



THE UNIVERSITY OF ALABAMA  
FINANCIAL REPORT  
*2010-2011*



# 2010-2011 Financial Report

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## Report of Independent Auditors

To the Board of Trustees of The University of Alabama:

In our opinion, based on our audits and the report of other auditors, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of The University of Alabama (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, 2011 and 2010, 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 opinions on these financial statements based on our audits. We did not audit the financial statements of the Capstone Health Services Foundation, a discretely presented component unit of the University, which statements collectively represent 0.4% and 1.0%, respectively, of the assets and net assets of the University, and 4.2% and 9.9%, respectively, of the assets and net assets of the University's aggregate discretely presented component units as of September 30, 2010 and for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for the Capstone Health Service Foundation as of September 30, 2010 and for the year then ended, is based solely on the report of other auditors. 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 and the report of other auditors 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, 2011 and 2010, 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.

As discussed in Note 2, the University restated its financial statements as of and for the year ended September 30, 2010, due to a change in reporting entity related to its discretely presented component units that occurred during fiscal year 2011.

The management's discussion and analysis on pages 4 through 16 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the University's financial statements. The enrollment information on page 17 is presented for purposes of additional analysis and is 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 23, 2012

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# 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, 2011 and 2010. 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; and 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 an-

nual 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 seven primary financial statements and notes to the financial statements. The financial statements of six 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 recently issued statements of the Governmental Accounting Standards Board ("GASB").

### 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, 2011 and 2010.

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, 2011, the University's assets exceeded \$2.7 billion, liabilities were \$1.1 billion leaving net assets of \$1.6 billion, an overall increase in net assets of \$80.3 million from 2010.

## The University's Assets

The University's cash and cash equivalents include both current and noncurrent balances of \$74.5 million and \$3.6 million, respectively, at the end of 2011. 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 increased \$63.8 million in 2011 from the prior year principally due to cash retained in short-term funds for the purpose of meeting immediate upcoming cash needs and due to the receipt of \$26.4 million of restricted cash held by the University as agent for the construction of a new adult psychiatric facility of the Alabama Department of Mental Health. Total cash and cash equivalents decreased \$33.5 million in 2010 principally due to withdrawals to fund operating expenditures.

Accounts receivable experienced an increase of approximately \$8.4 million in fiscal year 2011, largely as a result of increased enrollment and related student receivable accounts. Headcount enrollment for Fall 2010 increased 4.95% with 1,425 additional students attending the University. The current portion of notes receivable experienced a modest increase of \$0.3 million primarily from the issuance of additional Greek housing loans. In conjunction with those loans, noncurrent notes receivable increased \$9.9 million. This follows a slight decrease in noncurrent notes receivable of \$2.2 million in fiscal year 2010 for payments received on the Greek housing loans and payment on the 1831 Foundation note due to the University.

Pledges receivable (current and noncurrent) increased \$0.8 million in 2011 to \$33.5 million from \$32.7 million in 2010. 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. Because the State is mandated by its constitution to operate with a balanced budget, the State at times has reduced its appropriations, through a process known as proration, when its annual revenues are not expected to meet its own budget. Proration of 3% was implemented in the 2011 fiscal year and 9.5% in 2010. 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.

## Condensed Statements of Net Assets

	September 30,		
	2011	2010	2009
<b>Current assets</b>			
Cash and cash equivalents	\$ 74,498,484	\$ 10,341,562	\$ 43,361,763
Short-term investments	213,353,837	284,426,135	159,002,311
Accounts receivable, net	95,528,816	87,099,149	68,448,566
Other current assets	66,905,630	53,590,945	48,785,571
<b>Noncurrent assets</b>			
Endowment, life income and other investments	1,040,630,540	900,120,799	664,955,708
Capital assets, net	1,126,752,587	1,028,387,343	905,807,015
Other noncurrent assets	86,199,825	76,216,253	80,478,723
Total assets	<u>2,703,869,719</u>	<u>2,440,182,186</u>	<u>1,970,839,657</u>
<b>Current liabilities</b>	377,380,141	295,824,349	235,959,365
<b>Noncurrent liabilities</b>	711,851,414	610,016,347	368,335,069
Total liabilities	<u>1,089,231,555</u>	<u>905,840,696</u>	<u>604,294,434</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	598,396,659	535,715,079	544,163,550
Restricted	591,311,502	602,149,736	551,371,498
Unrestricted	424,930,003	396,476,675	271,010,175
Total net assets	<u>\$ 1,614,638,164</u>	<u>\$ 1,534,341,490</u>	<u>\$ 1,366,545,223</u>

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Total combined investments increased \$69.4 million from 2010 to 2011, primarily as a result of the 2010 B, C and D bond proceeds received for capital projects and not yet expended as of September 30, 2011 of \$113.7 million offset by market losses of \$49.5 million. In 2010, total combined investments increased \$360.6 million principally due to the acquisition of the Bryce Property at a value of \$87.4 million and the receipt of \$200.0 million in proceeds from the issuance of the 2009A, 2009B, and 2010A General Revenue Bonds.

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 decreased \$71.1 million in 2011, as a result of increased funds held in cash reserves for operating purposes as well as the liquidation of certain short-term investments, belonging to The Crimson Tide Foundation ("CTF"), which were subsequently invested in the System Prime Fund and held for long-term uses. The Prime Fund is reported on the Statements of Net Assets as Other Long-Term Investments.

Capital assets include land and land improvements, infrastructure, buildings and improvements, equipment, construction in progress, library materials, collections and intangible assets. Capital assets increased \$98.4 million in 2011, net of annual depreciation, from \$1.0 billion in 2010 to \$1.1 billion in 2011. Capital assets increased \$122.6 million in 2010 from \$905.8 million in 2009. 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 2011 included the Science and Engineering Building Phase III (\$41.7 million), North Bluff Residential Community (\$23.5 million), East Quad Energy Plant (\$12.6 million), Science and Engineering Building Phase IV (\$6.9 million), and Foster Auditorium Renovation/Expansion (\$3.0 million).

Major capital expenditures in 2010 included 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).

Contributing to the make-up of other noncurrent assets not discussed above, 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 2011, the University's receivable from The Capstone Foundation Investment for the Eminent Scholars Program decreased \$0.5 million from \$8.4 million in 2010 to \$7.9 million in 2011, the result of unrealized losses at year end. Intangible assets, net of accumulated amortization, totaling \$4.1 million and \$3.2 million, at September 30, 2011 and 2010 respectively, also make up a portion of other noncurrent assets.

## 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 \$377.4 million in 2011 compared to \$295.8 million in 2010, an increase of \$81.6 million resulting from increases in the aforementioned items and increases in the current

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portion of long-term debt and deposits. The increase in deposits stems from the aforementioned receipt of restricted cash from the State of Alabama Department of Mental Health, for which the University is residing as agent for the construction of a new adult psychiatric facility. The balance of these funds at September 30, 2011 totaled \$26.4 million. Fiscal year 2010 saw an increase in current liabilities of \$59.8 million from \$236.0 million in 2009; this increase is contributed to a rise in the current portion of long-term debt due to the Bryce Property acquisition and the 2009A, 2009B and 2010A bond issuances.

During 2011, noncurrent liabilities rose \$101.8 million, most of which occurred in the long-term debt category and related to the issuance of the 2010B, 2010C and 2010D bonds. Fiscal year 2010 saw an increase of \$241.7 million, of which, \$227.7 million stemmed from the acquisition of the Bryce Property and the issuances of the 2009A, 2009B and 2010A bonds.

## 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 \$80.3 million, or 5.23%, during the 2011 year, exceeding \$1.6 billion. This follows a 12.3% increase of \$167.8 million in fiscal year 2010, and a 2.8% increase of \$37.1 million in 2009.

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, increased \$62.7 million, from \$535.7 million in 2010 to \$598.4 million in 2011. The prior year saw a decrease of \$8.5 million over 2009.

Restricted nonexpendable net assets increased approximately \$29.1 million because of additions to true endowments. This net asset type encompasses true endowments and life income/annuities. In the prior year, restricted nonexpendable net assets experienced growth of \$15.5 million.

Restricted expendable net assets decreased \$39.9 million in 2011, primarily due to endowment losses and restricted plant project expenditures. 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 rose \$28.5 million during the 2011 year primarily due to auxiliary activities and the receipt of unrestricted gifts. This change follows a \$125.5 million increase during the 2010 fiscal year resulting from bond proceeds, unrestricted unrealized gains, and housing income. Unrestricted net assets were used to fund construction projects in fiscal year 2009 and later replenished when bond proceeds were received in fiscal year 2010. The 2010 increase followed a decrease in unrestricted net assets of \$16.5 million in 2009.



