	<u>\$ 8,797,504</u>	<u>\$ (1,744,700)</u>	<u>\$ 64,033,327</u>

	National Alumni Association June 30, 2009	Law School Foundation June 30, 2009	Capstone Foundation Sept. 30, 2009	1831 Foundation Sept. 30, 2009	Total 2009
Revenues, gains (losses), and other support					
Gifts	\$ 4,738,386	\$ 1,641,367	\$ 3,783,433	\$ 275,000	\$ 10,438,186
Investment income	1,351,556	1,099,954	477,723	386,413	3,315,646
Unrealized and realized losses on investments, net	(6,670,631)	(5,346,743)	(469,291)	-	(12,486,665)
Royalties	1,218,348	-	-	-	1,218,348
Rental income	-	-	-	5,401,831	5,401,831
Other	49,693	152,128	1,444,829	108,927	1,755,577
Total revenues, gains (losses), and other support	<u>687,352</u>	<u>(2,453,294)</u>	<u>5,236,694</u>	<u>6,172,171</u>	<u>9,642,923</u>
Expenses and losses					
Program services	2,426,393	1,600,220	4,908,122	-	8,934,735
Fundraising	521,230	86,164	-	-	607,394
General and administrative	599,508	352,425	235,346	-	1,187,279
Supplies and services	-	-	-	2,150,725	2,150,725
Depreciation	-	-	-	1,008,809	1,008,809
Interest expense	-	-	-	5,290,798	5,290,798
Change in value of split-interest agreements	-	-	332,015	-	332,015
Total expenses and losses	<u>3,547,131</u>	<u>2,038,809</u>	<u>5,475,483</u>	<u>8,450,332</u>	<u>19,511,755</u>
Change in net assets	(2,859,779)	(4,492,103)	(238,789)	(2,278,161)	(9,868,832)
Net assets, beginning of year	31,464,917	26,997,949	10,198,296	889,246	69,550,408
Net assets, end of year	<u>\$ 28,605,138</u>	<u>\$ 22,505,846</u>	<u>\$ 9,959,507</u>	<u>\$ (1,388,915)</u>	<u>\$ 59,681,576</u>

Contributions Receivable - Discretely Presented Component Units

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

Unconditional promises to give with payments due in future periods are reported as restricted support. Gifts of land, buildings and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation, the Foundations report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Other significant accounting policies of the University are as follows:

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, including restricted cash and cash equivalents. Cash equivalents representing assets of the University's endowment, life income, investments for capital activities (including unspent bond proceeds) and other long-term investments are included in the noncurrent investments category.

Investments: The University's investments are primarily reported at fair value. The majority of the University's investment portfolio is 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

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 are carried at cost, unless impaired. Fair value for equity securities, debt securities, mutual funds and U.S. government and agency obligations held by the University is determined from quoted market prices or market prices of similar instruments. Real estate held as endowment investments is reported at fair value. Investments received by gift are reported at fair value at date of receipt. Net investment income, including realized and unrealized gains and losses, are reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net assets.

Investments are reported in four categories in the statement of net assets. Investments recorded as endowment and life income are those invested funds that cannot be used to fund current operations and thus are included in noncurrent assets. Investments held for future capital projects are included in noncurrent assets, except for amounts included in current assets to offset current construction-related payables. Other long-term investments are those invested funds with maturities greater than one year or are considered by management to be of a long duration that are not an investment of the endowment and life income fund or the plant fund. All other investments are included as short-term investments.

Loans Receivable: Loans receivable represent all amounts owed on promissory notes from debtors including campus-based and Federal student loans.

Inventories: Inventories are carried at the lower of cost or market and consist primarily of the University Supply Store inventory.

Accounts and Notes Receivable: Accounts receivable consist primarily of tuition charged to students and amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's contracts and grants. Accounts receivable are recorded net of estimated uncollectible amounts. The University has certain notes receivable, principally from campus fraternities for construction and a note receivable from The 1831 Foundation.

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. 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 is incurred.

The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Training costs and data conversion 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, as applicable, for certain qualifying 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 and infrastructure (20-50 years), land improvements (5-25 years), library collection (10 years) and inventoried equipment (5-20 years) is computed on a straight-line basis.

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

Charitable Remainder Trusts: The University is the beneficiary of various charitable remainder trust funds administered by unaffiliated organizations. Under the terms of the agreements, the University has the irrevocable right to receive the remaining assets of the trusts upon the death of a specified beneficiary or beneficiaries in exchange for a stipulated amount to be paid periodically to the donor or their designee until the death of the beneficiary. Following the death of the beneficiary, the remainder is transferred to the University as either unrestricted or restricted funds depending on donor-imposed purpose restrictions. The

assets received at the inception of a charitable remainder trust agreement are recorded at fair value at the date of gift. The fair value of charitable remainder trust assets is approximately \$6.1 million and \$6.3 million at September 30, 2010 and 2009, respectively. Any change in value related to these trusts is recorded as investment income in the statements of revenues, expenses and changes in net assets.

The liability associated with these agreements is recorded at the present value based on IRS mortality tables and prevailing interest rates. The liability is reduced for distributions made to the beneficiaries and is adjusted annually for revaluations of expected future payments to the beneficiaries based on changes in life expectancy. The present value of the liability associated with these agreements is approximately \$4.2 million and \$3.9 million at September 30, 2010 and 2009, respectively.

Beneficial Interest in Perpetual Trusts: Perpetual trusts are trusts under which the University will receive income distributions in perpetuity, but will never receive the corpus of the trust assets (principal). Income received from perpetual trusts is recognized as unrestricted or restricted expendable investment income depending on donor restrictions.

Endowment Spending: As discussed earlier in Note 1, the Alabama State Legislature adopted the Uniform Prudent Management of Institutional Funds Act, effective January 1, 2009, which 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. 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 ending September 30, 2009 and 2008 of 5.0% of a moving three-year average of the market (unit) value.

Deferred Revenues: Deferred revenues consist primarily of tuition and athletic ticket revenue related to future fiscal years.