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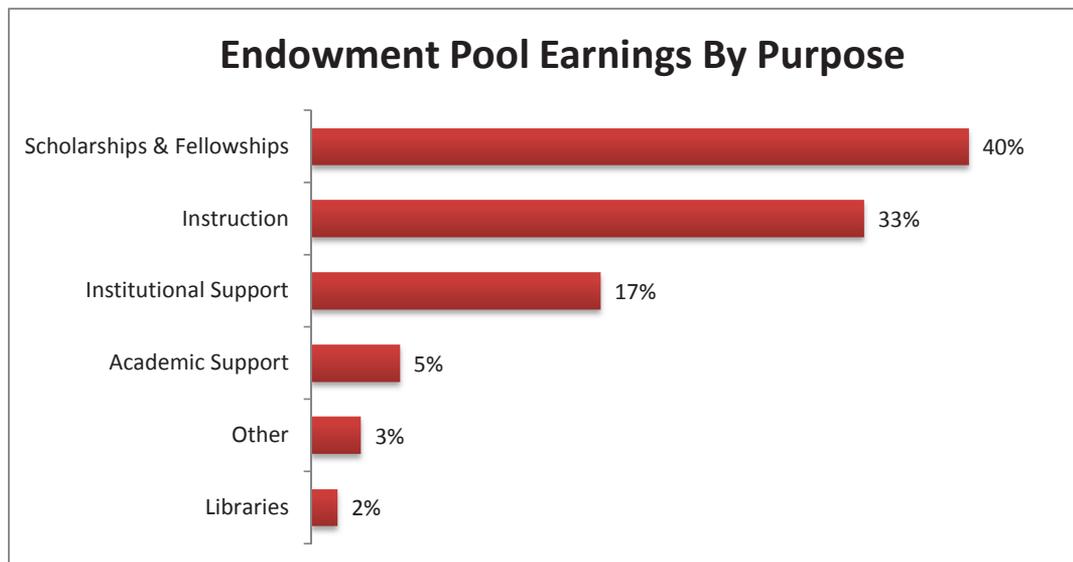
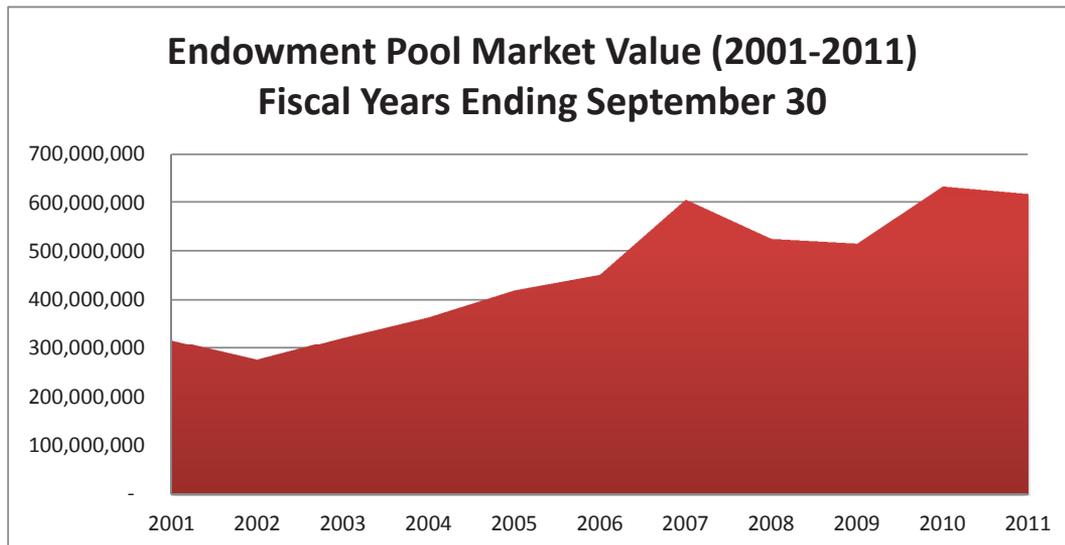
## University Endowments

The University's endowments experienced a decline of \$15.0 million in fiscal year 2011 with a September 30 value of \$616.9 million. Volatile market activity during the final quarter of the fiscal year resulted in heavy unrealized losses at year-end. 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.

Over seventy-eight percent of all endowment earnings during the 2011 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 educational 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. Nonoperating revenues and expenses also include private gifts for other than capital purposes, Federal Pell grants, investment income, net unrealized appreciation or depreciation in the fair value of investments and interest expense.

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,

	2011	2010	2009
Operating revenues			
Tuition and fees	\$ 378,045,840	\$ 337,623,787	\$ 282,803,052
Less: scholarship allowances	(89,512,958)	(73,467,255)	(54,898,543)
Tuition and fees, net	288,532,882	264,156,532	227,904,509
Sponsored programs	80,508,623	68,583,560	65,287,492
Sales and services of educational activities	11,836,707	13,602,206	12,227,393
Auxiliary sales and services, net	122,446,271	124,338,611	102,293,742
Other operating revenues	41,465,749	38,837,737	28,668,563
Total operating revenues	544,790,232	509,518,646	436,381,699
Operating expenses	721,073,120	683,936,848	636,814,723
Operating loss	(176,282,888)	(174,418,202)	(200,433,024)
Nonoperating revenues (expenses)			
State educational appropriations	137,427,195	138,540,845	156,521,464
State fiscal stabilization funds	14,699,372	14,699,372	-
Gifts	53,594,605	45,811,070	47,104,474
Grants	30,492,746	26,228,993	18,091,025
Investment income, net	1,125,350	130,274,948	1,257,811
Interest expense	(35,340,619)	(24,948,682)	(17,939,615)
Other nonoperating expenses, net	(1,812,839)	(745,051)	(196,014)
Net nonoperating revenues	200,185,810	329,861,495	204,839,145
Income before other changes in net assets	23,902,922	155,443,293	4,406,121
Other changes in net assets			
Capital appropriations	20,257,391	15,939,908	9,749,544
Capital gifts and grants	26,900,828	28,956,006	8,766,955
Additions to permanent endowments	16,623,409	16,208,005	16,369,994
Intragovernmental transfers	(7,387,876)	(48,750,945)	(2,242,104)
Increase in net assets	80,296,674	167,796,267	37,050,510
Net assets, beginning of year	1,534,341,490	1,366,545,223	1,329,494,713
Net assets, end of year	\$ 1,614,638,164	\$ 1,534,341,490	\$ 1,366,545,223

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The statement of revenues, expenses and changes in net assets (the "SRECNA") presents the increase in net assets of \$80.3 million, \$167.8 million, and \$37.1 million, for the fiscal years ended September 30, 2011, 2010, and 2009, respectively. As noted in the SRECNA, the University experienced operating losses in all fiscal years presented of \$176.3 million, \$174.4 million, and \$200.4 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. Increases in tuition rates have reduced operating losses as State appropriations have decreased over recent years.

## Operating Revenues

Tuition and fees revenue, net of scholarship allowances, increased \$24.4 million to \$288.5 million in 2011 from \$264.2 million in 2010 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. 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 \$6.5 million and \$1.9 million in 2011 and 2010, respectively. State and local grants and contracts decreased \$129,000 collectively, while private grants and contracts increased by approximately \$5.6 million. During fiscal year 2011, 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 \$20.9 million was expended, with approximately \$14.7 million of that provided to the University through State Fiscal Stabilization Funds. As the State Fiscal Stabilization Funds were fully expended as of the end of fiscal year 2011 and many other ARRA projects have been or will soon be completed, revenues related to ARRA are expected to be lower in fiscal year 2012.

The University's auxiliary activities are comprised of Intercollegiate Athletics, food service, housing, supply store, telecommunications, and other miscellaneous auxiliary enterprises. Auxiliary income decreased \$1.9 million in 2011 over the prior year, primarily from the growth in scholarship allowances allocable to auxiliary sales and services. Residence halls, the UA 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 2010 over the prior year.

The \$2.6 million increase in other operating revenues for 2011 results primarily from the first full year of reporting operations for the Capstone Village, which was acquired by the University in the spring of 2010. In fiscal year 2010, other operating revenues experienced a \$10.2 million increase due to CTF revenue, Capstone Village, and management fees received from Ridgecrest Student Housing.

## Non-Operating Revenues and Expenses

The University's non-operating revenues assist in offsetting the University's operating loss of \$176.3 million for 2011. In fiscal year 2011, the University received \$137.4 million in State educational appropriations for operating purposes, \$53.6 million in private gifts, and \$1.1 million in net investment income. In fiscal year 2010, the University received \$138.5 million in State educational appropriations (a decrease of 11.5% or \$18.0 million) to be used for operating purposes, \$45.8 million in private gifts, and \$130.3 million in net investment income. In 2009, the University received \$156.5 million in State educational appropriations, \$47.1 million in private gifts and net investment income totaling \$1.3 million.

Gift revenues increased in 2011 by \$7.8 million, followed by a \$1.3 million decrease in fiscal year 2010, and a \$13.1 million increase in fiscal year 2009. The primary influence on the 2011 increase in gift revenue stems from gifts and pledges in support of Greek Housing capital gift campaigns. \$1.7 million in outside gifts were received for the UA Acts of Kindness gift fund, which provides financial assistance to eligible faculty, staff, and students of the University who experience a qualifying emergency or hardship. In addition to the gifts received, CTF transferred \$1.0 million to the fund in response to the tornado on April 27, 2011.

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 \$1.9 million and \$6.1 million in 2011 and 2010, respectively, principally as a result of increased enrollment and regulatory changes in the Pell grant program. Also included in nonoperating grants are Build America Bonds interest reimbursements which rose from \$1.9 million in 2010 to \$4.1 million in fiscal year 2011.

## Operating Expenses

Investment income decreased \$129.1 million to \$1.1 million, in the 2011 fiscal year. This follows an increase of \$129.2 million in 2010, which reflected positive market growth after a tumultuous ending for September 30, 2009 and a \$61.6 million adjustment to record the Bryce Property at fair value since it was initially recorded at its historical book value at acquisition of \$25.8 million. Both investment and endowment income, are combined as investment income on the statement of revenues, expenses and changes in net assets. Unrealized losses on endowment investments were responsible for the largest portion of the decrease, a \$122.1 million swing in 2011 from the prior year.

Salaries, wages and benefits increased \$37.8 million to \$466.6 million in 2011 from \$428.8 million in 2010, which was a \$23.4 million increase over 2009. The University maintains a competitive salary base to attract and retain talented faculty, staff and graduate students. During fiscal year 2011, \$26.4 million of the increase was attributable to compensation while \$11.4 million resulted from higher benefit costs.

Supplies and other services experienced a modest increase of \$3.3 million. A portion of this increase is attributable to the first complete year of Capstone Village's inclusion in the University's financials.

### Operating Expenses (by natural classification)

	Year ended September 30,		
	2011	2010	2009
Salaries, wages and benefits	\$ 466,596,025	\$ 428,794,945	\$ 405,443,493
Scholarships and fellowships	10,323,158	18,321,811	16,801,519
Supplies and other services	196,249,994	192,969,119	173,901,346
Depreciation	47,903,943	43,850,973	40,668,365
Total operating expenses	\$ 721,073,120	\$ 683,936,848	\$ 636,814,723



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.

### 2011 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 198,263,706	\$ -	\$ 28,701,392	\$ 13,561,683	\$ 240,526,781
Research	21,531,790	-	21,940,792	4,434,742	47,907,324
Public Service	28,931,275	-	10,362,884	1,409,479	40,703,638
Academic Support	50,743,826	-	14,516,542	8,315,400	73,575,768
Student Services	24,473,103	-	12,944,373	3,089,421	40,506,897
Institutional Support	51,923,837	-	9,674,143	3,239,940	64,837,920
Operations and Maintenance	39,963,760	-	35,978,355	-	75,942,115
Scholarships and Fellowships	-	6,846,500	-	-	6,846,500
Auxiliary Enterprises	50,764,728	3,476,658	62,131,513	13,853,278	130,226,177
	<u>\$ 466,596,025</u>	<u>\$ 10,323,158</u>	<u>\$ 196,249,994</u>	<u>\$ 47,903,943</u>	<u>\$ 721,073,120</u>

### 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	\$ 12,355,969	\$ 223,080,809
Research	19,491,829	-	17,183,383	4,142,825	40,818,037
Public Service	26,945,376	-	10,917,161	1,414,461	39,276,998
Academic Support	46,002,887	-	14,605,702	7,676,491	68,285,080
Student Services	22,280,484	-	11,493,499	2,610,815	36,384,798
Institutional Support	48,185,520	-	9,883,690	3,008,931	61,078,141
Operations and Maintenance	36,644,408	-	33,238,862	-	69,883,270
Scholarships and Fellowships	-	13,145,006	-	-	13,145,006
Auxiliary Enterprises	47,723,340	5,176,805	66,443,083	12,641,481	131,984,709
	<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>

## Other Changes in Net Assets

Capital gifts and grants have fluctuated somewhat over the three years presented in the condensed SRECNA. Fiscal year 2011 experienced a slight decrease due to the receipt of the A.S. Williams III collection in the prior year, valued at \$4.8 million. In addition to the Williams collection, 2010 also saw increased federal funding of \$19.9 million for capital grants, particularly phase three of the Science and Engineering Building and the Capstone College of Nursing. The University

maintained funding for Science and Engineering phase three and secured additional funding for phase four in the 2011 year. This funding, coupled with \$13.9 million in State capital appropriations, served to facilitate the ongoing construction of the Science and Engineering complex. The remainder of State capital appropriations was used for renovations, restoration and upgrades in multiple capital projects, including roof replacements, HVAC upgrades, and exterior restorations.

The other significant activity classified on the SRECNA as “other changes in net assets” includes additions to permanent endowments, which remained fairly constant in the 2011 fiscal year, and intragovernmental transfers. With the exception of 2010, intragovernmental transfers are typically limited to transactions with the Crimson Tide Foundation, a blended component unit of the University. In 2010, an intragovernmental transfer occurred between the University and the State of Alabama Department of Mental Health related to the purchase of the Bryce Property, which consisted of 168 acres of property and related buildings, contiguous to the University campus. 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. 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.

## Capital Assets and Debt Administration

At September 30, 2011, the University had \$1.6 billion invested in gross capital assets and accumulated depreciation of \$497.9 million. Depreciation expense totaled \$47.9 million for the current fiscal year. Land improvements increased \$5.1 million while Construction in Progress increased \$86.3 million. The following schedule summarizes the University’s capital assets, net of accumulated depreciation.

### Capital Assets, Net of Accumulated Depreciation

	2011	2010	2009
Land	\$ 17,371,572	\$ 13,698,674	\$ 13,687,174
Land Improvements	30,013,837	24,996,047	25,401,067
Infrastructure	22,260,247	20,922,649	20,826,657
Buildings and Fixed Equipment	840,622,889	837,428,467	715,956,360
Construction in Progress	132,919,774	46,630,106	45,575,429
Equipment	34,900,027	33,364,447	31,102,600
Library Materials & Collections	29,326,590	31,086,314	25,032,840
Intangible Assets	19,337,651	20,260,639	28,224,888
	<u>\$ 1,126,752,587</u>	<u>\$ 1,028,387,343</u>	<u>\$ 905,807,015</u>





Capital asset expenditures for fiscal year 2011 (in millions):

- Science & Engineering Building Phase III \$41.7
- North Bluff Residential Community \$23.5
- East Quad Energy Plant \$12.6
- Science & Engineering Building Phase IV \$6.9
- Foster Auditorium Renovation \$3.0

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
- Ridgcrest Residential Site Development and Support \$5.8
- Capstone College of Nursing \$5.5
- Jones Archaeology Museum \$2.8

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

In November 2010, the University issued the Series 2010B Recovery Zone Economic Development Bonds (\$18.0 million), and the 2010C and 2010D Build America Bonds (\$100.4 million and \$31.0 million, respectively). The purpose of these bonds is to finance the cost of certain capital improvements. Standard & Poor's Credit Markets Service and Moody's Investors Service assigned ratings of 'AA-' and 'Aa2', respectively, for the 2010B, C, and D series.

At September 30, 2011, the University had \$725.9 million of debt outstanding, \$43.3 million of which was classified as current. The large majority of debt obligations bear interest at fixed rates ranging from 0.0% to 6.3% 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

	2011	2010	2009
Bonds Payable	\$ 676,115,000	\$ 543,185,000	\$ 352,915,000
Notes Payable	49,745,783	73,758,425	8,978,027
	<u>\$ 725,860,783</u>	<u>\$ 616,943,425</u>	<u>\$ 361,893,027</u>

### 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

	2011	2010	2009
Cash received from operations	\$ 566,663,709	\$ 523,927,080	\$ 449,389,983
Cash payments from operations	(679,755,274)	(633,472,046)	(602,573,390)
Net cash used in operating activities	(113,091,565)	(109,544,966)	(153,183,407)
Net cash provided by noncapital financing activities	271,376,574	243,790,719	239,707,534
Net cash (used in) provided by capital and related financing activities	(15,655,155)	53,622,640	(117,911,974)
Net cash (used in) provided by investing activities	(78,864,642)	(221,373,179)	74,022,093
Net increase (decrease) in cash and cash equivalents	63,765,212	(33,504,786)	42,634,246
Cash and cash equivalents, beginning of year	14,351,926	47,856,712	5,222,466
Cash and cash equivalents, end of year	<u>\$ 78,117,138</u>	<u>\$ 14,351,926</u>	<u>\$ 47,856,712</u>

In 2011, the University used \$113.1 million of cash for operating activities, while \$271.4 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 \$109.5 million of cash for operating activities in 2010, offset by approximately \$243.8 million of cash provided by noncapital financing activities. Similarly, in 2009, \$153.2 million of cash used for operating activities was offset by \$239.7 million in cash provided by noncapital financing activities.