Federal Refundable Loans: Certain loans to students are administered by the University with funding primarily supported by the federal government. The University's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions and related activity owed upon termination of the program.

Compensated Absences: The University accrues

liabilities for employees' annual and sick leave balances. The accrual rates are formulated calculations based on length of service, job classification, and hours worked. Adjustments to the accrual are recorded annually.

Scholarship Allowances and Student Aid: Student tuition and fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

Grant and Contract Revenue: The University receives grant and contract 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 grant or contract.

Note 2 – Cash and Cash Equivalents

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

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, 2010, the University had approximately \$8.2 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 unrestricted cash and cash equivalents. As of September 30, 2009, the University, within the Short-Term Fund, had approximately \$47.7 million as money market funds and approximately \$3.7 million as short term investments.

Note 3 – Investments

The Board has the responsibility for the establishment of the investment policy and the oversight of the investments for the System and related entities. In order to facilitate system-wide investment objectives and achieve economies of scale, the Board 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 allocations are established to meet targeted returns while providing adequate diversification in order to minimize investment volatility. As discussed in Note 1, certain investments within the Endowment Fund are valued at cost, unless impaired. The University's portion of investments in the Endowment Fund which are measured at cost totaled approximately \$48.1 million and \$41.2 million at September 30, 2010 and 2009, respectively.

Prime Fund

The Prime Fund is a longer-term pool 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 at Note 1, certain investments in the Prime Fund are valued at cost, unless impaired. The University's portion of investments which are measured at cost totaled \$2.2 million and \$2.6 million at September 30, 2010 and 2009, respectively.

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 Intermediate Fund investment managers must be a large mutual fund providing daily liquidity.

Short-Term Fund

The Short-Term Fund contains the short-term 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 objectives 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.

Although the investment philosophy of the Board is to minimize the direct ownership of investment vehicles, preferring ownership in appropriate investment fund groups, certain direct investments are held in the name of the Board. All other investments in the System Pools are classified as commingled funds.

Land and Other Real Estate Held as Investments by Endowments

During 2008, the University changed its method of valuing land and other real estate held as investments by endowments from cost to market value. This method of accounting for land and other real estate held as investments by endowments was applied, effective October 1, 2006, pursuant to GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*.

The University holds, as part of its endowment investments, 171 tracts of timber land located in twelve counties of north Alabama totaling 27,782 acres. Of the total land, 15,220 acres are upland pine, 11,759 acres are hardwood and 803 acres are nonforest land. In the University's opinion, timber production and related commercial recreation is the highest and best use for the 171 tracts individually and as a whole; the property is located in an area with a favorable climate for growing trees and contains good markets for forest products. Timber production is the predominant land use in the counties that contain the property. The fee simple market value of timber and land of \$66.0 million and \$59.9 million as of September 30, 2010 and 2009, respectively, was derived through the application of the cost, sales comparison and income capitalization approaches to value. The value of minerals and mineral exploitation rights contained in fee and mineral rights only and surface mining rights only for 35,880 acres are valued at \$19.2 million and \$16.1 million as of September 30, 2010 and 2009, respectively. The fair value of these rights were determined using non-quantitative "menus" of incremental value, enhanced values for perceived early exploitation, risk discounted cash flow, and rules-of-thumb developed over time in appraising mineral assets.

The Bryce Property, acquired by the University in 2010, was purchased for \$77.8 million. The University added the appraised value of the property of \$87.4 million to the permanent endowment and intends to pay the full purchase price from endowed coal revenues generated by the University's mineral rights. This purchase, from the State of Alabama Department of Mental Health ("ADMH"), included approximately 168 acres of land. The purchase was initially treated as an intragovernmental transfer between two State agencies resulting in an initial asset of approximately \$25.8 million based on the assets' net book value as held by ADMH. Since the University holds the assets as an endowment investment, the assets are reported at fair value under GASB Statement No. 52. Therefore, the University adjusted the value of the assets to the appraised value of \$87.4 million, resulting in investment income of approximately \$61.6 million that is offset by an intragovernmental transfer of approximately \$55.5 million. Additionally, the University recorded an estimated liability of \$3.5 million for environmental remediation. The University also committed to spending \$6.5 million in building restoration efforts in the future. In connection with the purchase of the Bryce Property, the University also leased the facility back to ADMH for a period estimated to last three to four years for \$1 while ADMH relocates to another property. If the University were to sell any part of the campus within 10 years from the purchase date, any gain on sale would be split evenly between the University and ADMH.

The composition of investments, by investment type, for the System Pools, at September 30, 2010 and 2009 is as follows:

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2010	2009	2010	2009	2010	2009	2010	2009
Receivables:								
Accrued Income Receivables	\$ 1,022,703	\$ 795,831	\$ 730,638	\$ 675,968	\$ 3,394,772	\$ 2,165,834	\$ -	\$ -
Total Receivables	1,022,703	795,831	730,638	675,968	3,394,772	2,165,834	-	-
Cash Equivalents:								
Certificates of Deposit	-	-	-	-	2,700,000	-	-	-
Commercial Paper	-	-	-	-	27,000,000	3,660,924	-	-
Money Market Funds	20,090,042	42,002,374	15,547,782	23,706,508	15,395,632	8,444,513	168,718,531	130,246,378
Total Cash Equivalents	20,090,042	42,002,374	15,547,782	23,706,508	45,095,632	12,105,437	168,718,531	130,246,378
Equities:								
U. S. Common Stock	63,959,778	26,954,210	46,906,064	21,302,169	-	-	-	-
Non-U.S. Stock	3,734,348	3,679,003	2,708,329	2,553,924	-	-	-	-
Total Equities	67,694,126	30,633,213	49,614,393	23,856,093	-	-	-	-
Fixed Income Securities:								
U.S. Government Obligations	33,786,763	11,842,720	19,534,274	11,091,835	192,236,728	82,914,102	-	-
Municipal Government Obligations	-	-	-	-	2,093,673	1,232,148	-	-
Mortgage Backed Securities	911,352	20,187,898	566,328	18,945,890	19,764,250	27,260,836	-	-
Collateralized Mortgage Obligations	1,525,678	4,507,042	1,900,449	3,312,760	30,978,826	64,674,578	-	-
Corporate Bonds	31,889,288	20,624,945	21,567,664	17,440,382	256,027,315	145,023,991	-	-
Non-U. S. Bonds	-	-	-	-	7,756,995	2,430,817	-	-
Total Fixed Income Securities	68,113,081	57,162,605	43,568,715	50,790,867	508,857,787	323,536,472	-	-
Commingled Funds:								
Bank Common Trust Fund	-	-	-	-	-	-	-	16,004,639
U. S. Equity Funds	130,953,359	155,436,175	101,565,158	116,269,956	-	-	-	-
Non-U. S. Equity Funds	209,620,702	219,549,152	173,321,023	157,123,290	-	-	-	-
U. S. Bond Funds	74,155,378	56,912,057	93,914,279	79,196,422	108,159,733	55,722,603	-	-
Non-U. S. Bond Funds	51,744,077	49,688,842	38,096,317	40,741,576	-	-	-	-
Hedge Funds	126,056,610	122,211,021	93,416,606	94,900,567	-	-	-	-
Private Equity Funds	50,904,793	48,589,401	-	-	-	-	-	-
Timberland Funds	8,527,039	8,527,039	-	-	-	-	-	-
Real Estate Funds	69,314,611	50,834,637	40,046,944	32,673,281	-	-	-	-
Total Commingled Funds	721,276,569	711,748,324	540,360,327	520,905,092	108,159,733	55,722,603	-	16,004,639
Total Fund Investments	877,173,818	841,546,516	649,091,217	619,258,560	662,113,152	391,364,512	168,718,531	146,251,017
Total Fund Assets	878,196,521	842,342,347	649,821,855	619,934,528	665,507,924	393,530,346	168,718,531	146,251,017
Total Fund Liabilities	(108,538)	(153,016)	(78,054)	(107,821)	(253,747)	(198,701)	-	-
Affiliated Entity Investments	(109,872,550)	(104,078,093)	(1,891,880)	-	(8,165,066)	(4,048,791)	-	-
Total Net Asset Value	\$ 768,215,433	\$ 738,111,238	\$ 647,851,921	\$ 619,826,707	\$ 657,089,111	\$ 389,282,854	\$ 168,718,531	\$ 146,251,017



The composition of investments, by investment type, for the University's separately held investments, at September 30, 2010 and 2009 is as follows:

	2010	2009
Cash, Receivables and Equivalents		
Money Market Funds	\$ 217,463	\$ 823,730
Other	40,770	31,380
Total Cash, Receivables and Equivalents	258,233	855,110
Equities		
Common Stock	3,029,175	2,522,494
Total Equities	3,029,175	2,522,494
Fixed Income Securities		
U.S. Government Obligations	355,802	189,587
Total Fixed Income Securities	355,802	189,587
Commingled Funds		
U.S. Equity Funds	48,005,267	3,056,097
U.S. Bond Funds	73,396,284	50,688,809
Private Equity Funds	1,369,222	1,359,599
Total Commingled Funds	122,770,773	55,104,505
Total Real Estate	174,697,488	78,840,529
System Pooled Investments		
Short-Term Fund	8,164,615	51,425,763
Endowment Fund	450,636,670	428,074,661
Prime Fund	140,964,609	137,961,232
Intermediate Fund	291,834,184	116,692,238
Total System Pooled Investments	891,600,078	734,153,894
Less Short-Term Fund Cash Equivalents	(8,164,615)	(47,708,100)
Total University Investments	\$ 1,184,546,934	\$ 823,958,019

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 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 Aggregate Bond Index benchmark 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 \$3.8 million and \$47.0 million in the Endowment and Prime Funds, at September 30, 2010 and 2009, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$293.5 million and \$292.2 million in the Endowment and Prime Funds, at September 30, 2010 and 2009, respectively.

The Intermediate Fund is benchmarked against the Barclays 1-3 Government 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, 2010 and 2009, approximately \$62.0 million and \$35.8 million 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 \$150.6 million and \$67.8 million at September 30, 2010 and 2009, respectively.

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 principally 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, 2010 and 2009 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2010	2009	2010	2009	2010	2009	2010	2009
Fixed or Variable Income Securities								
U.S. Government Obligations	\$ 33,786,763	\$ 11,842,720	\$ 19,534,274	\$ 11,091,835	\$ 192,236,728	\$ 82,914,102	\$ -	\$ -
Municipal Government Obligations	-	-	-	-	2,093,673	1,232,148	-	-
Other U.S. Denominated:								
AAA	1,352,251	1,146,081	1,180,794	1,039,859	60,795,483	87,267,735	-	-
AA	3,644,101	3,100,959	2,393,581	2,614,022	58,634,075	23,482,064	-	-
A	16,695,249	11,437,198	11,416,560	9,890,797	87,821,004	66,550,612	-	-
BBB	10,994,544	4,940,707	6,919,747	3,895,704	38,692,339	4,915,130	-	-
BB	-	-	-	-	5,937,675	-	-	-
B	-	-	-	-	436,225	16,308,295	-	-
C and < C	-	-	-	-	197,792	5,056,801	-	-
Unrated	1,640,173	24,694,940	2,123,759	22,258,650	62,012,793	35,809,585	-	-
Commingled Funds:								
Bank Common Trust Fund: Unrated	-	-	-	-	-	-	-	16,004,639
U.S. Bond Funds: Unrated	74,155,378	56,912,057	93,914,279	79,196,422	108,159,733	55,722,603	-	-
Non-U.S. Bond Funds: Unrated	51,744,077	49,688,842	38,096,317	40,741,576	-	-	-	-
Money Market Funds: Unrated	20,090,042	42,002,374	15,547,782	23,706,508	15,395,632	8,444,513	168,718,531	130,246,378
Commercial Paper: Unrated	-	-	-	-	27,000,000	3,660,924	-	-
Certificate of Deposits	-	-	-	-	2,700,000	-	-	-
Total	\$ 214,102,578	\$ 205,765,878	\$ 191,127,093	\$ 194,435,373	\$ 662,113,152	\$ 391,364,512	\$ 168,718,531	\$ 146,251,017

In accordance with the Board policy disclosed above, credit risk for the University's fixed and variable income securities held outside of the System Pools is managed by diversifying across issuers and limiting the amount of portfolio assets that are invested in non-investment grade securities.

The credit risk for fixed and variable income securities, for the University's separately held investments, at September 30, 2010 and 2009 are as follows:

	2010	2009
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$ 355,802	\$ 189,587
Other U.S. Dollar and Commingled Bonds		
AAA	1,251,480	1,287,088
AA	70,736,972	47,632,780
A	407,858	169,543
BBB	466,223	102,520
BB	202,124	308,288
B	219,079	246,495
Below B	49,393	37,484
Unrated	280,618	1,728,340
	\$ 73,969,549	\$ 51,702,125

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the corporate failure of the custodian, the investment securities may not be returned.

Investment securities in the System Pools and the University's separately held portfolio are registered in the Board's name by the custodial bank as an agent for the System. Other types of investments (e.g. open-ended mutual funds, common collective trusts) 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 and the University's separately held investment portfolio, 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, 2010 and 2009, no investment was in a single issuer that represents 5% or more of total investments held by any single investment manager of the System Pools or the University's separately held investment portfolio.

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 points (1 percentage point) change in the level of interest rates. It is not a measure of time. The Board does not have a specific policy relative to interest rate risk. As such, there are no restrictions on

weighted average maturity for each investment pool as they are managed relative to the investment objectives and liquidity demands of the investors.

While the Board does not have a specific policy relative to interest rate risk, the University has historically invested funds outside of the investments pools in fixed income and variable income securities with short maturity terms.

The effective durations for fixed or variable income securities, for the System Pools, at September 30, 2010 and 2009 are as follows:

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

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2010	2009	2010	2009	2010	2009	2010	2009
U.S. Government Obligations	3.4	4.8	3.3	4.4	3.0	1.4	-	-
Corporate Bonds	6.4	5.4	6.0	5.6	2.0	1.2	-	-
Commingled Bond Funds	5.8	5.0	5.2	4.5	2.4	1.9	-	-

The effective durations for fixed or variable income securities, for the University's separately held investments, at September 30, 2010 and 2009 are as follows:

	2010	2009
U.S. Government Obligations	7.9	3.1
Commingled Bond Funds	3.1	3.4

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, 2010 and 2009 the fair market value of these investments, for the System Pools, are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2010	2009	2010	2009	2010	2009	2010	2009
Mortgage Backed Securities	\$ 911,352	\$ 20,187,898	\$ 566,328	\$ 18,945,890	\$ 19,764,250	\$ 27,260,836	\$ -	\$ -
Collateralized Mortgage Obligations	1,525,678	4,507,042	1,900,449	3,312,760	30,978,826	64,674,578	-	-
Total Fixed	<u>\$ 2,437,030</u>	<u>\$ 24,694,940</u>	<u>\$ 2,466,777</u>	<u>\$ 22,258,650</u>	<u>\$ 50,743,076</u>	<u>\$ 91,935,414</u>	<u>\$ -</u>	<u>\$ -</u>

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 ei-

ther 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, 2010 and 2009, the effective durations for these securities held in the System Pools are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2010	2009	2010	2009	2010	2009	2010	2009
Mortgage Backed Securities	2.3	2.7	2.2	2.7	2.9	1.3	-	-
Collateralized Mortgage Obligations	2.2	1.5	1.6	0.3	1.6	1.0	-	-

At September 30, 2010 and 2009, the University did not hold any investments in these security types outside of the System Pools.

Foreign Currency Risk The strategic asset allocation policy for the Endowment Fund and the Prime Fund includes an allocation to non-United States equity and fixed income 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, 2010 and 2009, 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 \$7.8 million and \$2.4 million of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2010 and 2009, respectively. At September 30, 2010 and 2009, the University did not hold any foreign securities in its separately held investment portfolio.

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, 2010 and 2009, there were no securities on loan from the investment pools.



Note 4 – Accounts and Notes Receivable

Accounts receivable consist of amounts for student tuition and fees, contract and grant reimbursements due from third parties, and interest due on investments. The composition of accounts and notes receivable at September 30, 2010 and 2009 is summarized as follows:

	2010	2009
Student accounts	\$ 45,422,343	\$ 36,868,156
Receivables from sponsoring agencies	22,596,170	21,688,660
Accrued interest receivable	8,107,763	7,343,163
Other	13,057,898	5,351,350
	<u>89,184,174</u>	<u>71,251,329</u>
Less provision for doubtful accounts	(2,085,025)	(2,802,763)
Accounts receivable, net	<u>\$ 87,099,149</u>	<u>\$ 68,448,566</u>
Note receivable from 1831 Foundation	\$ 11,101,921	\$ 10,494,307
Fraternity construction notes receivable	20,003,993	21,283,742
	<u>31,105,914</u>	<u>31,778,049</u>
Less current portion	(3,368,918)	(1,835,342)
Notes Receivable, net	<u>\$ 27,736,996</u>	<u>\$ 29,942,707</u>

The note receivable from The 1831 Foundation, a discretely presented component unit, represents a related party transaction to fund the construction of dormitories held by The 1831 Foundation. The note accrues interest at 5.50%.