Cash of \$15.6 million was used in capital and related financing activities in 2011, while \$53.6 million was provided by these activities in 2010. Cash used in investing activities totaled \$78.9 million and \$221.4 million in 2011 and 2010, respectively. Cash provided by investing activities totaled \$74.0 million in 2009.

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## 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 3% was enacted in fiscal year 2011, 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, 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.

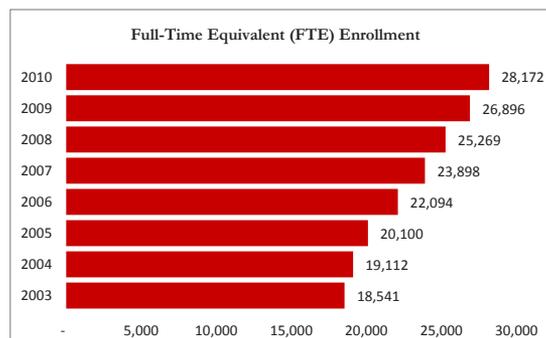
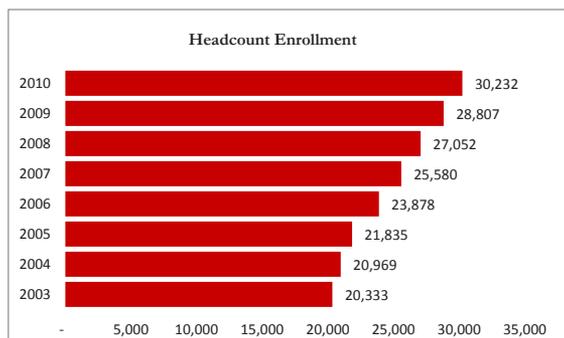
The University's private support is fundamental in meeting budgetary needs. Gifts received are testaments to the high regard in which alumni, corporations, foundations and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality 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.

## 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.

## Enrollment and Statistics\*

Headcount enrollment at the University reached 30,232 in Fall 2010, a significant increase of 1,425, while Full-time equivalent (“FTE”) enrollment totaled 28,172, an increase of 1,276. The chart below displays counts taken for each fall semester; the last of which (2010), demonstrates enrollment figures occurring for the fall semester of the 2011 fiscal year.



### The University of Alabama Statistical Highlights Fall Semester

Fall Headcount Enrollment	2010	2009	2008	2007	2006	2005	2004	2003	2002
Undergraduate	24,884	23,702	22,343	21,082	19,474	17,553	16,571	15,892	15,452
Graduate	4,726	4,473	3,978	3,851	3,781	3,687	3,756	3,763	3,542
Professional	622	632	731	647	623	595	642	678	639
<b>Total Fall Enrollment</b>	<b>30,232</b>	<b>28,807</b>	<b>27,052</b>	<b>25,580</b>	<b>23,878</b>	<b>21,835</b>	<b>20,969</b>	<b>20,333</b>	<b>19,633</b>

Fall First-Time Freshman Admissions	2010	2009	2008	2007	2006	2005	2004	2003	2002
Applications	20,112	19,518	18,500	14,313	12,513	10,707	9,106	8,298	7,322
Admits	10,790	11,194	11,172	9,140	8,766	7,755	7,021	7,194	6,196
Enrolled	5,519	5,116	5,116	4,538	4,378	3,735	3,368	3,077	2,655
Percent Admitted	53.7%	57.4%	60.4%	63.9%	70.1%	72.4%	77.1%	86.7%	84.6%
Percent Enrolled	51.2%	45.7%	45.8%	49.6%	49.9%	48.2%	48.0%	42.8%	42.9%

Degrees Conferred Academic Years Ending May	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Baccalaureate	4,463	4,284	3,713	3,398	3,131	2,815	2,931	3,024	2,892
Master's	1,513	1,287	1,265	1,237	1,183	1,151	1,283	1,072	1,070
Educational Specialist	44	52	51	83	62	50	107	103	60
First Professional	159	171	172	154	152	172	183	172	165
Doctoral	242	209	192	191	160	181	154	158	178
<b>Total Degrees Conferred</b>	<b>6,421</b>	<b>6,003</b>	<b>5,393</b>	<b>5,063</b>	<b>4,688</b>	<b>4,369</b>	<b>4,658</b>	<b>4,529</b>	<b>4,365</b>

Academic Years Ending May	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Undergraduate In-State Academic									
Year Tuition	\$7,900	\$7,000	\$6,400	\$5,700	\$5,278	\$4,864	\$4,630	\$4,134	\$3,556
Percent Increase Over Prior Year	12.9%	9.4%	12.3%	8.0%	8.5%	5.1%	12.0%	16.3%	8.0%

\*Data provided by the Office of Institutional Research

**The University of Alabama**  
**Statements of Net Assets**  
September 30, 2011 and 2010

	2011	2010
<b>Current assets</b>		
Unrestricted cash and cash equivalents	\$ 48,118,588	\$ 4,843,038
Restricted cash and cash equivalents	26,379,896	5,498,524
Short-term investments	213,353,837	284,426,135
Accounts receivable, net	95,528,816	87,099,149
Current portion of notes receivable, net	3,669,701	3,368,918
Current portion of student loans receivable	2,050,423	2,292,669
Current portion of pledges receivable	9,630,926	8,018,042
Inventories	6,477,222	6,313,739
Prepaid and deferred expenses	43,875,038	32,679,255
Other current assets	1,202,320	918,322
<b>Total current assets</b>	450,286,767	435,457,791
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	3,618,654	4,010,364
Endowment, and life income investments	616,925,376	631,947,260
Investments for capital activities	264,758,927	167,044,917
Other long-term investments	158,946,237	101,128,622
Notes receivable, net	37,656,517	27,736,996
Student loans receivable, net	8,612,203	8,053,311
Pledges receivable, net	23,866,050	24,708,339
Capital assets, net	1,126,752,587	1,028,387,343
Other noncurrent assets	12,446,401	11,707,243
<b>Total noncurrent assets</b>	2,253,582,952	2,004,724,395
<b>Total assets</b>	\$ 2,703,869,719	\$ 2,440,182,186
 <b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 116,960,727	\$ 92,547,496
Current portion of deferred revenue	180,458,353	150,155,625
Deposits	36,667,789	17,493,586
Current portion of long-term debt	43,293,272	35,627,642
<b>Total current liabilities</b>	377,380,141	295,824,349
<b>Noncurrent liabilities</b>		
Federal refundable loans	8,069,170	8,094,406
Other liabilities	5,246,843	5,279,637
Deferred revenue	16,273,593	15,654,277
Long-term debt, net	682,261,808	580,988,027
<b>Total noncurrent liabilities</b>	711,851,414	610,016,347
<b>Total liabilities</b>	1,089,231,555	905,840,696
<b>Net assets</b>		
Invested in capital assets, net of related debt	598,396,659	535,715,079
Restricted		
Nonexpendable	311,521,231	282,418,649
Expendable	279,790,271	319,731,087
Unrestricted	424,930,003	396,476,675
<b>Total net assets</b>	1,614,638,164	1,534,341,490
<b>Total liabilities and net assets</b>	\$ 2,703,869,719	\$ 2,440,182,186

*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, 2011 and 2010

	2011	2010
<b>Operating revenues</b>		
Tuition and fees	\$ 378,045,840	\$ 337,623,787
Less: scholarship allowances	(89,512,958)	(73,467,255)
Tuition and fees, net	288,532,882	264,156,532
Federal grants and contracts	48,829,717	42,367,250
State grants and contracts	21,552,559	21,476,009
Local grants and contracts	268,978	474,619
Private grants and contracts	9,857,369	4,265,682
Sales and services of educational activities	11,836,707	13,602,206
Auxiliary sales & services, net of \$7,455,018 in 2011 and \$6,207,088 in 2010 of scholarship allowances	122,446,271	124,338,611
Other operating revenues	41,465,749	38,837,737
<b>Total operating revenues</b>	544,790,232	509,518,646
<b>Operating expenses</b>		
Salaries, wages and benefits	466,596,025	428,794,945
Scholarships and fellowships	10,323,158	18,321,811
Supplies and other services	196,249,994	192,969,119
Depreciation	47,903,943	43,850,973
<b>Total operating expenses</b>	721,073,120	683,936,848
<b>Operating loss</b>	(176,282,888)	(174,418,202)
<b>Nonoperating revenues (expenses)</b>		
State educational appropriations	137,427,195	138,540,845
State fiscal stabilization funds	14,699,372	14,699,372
Gifts	53,594,605	45,811,070
Grants	30,492,746	26,228,993
Investment income, net	1,125,350	130,274,948
Interest expense	(35,340,619)	(24,948,682)
Other nonoperating expenses, net	(1,812,839)	(745,051)
<b>Net nonoperating revenues</b>	200,185,810	329,861,495
<b>Income before other changes in net assets</b>	23,902,922	155,443,293
<b>Other changes in net assets</b>		
State capital appropriations	20,257,391	15,939,908
Capital gifts and grants	26,900,828	28,956,006
Additions to permanent endowments	16,623,409	16,208,005
Intragovernmental transfers	(7,387,876)	(48,750,945)
<b>Increase in net assets</b>	80,296,674	167,796,267
<b>Net assets, beginning of year</b>	1,534,341,490	1,366,545,223
<b>Net assets, end of year</b>	\$ 1,614,638,164	\$ 1,534,341,490

*See accompanying notes to financial statements.*

**The University of Alabama**  
**Statements of Cash Flows**  
September 30, 2011 and 2010

	2011	2010
<b>Cash flows from operating activities</b>		
Student tuition and fees, net	\$ 311,212,969	\$ 268,793,244
Grants and contracts	78,260,067	70,776,986
Receipts from sales and services of:		
Educational activities	12,872,713	13,604,869
Other receipts	40,885,996	40,785,669
Auxiliary enterprises	123,431,964	127,640,617
Other disbursements	(4,795,111)	(305,096)
Payments to suppliers	(193,451,399)	(181,800,641)
Payments to employees	(459,640,320)	(428,522,111)
Payments for scholarships and fellowships	(21,551,799)	(22,844,198)
Student loan (disbursements) collections	(316,645)	2,325,695
<b>Net cash used in operating activities</b>	(113,091,565)	(109,544,966)
<b>Cash flows from noncapital financing activities</b>		
State educational appropriations	137,427,195	138,540,845
Private gifts	69,022,906	63,667,918
Grants	30,492,746	26,228,993
Student direct lending receipts	160,613,375	150,639,731
Student direct lending disbursements	(161,081,002)	(151,717,352)
Deposits from affiliates, net	467,627	1,077,621
Other (receipts) disbursements, net	19,862,221	(881,068)
Intragovernmental transfers	(127,866)	1,534,659
State fiscal stabilization funds	14,699,372	14,699,372
<b>Net cash provided by noncapital financing activities</b>	271,376,574	243,790,719
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of notes and bonds payable	149,460,000	199,980,000
Bond issuance costs	(488,479)	(984,828)
Capital gifts, grants and contracts	26,079,874	23,512,475
State capital appropriations	20,257,391	15,939,909
Purchase of capital assets	(131,766,487)	(155,836,783)
Principal payments on capital debt	(40,542,642)	(10,679,602)
Interest payments on capital debt	(31,394,802)	(23,496,182)
Intragovernmental transfers	(7,260,010)	5,187,651
<b>Net cash (used in) provided by capital and related financing activities</b>	(15,655,155)	53,622,640
<b>Cash flows from investing activities</b>		
Interest and dividends on investments	49,872,112	40,274,836
Purchase of investments	(407,642,664)	(347,050,859)
Proceeds from sales and maturities of investments	288,049,822	85,634,670
Payments received on notes receivable	4,244,994	1,252,218
Disbursements from issuance of notes receivable	(13,388,906)	(1,484,044)
<b>Net cash used in investing activities</b>	(78,864,642)	(221,373,179)
<b>Net increase (decrease) in cash and cash equivalents</b>	63,765,212	(33,504,786)
<b>Cash and cash equivalents, beginning of year</b>	14,351,926	47,856,712
<b>Cash and cash equivalents, end of year</b>	\$ 78,117,138	\$ 14,351,926

*See accompanying notes to financial statements.*

	2011	2010
<b>Reconciliation of cash and cash equivalents to the statement of net assets</b>		
Unrestricted cash and cash equivalents-current	\$ 48,118,588	\$ 4,843,038
Restricted cash and cash equivalents-current and noncurrent	29,998,550	9,508,888
<b>Total cash and cash equivalents</b>	<b>\$ 78,117,138</b>	<b>\$ 14,351,926</b>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (176,282,888)	\$ (174,418,202)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	47,903,943	43,850,973
Bad debt expense	1,283,186	1,095,117
Changes in assets and liabilities		
Accounts and other receivables	(9,531,687)	(5,990,340)
Inventories and other assets	(16,780,107)	(2,744,765)
Accounts payable and accrued liabilities	9,393,943	10,693,152
Deferred revenue	30,922,045	17,969,099
<b>Net cash used in operating activities</b>	<b>\$ (113,091,565)</b>	<b>\$ (109,544,966)</b>
<b>Supplemental noncash activities information</b>		
Gift of capital assets	\$ 820,954	\$ 5,443,531
Gift of investments	\$ 577,314	\$ 9,623
Assets acquired with a liability	\$ 27,936,556	\$ 81,404,277
Loss on the disposal of capital assets	\$ (2,510,757)	\$ (1,299,417)

*See accompanying notes to financial statements.*



**The University of Alabama**  
**Discretely Presented Component Units**  
 Statements of Net Assets  
 2011 and 2010

	2011	2010
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,414,113	\$ 6,241,449
Restricted cash and cash equivalents	8,650,077	7,617,828
Short-term investments	16,035,206	6,139,766
Accounts receivable, net	1,531,148	848,826
Current portion of notes receivable, net	555,495	352,042
Current portion of pledges receivable, net	399,007	425,092
Inventories	293,375	334,575
Prepaid and deferred expenses	119,347	94,086
Other current assets	1,057,712	1,059,578
Due from The University of Alabama	805,982	639,053
<b>Total current assets</b>	33,861,462	23,752,295
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	8,057,200	8,057,200
Endowment investments	66,472,266	59,058,273
Other long-term investments	17,426,606	22,305,693
Notes receivable, net	616,793	674,271
Pledges receivable, net	381,839	755,852
Capital assets, net	87,214,869	89,590,486
Other noncurrent assets	65,297	65,297
<b>Total noncurrent assets</b>	180,234,870	180,507,072
<b>Total assets</b>	\$ 214,096,332	\$ 204,259,367
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,353,863	\$ 3,598,321
Deferred revenue	4,066,594	3,770,616
Current portion of long-term debt	3,522,208	3,209,321
Due to The University of Alabama	713,556	371,990
<b>Total current liabilities</b>	11,656,221	10,950,248
<b>Noncurrent liabilities</b>		
Other liabilities	4,717,463	4,837,738
Long-term debt, net	100,283,254	103,049,315
Due to The University of Alabama	7,863,074	8,349,981
<b>Total noncurrent liabilities</b>	112,863,791	116,237,034
<b>Total liabilities</b>	124,520,012	127,187,282
<b>Net assets</b>		
Invested in capital assets, net of related debt	(4,418,546)	(4,924,262)
Restricted		
Nonexpendable	40,816,203	38,611,662
Expendable	27,445,829	23,017,897
Unrestricted	25,732,834	20,366,788
<b>Total net assets</b>	89,576,320	77,072,085
<b>Total liabilities and net assets</b>	\$ 214,096,332	\$ 204,259,367

*See accompanying notes to financial statements.*

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**The University of Alabama**  
**Discretely Presented Component Units**  
Statements of Revenues, Expenses and Changes in Net Assets  
2011 and 2010

	2011	2010
<b>Operating revenues</b>		
Gifts	\$ 8,433,915	\$ 9,164,986
Other operating revenues	27,357,297	24,580,756
<b>Total operating revenues</b>	35,791,212	33,745,742
<b>Operating expenses</b>		
Salaries, wages and benefits	5,998,009	6,120,483
Scholarships and fellowships	2,895,135	2,645,017
Supplies and services	7,950,208	8,799,462
Depreciation	2,389,074	2,373,044
<b>Total operating expenses</b>	19,232,426	19,938,006
<b>Operating income</b>	16,558,786	13,807,736
<b>Nonoperating revenues (expenses)</b>		
Investment income	10,603,003	6,502,741
Interest expense	(6,771,792)	(6,893,882)
Payments to The University of Alabama	(6,993,200)	(7,934,240)
Change in value of split-interest agreements	(458,283)	(409,602)
Other nonoperating revenues (expenses)	(168,407)	(168,407)
<b>Net nonoperating revenues (expenses)</b>	(3,788,679)	(8,903,390)
<b>Income before other changes in net assets</b>	12,770,107	4,904,346
<b>Other changes in net assets</b>		
Intragovernmental transfers	(265,872)	(75,471)
<b>Increase in net assets</b>	12,504,235	4,828,875
<b>Net assets, beginning of year</b>	77,072,085	72,243,210
<b>Net assets, end of year</b>	\$ 89,576,320	\$ 77,072,085

*See accompanying notes to financial statements.*

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## The University of Alabama Notes to Financial Statements Years Ended September 30, 2011 and 2010

### 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. As discussed further below, certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including State educational appropriations, private gifts, certain grants 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 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.