Note 5 – Loans and Pledges Receivable

Loans receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs. Pledges receivable represent unconditional promises to give from third party donors and are presented at their gross, undiscounted amount. The composition of loans and pledges receivable at September 30, 2010 and 2009, is summarized as follows:

	2010	2009
Loans receivable		
Federal loan program	\$ 12,937,221	\$ 15,394,312
University loan funds	1,105,476	974,081
Less allowance for doubtful loans	<u>(3,696,717)</u>	<u>(3,696,717)</u>
Total loans outstanding, net	10,345,980	12,671,676
Less current portion	<u>(2,292,669)</u>	<u>(2,625,572)</u>
Total loans outstanding, noncurrent	<u>\$ 8,053,311</u>	<u>\$ 10,046,104</u>
Pledges outstanding		
Operations	\$ 30,447,689	\$ 33,512,968
Capital	<u>2,278,692</u>	<u>1,028,638</u>
Total pledges, net	32,726,381	34,541,606
Less current portion	<u>(8,018,042)</u>	<u>(9,445,434)</u>
Total pledges, noncurrent	<u>\$ 24,708,339</u>	<u>\$ 25,096,172</u>

Note 6 – Capital Assets

Capital assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received if gifted to the University. All moveable assets with a purchase price of \$5,000 or greater are capitalized. Capital assets as of September 30, 2010 and 2009 are summarized as follows:

	Balance October 1, 2009	Additions	Retirements/ Transfers	Balance September 30, 2010
Nondepreciable capital assets:				
Land	\$ 13,687,174	\$ 11,500	\$ -	\$ 13,698,674
Collections	11,733,904	8,372,970	(4,786)	20,102,088
Construction in progress	45,575,429	113,093,156	(112,038,479)	46,630,106
Total nondepreciable capital assets	70,996,507	121,477,626	(112,043,265)	80,430,868
Depreciable capital assets:				
Land improvements	38,814,087	1,228,476	-	40,042,563
Infrastructure	40,296,979	1,364,325	-	41,661,304
Buildings and fixed equipment	946,824,550	144,256,790	(5,709,976)	1,085,371,364
Equipment	133,348,890	12,130,795	(7,697,172)	137,782,513
Library materials	99,485,792	775,573	-	100,261,365
Total depreciable capital assets	1,258,770,298	159,755,959	(13,407,148)	1,405,119,109
Less accumulated depreciation:				
Land improvements	13,413,020	1,633,496	-	15,046,516
Infrastructure	19,470,322	1,268,333	-	20,738,655
Buildings and fixed equipment	230,868,190	21,475,061	(4,400,354)	247,942,897
Equipment	79,572,040	16,383,800	(6,405,508)	89,550,332
Library materials	86,186,856	3,090,283	-	89,277,139
Total accumulated depreciation	429,510,428	43,850,973	(10,805,862)	462,555,539
Total depreciable capital assets, net	829,259,870	115,904,986	(2,601,286)	942,563,570
Total capital assets, net	\$ 900,256,377	\$ 237,382,612	\$ (114,644,551)	\$ 1,022,994,438

	Balance October 1, 2008	Additions	Retirements/ Transfers	Balance September 30, 2009
Nondepreciable capital assets:				
Land	\$ 12,875,689	\$ 811,485	\$ -	\$ 13,687,174
Collections	6,895,147	4,861,930	(23,173)	11,733,904
Construction in progress	110,865,600	79,266,692	(144,556,863)	45,575,429
Total nondepreciable capital assets	130,636,436	84,940,107	(144,580,036)	70,996,507
Depreciable capital assets:				
Land improvements	29,716,131	9,097,956	-	38,814,087
Infrastructure	29,089,575	11,207,404	-	40,296,979
Buildings and fixed equipment	838,613,588	111,648,297	(3,437,335)	946,824,550
Equipment	105,250,175	34,173,651	(6,074,936)	133,348,890
Library materials	97,521,288	1,964,504	-	99,485,792
Total depreciable capital assets	1,100,190,757	168,091,812	(9,512,271)	1,258,770,298
Less accumulated depreciation:				
Land improvements	11,787,874	1,625,146	-	13,413,020
Infrastructure	18,598,925	871,397	-	19,470,322
Buildings and fixed equipment	209,449,321	21,811,342	(392,473)	230,868,190
Equipment	72,551,057	12,823,385	(5,802,402)	79,572,040
Library materials	82,649,761	3,537,095	-	86,186,856
Total accumulated depreciation	395,036,938	40,668,365	(6,194,875)	429,510,428
Total depreciable capital assets, net	705,153,819	127,423,447	(3,317,396)	829,259,870
Total capital assets, net	\$ 835,790,255	\$ 212,363,554	\$ (147,897,432)	\$ 900,256,377

Note 7 – Construction Commitments and Financing

The University has contracted for the construction and renovation of several facilities. At September 30, 2010 and 2009, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$68.4 million and \$58.7 million, respectively, which is expected to be financed from private gifts, grants, bond proceeds and University funds.

Note 8 – Long-term Debt

Long-term debt activity for the years ended September 30, 2010 and 2009 is summarized as follows:

Type/Supported by	Balance October 1, 2009	New Debt	Principal Repayment	Reclass	Balance September 30, 2010
Notes payable					
Crimson Tide Foundation airplane	\$ 3,324,839	\$ -	\$ 479,458	\$ -	\$ 2,845,381
Student housing revenue	3,525,407	-	183,137	-	3,342,270
Rental income	2,127,779	-	307,006	-	1,820,773
Bryce Property	-	65,750,000	-	-	65,750,000
Bonds					
Student housing revenue	96,287,524	16,753,716	2,155,034	36,562	110,922,768
Intercollegiate athletics	122,598,713	81,034,495	2,975,185	(1,861,904)	198,796,119
Auxiliaries	21,516,577	5,660,765	701,713	39,574	26,515,203
General fee	112,512,188	96,531,024	3,878,069	1,785,768	206,950,911
	<u>361,893,027</u>	<u>\$ 265,730,000</u>	<u>\$ 10,679,602</u>	<u>\$ -</u>	<u>616,943,425</u>
Plus net unamortized bond premium/discount	1,886,525				1,819,125
Less deferred amount on refunding	(2,236,336)				(2,146,881)
Less current portion	(8,264,600)				(35,627,642)
	<u>\$ 353,278,616</u>				<u>\$ 580,988,027</u>