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 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, is 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

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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 (5-20 years), library collection (10 years) and inventoried equipment (5-15 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, net of a reasonable provision for doubtful accounts. Endowment pledges do not meet eligibility requirements and are not recorded as assets until the related gift is received. Due to uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. The University's trust policies do not differ in nature from endowment policies.

**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 \$5.8 million and \$6.1 million at September 30, 2011 and 2010, 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 \$4.3 million and \$4.2 million at September 30, 2011 and 2010, 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.

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**Endowment Spending:** The State Legislature adopted the Alabama Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), 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. UPMIFA also prescribes the guidelines for the expenditure of donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. UPMIFA focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA includes a robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The University’s policy is to retain the endowment realized and unrealized appreciation with the endowment after the spending rate distributions in a manner consistent with the standards of prudence prescribed by UPMIFA. The Board approved a spending rate for the fiscal years ending September 30, 2011 and 2010 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. Pell grants are recorded as nonoperating revenues in the accompanying Statements of Revenues, Expenses and Changes in Net Assets.

**Nonoperating Revenue (Expenses):** Nonoperating revenues and expenses include State educational appropriations, private gifts for other than capital purposes, Federal Pell grants, investment income, net of unrealized appreciation or depreciation in the fair value of investments and interest expense.



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**Revision of Previously Issued Financial Statements:**

During 2011, the University determined that a non-cash intragovernmental transfer of approximately \$55.5 million was improperly included as cash activity on the statement of cash flows included in the previously issued financial statements for the year ended September 30, 2010. The error understated cash flows from noncapital financing activities and overstated cash flows from investing activities by \$55.5 million. There was no impact on the total change in cash and cash equivalents, and there was no impact on the balance of cash and cash

equivalents. The non-cash transfer related to the transfer of the Bryce Property from the Alabama Department of Mental Health and was appropriately reflected on the statement of revenues, expenses, and changes in net assets. Management does not believe this error in the statement of cash flows is material to the financial statements as a whole. However, the 2010 statement of cash flows has been revised to correct this item. The following table sets forth the effects of the revision on the University's financial statements for the year ended September 30, 2010.

Line item	As Previously Reported	As Revised	Dollar Change
<b>Cash flows from noncapital financing activities</b>			
Intragovernmental transfers	\$ (53,938,596)	\$ 1,534,629	\$ 55,473,225
<b>Net cash provided by noncapital financing activities</b>	\$ 188,317,464	\$ 243,790,689	\$ 55,473,225
<b>Cash flows from investing activities</b>			
Interest and dividends on investments	\$ 95,748,091	\$ 40,274,866	\$ (55,473,225)
<b>Net cash provided by investing activities</b>	\$ (165,899,924)	\$ (221,373,149)	\$ (55,473,225)
<b>Net decrease in cash and cash equivalents</b>	\$ (33,504,786)	\$ (33,504,786)	\$ -
<b>Total cash and cash equivalents</b>	\$ 14,351,926	\$ 14,351,926	\$ -

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## Note 2 – Component Units

**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 included in the University's financial statements as a blended component unit because the Foundation operates as an extension of the Athletic Department and it exclusively benefits the University.

CTF financial information for the years ended June 30, 2011 and June 30, 2010 is included in the University's financial statements and presented as follows:

**The Crimson Tide Foundation**  
 Statements of Net Assets  
 June 30, 2011 and 2010

<b>Assets</b>	2011	2010
Current assets		
Cash and cash equivalents	\$ 123,791	\$ 187,006
Short-term investments	26,841,891	70,572,034
Pledges receivable, net	6,177,011	5,751,001
Other receivables	7,295,361	2,290,038
Total current assets	40,438,054	78,800,079
Noncurrent assets		
Restricted cash and cash equivalents	60,100	92,260
Endowment investments	6,970,312	4,067,830
Pledges receivable, net	14,297,883	17,456,708
Other long-term investments	50,037,268	-
Capital assets, net	2,883,475	3,320,017
Total noncurrent assets	74,249,038	24,936,815
Total assets	\$ 114,687,092	\$ 103,736,894
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable	\$ 453,948	\$ 39,308
Deferred revenue	7,487,147	7,189,099
Note payable, current portion	543,121	510,298
Total current liabilities	8,484,216	7,738,705
Noncurrent liabilities		
Note payable, long-term portion	1,791,962	2,335,083
Total noncurrent liabilities	1,791,962	2,335,083
Total liabilities	10,276,178	10,073,788
Net assets		
Invested in capital assets, net of related debt	548,391	474,636
Restricted		
Nonexpendable	6,505,181	3,853,649
Expendable	12,765,617	11,008,216
Unrestricted	84,591,725	78,326,605
Total net assets	104,410,914	93,663,106
Total liabilities and net assets	\$ 114,687,092	\$ 103,736,894

**The Crimson Tide Foundation**  
 Statements of Revenues, Expenses and Changes in Net Assets  
 June 30, 2011 and 2010

	2011	2010
<b>Operating revenues</b>		
Private gifts	\$ 26,212,080	\$ 31,241,392
Other operating revenues	19,521,472	18,996,101
Total operating revenues	45,733,552	50,237,493
<b>Operating expenses</b>		
Benefits	419,669	377,975
Scholarships	251,142	130,273
Professional fees	383,391	317,597
Travel	655,534	678,444
Supplies	185,567	239,999
Conference and entertainment	461,178	417,611
Communication and information	28,820	27,351
Rentals	208,983	255,581
Repairs and maintenance	291,250	156,574
Depreciation	436,542	436,542
Other	208,255	431,700
Total operating expenses	3,530,331	3,469,647
Operating income	42,203,221	46,767,846
<b>Nonoperating revenues (expenses)</b>		
Investment income, net	6,020,797	10,943,136
Interest expense	(166,190)	(194,223)
Net nonoperating revenues	5,854,607	10,748,913
Income before other changes in net assets	48,057,828	57,516,759
<b>Other changes in net assets</b>		
Additions to permanent endowments	2,104,714	1,546,165
Intergovernmental transfers	(39,414,734)	(37,602,260)
Increase in net assets	10,747,808	21,460,664
<b>Net assets</b>		
Beginning of period	93,663,106	72,202,442
End of period	\$ 104,410,914	\$ 93,663,106

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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 six discretely presented foundations which have been organized exclusively for charitable, scientific and educational purposes for the benefit of certain constituents of the University. The six foundations are The National Alumni Association of The University of Alabama, The Capstone Foundation, The 1831 Foundation, The University of Alabama Law School Foundation, The Capstone Health Services Foundation, and The Donor Advised Fund (the "Foundations"). In prior years, the University did not report The Capstone Health Services Foundation or The Donor Advised Fund as the entities were not considered material to the University. The University now presents these two entities due to their continued growth and in order to present a more inclusive reporting entity. Accordingly, the 2010 financial statement information of the discretely presented component units has been restated to include information related to The Capstone Health Services Foundation and The Donor Advised Fund. Because of the financial benefit relationship which exists 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. Management deems discrete presentation as applicable for the Foundations. Their governing bodies are not substantially the same as the University, and the Foundations exist to benefit constituents broader than the University itself.

The Foundations are not-for-profit organizations. The National Alumni Association, The University of Alabama Law School Foundation and the Capstone Foundation, report financial results under principles prescribed by the FASB. The remaining foundations mentioned in the paragraph above report financial results under principles prescribed under the GASB, similar to those as described for the University. As

such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Certain modifications have been made to the presentation of FASB reporting Foundations' financial statements in the University's financial reporting entity to conform with the University's financial statement presentation. The following are certain financial statement principles and policies followed by the FASB-reporting discretely presented component units:

**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. Net assets of the FASB-reporting Foundations and changes therein are classified and reported as follows in their separately issued financial statements:

**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

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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** - As discussed at Note 1, 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. Endowment earnings and 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.