Type/Supported by	Balance October 1, 2008	New Debt	Principal Repayment	Reclass	Balance September 30, 2009
Leases payable					
Departmental budgets	\$ 284,012	\$ -	\$ 16,800	\$ (267,212)	\$ -
Notes payable					
Crimson Tide Foundation airplane	3,775,321	-	450,482	-	3,324,839
Student housing revenue	3,701,843	-	176,436	-	3,525,407
Rental income	2,429,860	-	302,081	-	2,127,779
Bonds					
Student housing revenue	97,000,450	-	712,926	-	96,287,524
Intercollegiate athletics	122,837,716	-	239,003	-	122,598,713
Auxiliaries	22,081,749	-	565,172	-	21,516,577
General fee	114,885,085	-	2,372,897	-	112,512,188
	<u>366,996,036</u>	<u>\$ -</u>	<u>\$ 4,835,797</u>	<u>\$ (267,212)</u>	<u>361,893,027</u>
Plus net unamortized bond premium/discount	1,953,924				1,886,525
Less deferred amount on refunding	(2,325,788)				(2,236,336)
Less current portion	(4,867,545)				(8,264,600)
	<u>\$ 361,756,627</u>				<u>\$ 353,278,616</u>

Debt obligations generally bear interest at fixed rates ranging from 0% to 7.0% and mature at various dates through fiscal year 2040.

Maturities and interest on notes, leases and bonds payable, using rates in effect at September 30, 2010, for the next five years and in subsequent five-year periods are as follows:

	Notes Principal	Bonds Principal	Total Principal	Notes Interest	Bonds Interest	Total Interest	Total Debt Service
2011	\$ 24,012,642	\$ 11,615,000	\$ 35,627,642	\$ 425,945	\$ 27,753,328	\$ 28,179,273	\$ 63,806,915
2012	40,808,272	12,020,000	52,828,272	364,915	27,416,834	27,781,749	80,610,021
2013	3,886,651	12,470,000	16,356,651	301,137	26,962,546	27,263,683	43,620,334
2014	937,947	12,960,000	13,897,947	249,841	26,466,884	26,716,725	40,614,672
2015	936,201	13,495,000	14,431,201	195,447	25,940,793	26,136,240	40,567,441
2016-2020	1,767,103	77,560,000	79,327,103	634,335	119,617,588	120,251,923	199,579,026
2021-2025	740,256	98,470,000	99,210,256	284,500	98,020,544	98,305,044	197,515,300
2026-2030	669,353	123,400,000	124,069,353	95,362	70,155,367	70,250,729	194,320,082
2031-2035	-	134,520,000	134,520,000	-	34,399,601	34,399,601	168,919,601
2036-2040	-	46,675,000	46,675,000	-	7,102,069	7,102,069	53,777,069
	<u>\$ 73,758,425</u>	<u>\$ 543,185,000</u>	<u>\$ 616,943,425</u>	<u>\$ 2,551,482</u>	<u>\$ 463,835,554</u>	<u>\$ 466,387,036</u>	<u>\$ 1,083,330,461</u>

Pledged revenues for the years ended September 30, 2010 and 2009 as defined by outstanding bond covenants are as follows:

	2010	2009
Tuition and fees	\$ 337,623,787	\$ 282,803,052
Sales and services of educational activities	13,602,206	12,227,393
Auxiliary sales and services	124,338,611	102,293,742
Investment income	95,748,091	84,182,886
Other operating revenue	38,837,737	28,668,563
Total pledged revenues	<u>\$ 610,150,432</u>	<u>\$ 510,175,636</u>

The University defeased certain indebtedness during 1997, 2003, and 2004. For these defeasances, funds were deposited in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreements, funds deposited in the trust accounts were invested in obligations of the U.S. Government. The University estimates that the amounts on deposit will be sufficient to satisfy the debt service requirements on the defeased indebtedness and that the defeasance will result in lower overall debt service payments to the University. Should the amounts on deposit not be sufficient to retire the defeased indebtedness upon maturity, the University would be responsible to satisfy the shortfall. The University remains legally obligated for the repayment of the defeased indebtedness. Neither the assets of the trust accounts nor the defeased indebtedness are included in the accompanying statements of net assets. The principal outstanding on the 1997, 2003 and 2004

defeased indebtedness at September 30, 2010 and September 30, 2009 is approximately \$23.5 million and \$27.9 million, respectively.

The University's general fee bonds are subject to certain covenants. These covenants, among other things, require the Board to adopt an annual budget; 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; and to comply with certain restrictions as to additional indebtedness. Based on pledged revenues received in fiscal year 2010 of \$610.2 million, the projected maximum annual debt service requirement of \$41.9 million in 2012 is covered approximately 14.6 times by pledged revenues. The University is in compliance with all restrictive financial covenants as of September 30, 2010.



The following is a detailed schedule of long-term debt as of September 30, 2010:

Description	Date Issued	Final Maturity	Interest Rate-%	Original Debt	Outstanding Debt
Bonds payable:					
General Fee Revenue Bond Series 1997	6/1/1997	6/1/2011	4.0-5.0	\$ 7,155,000	\$ 1,160,000
General Fee Revenue Bond Series 2001	12/1/2001	12/1/2026	2.75-5.0	34,645,000	27,170,000
General Fee Revenue Bond Series 2004A	7/1/2004	7/1/2034	4.0-5.25	215,995,000	213,410,000
General Fee Revenue Bond Series 2008A	8/1/2008	7/1/2034	3.0-5.0	45,425,000	44,000,000
General Fee Revenue Bond Series 2006A	9/1/2006	7/1/2036	4.125-5.0	40,575,000	40,145,000
General Fee Revenue Bond Series 2006B	9/1/2006	7/1/2023	5.22-5.9	23,750,000	19,735,000
General Fee Revenue Bond Series 2009A	10/30/2009	7/1/2039	5.14-6.28	135,425,000	135,425,000
General Fee Revenue Bond Series 2009B	10/30/2009	7/1/2021	1.25-5.14	48,060,000	45,645,000
General Fee Revenue Bond Series 2010A	7/1/2010	7/1/2040	2.0-5.875	16,495,000	16,495,000
Total bonds payable				<u>567,525,000</u>	<u>543,185,000</u>
Notes payable:					
U S Department of Education	7/20/1989	4/15/2019	3.0	3,188,000	1,325,102
Commercial finance co., CTF airplane	5/10/2005	5/10/2015	6.25	5,000,000	2,845,381
U.S. Department of Education	3/23/2000	1/1/2030	5.5	2,483,000	2,017,169
Geist LLC Promissory Note	1/24/2007	2/1/2021	6.0	1,800,000	1,380,773
CST LTD Promissory Note	1/5/2007	1/5/2012	7.0	1,100,000	440,000
Department of Mental Health	5/28/2010	12/1/2011	0.0	65,750,000	65,750,000
Total notes payable				<u>79,321,000</u>	<u>73,758,425</u>
Total bonds and notes payable				<u>\$ 646,846,000</u>	<u>\$ 616,943,425</u>