**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.

**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Net Assets**  
2011

	National Alumni Association June 30, 2011	Law School Foundation June 30, 2011	Donor Advised Fund June 30, 2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 299,364	\$ 182,621	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	3,795,522	1,091,272	145,396
Accounts receivable, net	-	-	-
Current portion of notes receivable, net	-	8,000	-
Current portion of pledges receivable	-	235,297	-
Inventories	73,905	-	-
Prepaid and deferred expenses	-	-	-
Other current assets	398,944	303,770	22,150
Due from The University of Alabama	616,580	51,372	-
Total current assets	<u>5,184,315</u>	<u>1,872,332</u>	<u>167,546</u>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	-	-	-
Endowment investments	31,266,394	25,360,015	-
Other long-term investments	2,368,723	75,000	6,141,786
Notes receivable, net	-	-	-
Pledges receivable, net	-	258,008	-
Capital assets, net	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	<u>33,635,117</u>	<u>25,693,023</u>	<u>6,141,786</u>
Total assets	<u>\$ 38,819,432</u>	<u>\$ 27,565,355</u>	<u>\$ 6,309,332</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 43,843	\$ 6,871	\$ -
Deferred revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	-	-	-
Total current liabilities	<u>43,843</u>	<u>6,871</u>	<u>-</u>
<b>Noncurrent liabilities</b>			
Other liabilities	-	-	-
Long-term debt, net	-	-	-
Due to The University of Alabama	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>43,843</u>	<u>6,871</u>	<u>-</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	-	-	-
Restricted			
Nonexpendable	21,255,638	19,542,649	-
Expendable	4,984,703	5,587,124	6,237,124
Unrestricted	12,535,248	2,428,711	72,208
Total net assets	<u>38,775,589</u>	<u>27,558,484</u>	<u>6,309,332</u>
Total liabilities and net assets	<u>\$ 38,819,432</u>	<u>\$ 27,565,355</u>	<u>\$ 6,309,332</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Net Assets, Continued**  
2011

	Capstone Foundation Sept. 30, 2011	1831 Foundation Sept. 30, 2011	Capstone Health Services Foundation Sept. 30, 2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 184,186	\$ 196,500	\$ 3,551,442
Restricted cash and cash equivalents	-	8,650,077	-
Short-term investments	1,812,365	4,213,585	4,977,066
Accounts receivable, net	-	-	1,531,148
Current portion of notes receivable, net	82,908	-	464,587
Current portion of pledges receivable	163,710	-	-
Inventories	25,628	-	193,842
Prepaid and deferred expenses	100,658	-	18,689
Other current assets	324,246	8,602	-
Due from The University of Alabama	-	-	138,030
Total current assets	<u>2,693,701</u>	<u>13,068,764</u>	<u>10,874,804</u>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	-	8,057,200	-
Endowment investments	9,845,857	-	-
Other long-term investments	8,062,897	778,200	-
Notes receivable, net	597,724	-	19,069
Pledges receivable, net	123,831	-	-
Capital assets, net	169,099	86,981,884	63,886
Other noncurrent assets	-	-	65,297
Total noncurrent assets	<u>18,799,408</u>	<u>95,817,284</u>	<u>148,252</u>
Total assets	<u>\$ 21,493,109</u>	<u>\$ 108,886,048</u>	<u>\$ 11,023,056</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 157,214	\$ 2,003,117	\$ 1,142,818
Deferred revenue	-	4,066,594	-
Current portion of long-term debt	-	3,522,208	-
Due to The University of Alabama	176,434	526,549	10,573
Total current liabilities	<u>333,648</u>	<u>10,118,468</u>	<u>1,153,391</u>
<b>Noncurrent liabilities</b>			
Other liabilities	4,717,463	-	-
Long-term debt, net	-	100,283,254	-
Due to The University of Alabama	7,863,074	-	-
Total noncurrent liabilities	<u>12,580,537</u>	<u>100,283,254</u>	<u>-</u>
Total liabilities	<u>12,914,185</u>	<u>110,401,722</u>	<u>1,153,391</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	-	(4,482,432)	63,886
Restricted			
Nonexpendable	17,916	-	-
Expendable	8,714,848	1,922,030	-
Unrestricted	<u>(153,840)</u>	<u>1,044,728</u>	<u>9,805,779</u>
Total net assets	<u>8,578,924</u>	<u>(1,515,674)</u>	<u>9,869,665</u>
Total liabilities and net assets	<u>\$ 21,493,109</u>	<u>\$ 108,886,048</u>	<u>\$ 11,023,056</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Net Assets**  
2010

	National Alumni Association June 30, 2010	Law School Foundation June 30, 2010	Donor Advised Fund June 30, 2010
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 251,213	\$ 245,634	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	-	-	332,743
Accounts receivable, net	-	-	-
Current portion of notes receivable, net	-	6,500	-
Current portion of pledges receivable	-	345,467	-
Inventories	106,515	-	-
Prepaid and deferred expenses	-	-	-
Other current assets	359,067	282,086	16,478
Due from The University of Alabama	230,358	-	-
Total current assets	<u>947,153</u>	<u>879,687</u>	<u>349,221</u>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	-	-	-
Endowment investments	26,593,746	22,008,982	-
Other long-term investments	5,116,734	1,060,911	5,067,687
Notes receivable, net	-	-	-
Pledges receivable, net	-	469,797	-
Capital assets, net	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	<u>31,710,480</u>	<u>23,539,690</u>	<u>5,067,687</u>
Total assets	<u>\$ 32,657,633</u>	<u>\$ 24,419,377</u>	<u>\$ 5,416,908</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 91,245	\$ 5,242	\$ -
Deferred revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	-	-	-
Total current liabilities	<u>91,245</u>	<u>5,242</u>	<u>-</u>
<b>Noncurrent liabilities</b>			
Other liabilities	-	-	-
Long-term debt, net	-	-	-
Due to The University of Alabama	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>91,245</u>	<u>5,242</u>	<u>-</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	-	-	-
Restricted			
Nonexpendable	19,794,713	18,799,058	-
Expendable	2,606,553	4,090,550	5,347,837
Unrestricted	10,165,122	1,524,527	69,071
Total net assets	<u>32,566,388</u>	<u>24,414,135</u>	<u>5,416,908</u>
Total liabilities and net assets	<u>\$ 32,657,633</u>	<u>\$ 24,419,377</u>	<u>\$ 5,416,908</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Net Assets, Continued**

	2010		
	Capstone Foundation Sept. 30, 2010	1831 Foundation Sept. 30, 2010	Capstone Health Services Foundation Sept. 30, 2010
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 190,001	\$ 607,368	\$ 4,947,233
Restricted cash and cash equivalents	-	7,617,828	-
Short-term investments	-	3,869,111	1,937,912
Accounts receivable, net	-	-	848,826
Current portion of notes receivable, net	82,908	-	262,634
Current portion of pledges receivable	79,625	-	-
Inventories	76,651	-	151,409
Prepaid and deferred expenses	94,086	-	-
Other current assets	242,875	159,072	-
Due from The University of Alabama	-	131,348	277,347
Total current assets	<u>766,146</u>	<u>12,384,727</u>	<u>8,425,361</u>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	-	8,057,200	-
Endowment investments	10,455,545	-	-
Other long-term investments	9,978,761	1,081,600	-
Notes receivable, net	633,373	-	40,898
Pledges receivable, net	286,055	-	-
Capital assets, net	173,589	89,314,429	102,468
Other noncurrent assets	-	-	65,297
Total noncurrent assets	<u>21,527,323</u>	<u>98,453,229</u>	<u>208,663</u>
Total assets	<u>\$ 22,293,469</u>	<u>\$ 110,837,956</u>	<u>\$ 8,634,024</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 70,636	\$ 2,580,925	\$ 850,273
Deferred revenue	-	3,770,616	-
Current portion of long-term debt	-	3,206,800	2,521
Due to The University of Alabama	237,610	-	134,380
Total current liabilities	<u>308,246</u>	<u>9,558,341</u>	<u>987,174</u>
<b>Noncurrent liabilities</b>			
Other liabilities	4,837,738	-	-
Long-term debt, net	-	103,024,315	25,000
Due to The University of Alabama	8,349,981	-	-
Total noncurrent liabilities	<u>13,187,719</u>	<u>103,024,315</u>	<u>25,000</u>
Total liabilities	<u>13,495,965</u>	<u>112,582,656</u>	<u>1,012,174</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	-	(5,024,209)	99,947
<b>Restricted</b>			
Nonexpendable	17,891	-	-
Expendable	8,819,614	2,153,343	-
<b>Unrestricted</b>			
Total net assets	<u>8,797,504</u>	<u>(1,744,700)</u>	<u>7,621,850</u>
Total liabilities and net assets	<u>\$ 22,293,469</u>	<u>\$ 110,837,956</u>	<u>\$ 8,634,024</u>

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**The University of Alabama**  
**Discretely Presented Component Units**  
Statements of Revenues, Expenses and Changes in Net Assets  
2011