Note 9 – Self-Insurance

The University participates with other campuses in the System in a self-insurance program for general liability. 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 trust fund, at an actuarially determined rate, to provide funding for the retained risk. The accompanying statements include a reserve of approximately \$1.5 million and \$1.6 million for general liability at September 30, 2010 and 2009, respectively.

The University is self-insured for health insurance. The liability for unpaid claims includes an accrual for an estimate of claims incurred but not reported.

The changes in the total reported self-insurance liabilities for the years ended September 30, 2010 and 2009 are summarized as follows:

	2010	2009
Balance, beginning of year	\$ 1,789,000	\$ 1,846,000
Claims paid	(28,673,261)	(27,032,794)
Contributions	28,856,161	26,975,794
Balance, end of year	<u>\$ 1,971,900</u>	<u>\$ 1,789,000</u>



Note 10 – Retirement Plan

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 an optional program with the Teachers Insurance and Annuity Association – College Retirement Equities Fund ("TIAA – CREF") or The Variable Annuity Life Insurance Company ("VALIC"). TRS is a defined benefit plan while the TIAA-CREF and VALIC programs are defined contribution plans.

The TRS was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by the state-supported educational institutions. The responsibility for the general administration and operation of the 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 2.1025% of their final average salary (average of three highest years of annual compensation during the last ten 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. In addition, the University, as the employer, contributes to TRS. The total contribution requirement for fiscal year 2010, 2009, and 2008 was approximately \$44,926,000; \$42,041,000; and \$39,828,000, respectively, which consisted of \$32,097,000 from the University and \$12,829,000 from employees in 2010, \$29,727,000 from the University and \$12,314,000 from employees in 2009, and \$27,929,000 from the University and \$11,899,000 from employees in 2008. The University's contribution rate was 12.51%, 12.07%, and 11.75% for the fiscal years ended September 30, 2010, 2009 and 2008, respectively, of salaries and wages for covered employees. Covered employees are required by statute to contribute 5% of earned compensation to TRS. All regular employees of the University are members of TRS with the exception

of temporary employees.

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 and the actuarial valuation of assets at September 30, 2009 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were \$27,537,400,000 and \$20,582,300,000, respectively, resulting in an under-funded AAL of \$6,955,100,000. Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2009 annual financial report of TRS. That report is publicly available and may be obtained by contacting TRS.

As previously noted, some employees participate in the optional TIAA-CREF or VALIC 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 contribution is funded as it accrues and, along with that of employees, is immediately and fully vested. The contribution for fiscal years 2010 and 2009, excluding amounts not eligible for matching, was approximately \$14,365,000 and \$13,854,000, which included approximately \$7,182,500 and \$6,927,000 each from the University and its employees.

The University's total salaries and wages for fiscal years 2010 and 2009 were approximately \$310,960,100 and \$297,345,500, respectively. The total salaries and wages during the fiscal years 2010 and 2009, for covered employees participating in TRS, TIAA – CREF, and VALIC were approximately \$256,575,000 and \$246,286,000 and \$158,573,000 and \$152,946,000, respectively.

Note 11 – Post-Employment Benefits

Post-employment health care benefits are offered to all employees who officially retire from the University through the Alabama Retired Education Employees' Health Care Trust with TRS or 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. TRS offers health care benefits through a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board ("PEEHIP"). Retired employees age sixty-five or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer and 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.

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, 2010:

Retired Member Rates:

- Individual Coverage/Non-Medicare Eligible - \$97.54
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$284.94
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$188.54
- Individual Coverage/Medicare Eligible Retired Member - \$1.14
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$188.54
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$92.14

The required contribution rate of the employer was \$382 per employee per month in the year ended September

30, 2010. The University paid \$6.9 million and \$6.7 million for 1,538 and 1,473 retirees, respectively, for the years ended September 30, 2010 and 2009. The required contribution rate is determined by PEEHIP in accordance with state statute. The complete financial report for PEEHIP can be obtained by contacting the TRS Communication Department at 1-800-214-2158.

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.

Note 12 – 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. Depending on their payroll classification, some employees are also paid one-half of their unused accrued sick leave at their regular rate of pay. The statement of net assets includes an accrual of approximately \$18.4 million and \$16.7 million as of September 30, 2010 and 2009, respectively, for accrued vacation and sick leave.

Note 13 – Federal Direct Lending Program

The Federal Direct Student Loan Program ("FDSLP") was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During the years ended September 30, 2010 and 2009, respectively, the University disbursed approximately \$151.7 million and \$132.0 million, respectively, under the FDSLP.

Note 14 – Contingencies and Commitments

The University has sovereign immunity and is therefore, in the opinion of University 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. Some exceptions to the sovereign immunity doctrine exist, 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.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by such agencies, principally the United States Government. Any disallowed claims, including amounts already collected, may constitute a liability of the University. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the University expects any such amounts to be immaterial.



Note 15 – Operating Expenses by Function

In addition to their natural classifications, expenses are also classified by their functional classifications. Functional classifications are assigned to departments based on the nature of their activity, such as instruction, public service, institutional support, etc. Operating expenses by functional classification for the years ended September 30, 2010 and 2009 are summarized as follows:

2010 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 181,521,101	\$ -	\$ 29,203,739	\$ 11,029,866	\$ 221,754,706
Research	19,491,829	-	17,183,383	3,698,196	40,373,408
Public service	26,945,376	-	10,917,161	1,262,654	39,125,191
Academic support	46,002,887	-	30,883,644	6,852,612	83,739,143
Student services	22,280,484	-	11,493,499	2,330,610	36,104,593
Institutional support	48,563,495	-	12,408,546	11,573,618	72,545,659
Operations and maintenance	36,644,408	-	16,960,920	-	53,605,328
Scholarships and fellowships	-	13,275,279	-	-	13,275,279
Auxiliary enterprises	47,345,365	5,046,532	63,918,227	7,103,417	123,413,541
	<u>\$ 428,794,945</u>	<u>\$ 18,321,811</u>	<u>\$ 192,969,119</u>	<u>\$ 43,850,973</u>	<u>\$ 683,936,848</u>

2009 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 169,861,354	\$ -	\$ 33,484,821	\$ 10,232,133	\$ 213,578,308
Research	17,198,382	-	17,463,653	3,141,076	37,803,111
Public service	24,946,115	-	10,711,566	1,209,412	36,867,093
Academic support	44,696,185	-	26,704,436	6,404,494	77,805,115
Student services	20,787,273	-	10,441,440	2,178,323	33,407,036
Institutional support	49,418,385	-	9,428,716	10,582,573	69,429,674
Operations and maintenance	35,222,224	-	6,702,204	-	41,924,428
Scholarships and fellowships	-	13,630,942	-	-	13,630,942
Auxiliary enterprises	43,313,575	3,170,577	58,964,510	6,920,354	112,369,016
	<u>\$ 405,443,493</u>	<u>\$ 16,801,519</u>	<u>\$ 173,901,346</u>	<u>\$ 40,668,365</u>	<u>\$ 636,814,723</u>

Note 16 – Other Noncurrent Assets and Liabilities

The composition of other noncurrent assets at September 30, 2010 and 2009 is summarized as follows:

	2010	2009
Receivable from The Capstone Foundation	\$ 8,349,981	\$ 8,299,084
Intangible assets	5,392,905	5,550,637
Other	3,357,262	2,599,708
	<u>\$ 17,100,148</u>	<u>\$ 16,449,429</u>

The receivable from The Capstone Foundation relates to the Eminent Scholars Program established by the State of Alabama Act No. 85-759 and administered by the Alabama Commission on Higher Education. The program provides that donor gifts of \$600,000 held in a foundation affiliated with the University are eligible for \$400,000 in State matching funds. In prior years, the University received funds from donors intended to be matched in accordance with this program. Consistent with the provision of the program, the University transferred the corpus of these funds to The Capstone Foundation in 1992, as agent for the University, whereby the State would match these donations. The program

has been inactive since 1997, and no matching funds have been provided to date. These funds held by the Capstone Foundation include both the corpus and any unrealized gains earned thereon and are shown as a receivable from the Capstone Foundation. Unrealized gains earned each year on the corpus are added to the receivable and reported as investment income by the University. Realized gains and investment income earned each year on the corpus amount are distributed to the University and reported as investment income.

The activity with respect to other noncurrent liabilities for the years ended September 30, 2010 and 2009, is as

	2010	2009
Federal loan funds		
Federal refundable loans, beginning of year	\$ 9,971,933	\$ 9,792,124
Deposits received	1,795,772	282,187
Deposits disbursed	(3,673,299)	(102,378)
Federal refundable loans, end of year	<u>\$ 8,094,406</u>	<u>\$ 9,971,933</u>
Other liabilities		
Split interest agreement obligations, beginning of year	\$ 3,946,735	\$ 5,230,627
New annuities	96,112	49,920
Terminated annuities	-	-
Investment income (loss)	(185,672)	(81,219)
Payments on obligations	(442,492)	(466,170)
Actuarial change in obligations	769,207	(786,423)
Total split interest agreement obligations	<u>4,183,890</u>	<u>3,946,735</u>
Less current portion	<u>(450,457)</u>	<u>(418,580)</u>
Split interest agreement obligations, end of year, noncurrent portion	<u>3,733,433</u>	<u>3,528,155</u>
General liability trust fund liability	1,546,204	1,556,365
Total other liabilities	<u>\$ 5,279,637</u>	<u>\$ 5,084,520</u>

Note 17 – Grants and Contracts

At September 30, 2010, the University had been awarded approximately \$103,202,496 in grants and contracts which had 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 as of and for the year ended September 30, 2010.

During fiscal year 2010, the University continued receiving and expending federal funding under the American Recovery and Reinvestment Act (ARRA), primarily in the form of sponsored research grants and State Fiscal Stabilization Funds. Approximately \$17.5 million was expended, with approximately \$14.7 million of that provided to the University through State Fiscal Stabilization Funds. Based on awards received during fiscal years 2009 and 2010, ARRA expenditures are expected to be higher in fiscal year 2011.

Note 18 – Subsequent Events

The University issued the Series 2010 B, C, and D General Revenue Bonds on November 9, 2010 totaling \$149,460,000. The proceeds from these bond issuances will fund various capital projects.

Note 19 – Recently Issued Pronouncements

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, (“GASB 51”) in June 2007. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce historical inconsistencies in accounting for intangible assets by governmental organizations, thereby enhancing the comparability of the accounting and financial reporting of such assets among governmental organizations. The Statement is effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. The University has determined there was no material impact from the University’s adoption of GASB Statement No. 51.

The GASB issued Statement No. 59, *Financial Instruments Omnibus*, (“GASB 59”) 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 is not currently expected to 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*, (“GASB 61”) in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The*

Financial Reporting Entity, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements—and Management’s 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*, (“GASB 62”) 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 supercedes 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.

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