	National Alumni Association June 30, 2011	Law School Foundation June 30, 2011	Donor Advised Fund June 30, 2011
Operating revenues			
Gifts	\$ 3,418,336	\$ 1,369,581	\$ 129,872
Other operating revenues	1,192,589	129,710	-
Total operating revenues	<u>4,610,925</u>	<u>1,499,291</u>	<u>129,872</u>
Operating expenses			
Salaries, wages and benefits	-	-	-
Scholarships and fellowships	1,612,968	1,176,191	-
Supplies and other services	1,002,365	478,665	92,624
Depreciation	-	-	-
Total operating expenses	<u>2,615,333</u>	<u>1,654,856</u>	<u>92,624</u>
Operating income	<u>1,995,592</u>	<u>(155,565)</u>	<u>37,248</u>
Nonoperating revenues (expenses)			
Investment income	5,471,172	3,693,189	1,111,082
Interest expense	-	-	-
Payments to The University of Alabama	(1,257,563)	(393,275)	(255,906)
Change in value of split-interest agreements	-	-	-
Other nonoperating revenues (expenses)	-	-	-
Net nonoperating revenues (expenses)	<u>4,213,609</u>	<u>3,299,914</u>	<u>855,176</u>
Income (loss) before other changes in net assets	6,209,201	3,144,349	892,424
Other changes in net assets			
Intragovernmental transfers	-	-	-
Increase (decrease) in net assets	<u>6,209,201</u>	<u>3,144,349</u>	<u>892,424</u>
Net assets, beginning of year	32,566,388	24,414,135	5,416,908
Net assets, end of year	<u>\$ 38,775,589</u>	<u>\$ 27,558,484</u>	<u>\$ 6,309,332</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
Statements of Revenues, Expenses and Changes in Net Assets, Continued  
2011

	Capstone Foundation Sept. 30, 2011	1831 Foundation Sept. 30, 2011	Capstone Health Services Foundation Sept. 30, 2011
Operating revenues			
Gifts	\$ 3,516,126	\$ -	\$ -
Other operating revenues	358,014	12,786,292	12,890,692
Total operating revenues	<u>3,874,140</u>	<u>12,786,292</u>	<u>12,890,692</u>
Operating expenses			
Salaries, wages and benefits	-	-	5,998,009
Scholarships and fellowships	105,976	-	-
Supplies and other services	2,454,726	3,048,032	873,796
Depreciation	-	2,337,653	51,421
Total operating expenses	<u>2,560,702</u>	<u>5,385,685</u>	<u>6,923,226</u>
Operating income	<u>1,313,438</u>	<u>7,400,607</u>	<u>5,967,466</u>
Nonoperating revenues (expenses)			
Investment income	236,159	34,391	57,010
Interest expense	-	(6,771,693)	(99)
Payments to The University of Alabama	(1,309,894)	-	(3,776,562)
Change in value of split-interest agreements	(458,283)	-	-
Other nonoperating revenues (expenses)	-	(168,407)	-
Net nonoperating revenues (expenses)	<u>(1,532,018)</u>	<u>(6,905,709)</u>	<u>(3,719,651)</u>
Income (loss) before other changes in net assets	(218,580)	494,898	2,247,815
Other changes in net assets			
Intragovernmental transfers	-	(265,872)	-
Increase (decrease) in net assets	<u>(218,580)</u>	<u>229,026</u>	<u>2,247,815</u>
Net assets, beginning of year	8,797,504	(1,744,700)	7,621,850
Net assets, end of year	<u>\$ 8,578,924</u>	<u>\$ (1,515,674)</u>	<u>\$ 9,869,665</u>

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**The University of Alabama**  
**Discretely Presented Component Units**  
Statements of Revenues, Expenses and Changes in Net Assets  
2010

	National Alumni Association June 30, 2010	Law School Foundation June 30, 2010	Donor Advised Fund June 30, 2010
Operating revenues			
Gifts	\$ 3,676,429	\$ 1,884,157	\$ 50,000
Other operating revenues	1,210,146	208,941	-
Total operating revenues	<u>4,886,575</u>	<u>2,093,098</u>	<u>50,000</u>
Operating expenses			
Salaries, wages and benefits	-	-	-
Scholarships and fellowships	1,376,569	1,150,473	-
Supplies and other services	1,008,710	508,403	82,701
Depreciation	-	-	-
Total operating expenses	<u>2,385,279</u>	<u>1,658,876</u>	<u>82,701</u>
Operating income	<u>2,501,296</u>	<u>434,222</u>	<u>(32,701)</u>
Nonoperating revenues (expenses)			
Investment income	2,615,405	1,815,151	533,363
Interest expense	-	-	-
Payments to The University of Alabama	(1,155,451)	(341,084)	(220,251)
Change in value of split-interest agreements	-	-	-
Other nonoperating revenues (expenses)	-	-	-
Net nonoperating revenues (expenses)	<u>1,459,954</u>	<u>1,474,067</u>	<u>313,112</u>
Income (loss) before other changes in net assets	3,961,250	1,908,289	280,411
Other changes in net assets			
Intragovernmental transfers	-	-	-
Increase (decrease) in net assets	<u>3,961,250</u>	<u>1,908,289</u>	<u>280,411</u>
Net assets, beginning of year	28,605,138	22,505,846	5,136,497
Net assets, end of year	<u>\$ 32,566,388</u>	<u>\$ 24,414,135</u>	<u>\$ 5,416,908</u>

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**The University of Alabama**  
**Discretely Presented Component Units**  
Statements of Revenues, Expenses and Changes in Net Assets, Continued  
2010

	Capstone Foundation Sept. 30, 2010	1831 Foundation Sept. 30, 2010	Capstone Health Services Foundation Sept. 30, 2010
Operating revenues			
Gifts	\$ 3,097,000	\$ 457,400	\$ -
Other operating revenues	376,357	11,466,517	11,318,795
Total operating revenues	<u>3,473,357</u>	<u>11,923,917</u>	<u>11,318,795</u>
Operating expenses			
Salaries, wages and benefits	-	-	6,120,483
Scholarships and fellowships	117,975	-	-
Supplies and other services	2,873,464	3,320,730	1,005,454
Depreciation	-	2,320,497	52,547
Total operating expenses	<u>2,991,439</u>	<u>5,641,227</u>	<u>7,178,484</u>
Operating income	<u>481,918</u>	<u>6,282,690</u>	<u>4,140,311</u>
Nonoperating revenues (expenses)			
Investment income	960,964	498,744	79,114
Interest expense	-	(6,893,341)	(541)
Payments to The University of Alabama	(2,195,283)	-	(4,022,171)
Change in value of split-interest agreements	(409,602)	-	-
Other nonoperating revenues (expenses)	-	(168,407)	-
Net nonoperating revenues (expenses)	<u>(1,643,921)</u>	<u>(6,563,004)</u>	<u>(3,943,598)</u>
Income (loss) before other changes in net assets	(1,162,003)	(280,314)	196,713
Other changes in net assets			
Intragovernmental transfers	-	(75,471)	-
Increase (decrease) in net assets	<u>(1,162,003)</u>	<u>(355,785)</u>	<u>196,713</u>
Net assets, beginning of year	9,959,507	(1,388,915)	7,425,137
Net assets, end of year	<u>\$ 8,797,504</u>	<u>\$ (1,744,700)</u>	<u>\$ 7,621,850</u>



### Note 3 – Cash and Cash Equivalents

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

The System sponsors a short-term investment pool for the System entities to invest operating cash reserves. The Short-Term Fund is invested in a treasury obligation money market fund managed by Federated. As of September 30, 2011, the University had approximately \$50.7 million in the Short-Term Fund. The assets held in the money market fund are presented in unrestricted cash and cash equivalents. As of September 30, 2010, the University had approximately \$8.2 million in the Short-Term Fund.



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## Note 4 – Investments

The Board has the responsibility for the establishment of the investment policy and the oversight of the investments for the various System and related entities. In order to facilitate system-wide investment objectives and achieve economies of scale, the Board has established four distinct investment pools based primarily on the projected investment time-horizons for System funds. These investment pools are the Endowment Fund, Prime Fund, Intermediate Fund and the Short-Term Fund (collectively, the “System Pools”). Pursuant to Board investment policies, each System or related entity may include all or a portion of their investments within the System-sponsored investment pools. These investment funds are considered ‘internal’ investment pools under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with the assets pooled on a market value basis. Separately managed funds that are resident with each entity are to be invested consistent with the asset mix of the corresponding System investment pool. The following disclosures relate to both the System Pools, which include the investments of other System entities and other affiliated entities, and the University-specific investment portfolio.

### **Endowment Fund**

The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over a perpetual time frame. Accordingly, the primary investment objectives of the Endowment Funds are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support to the endowment beneficiaries. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocation targets are established to meet the return objectives while providing adequate diversification in order to minimize investment volatility. 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 \$53.6 million and \$48.1 million at September 30, 2011 and 2010, 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 \$2.6 million and \$2.2 million at September 30, 2011 and 2010, 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 3 for additional information related to the Short-Term Fund.

### **Land and Other Real Estate Held as Investments by Endowments**

The University values land and other real estate held as investments by endowments at fair value.

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

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timber and land of \$60.3 million and \$66.0 million as of September 30, 2011 and 2010, 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 \$19.7 million and \$19.2 million as of September 30, 2011 and 2010, 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 was acquired by the University in 2010 for \$77.8 million. The University added the appraised value of the property of \$87.4 million as of September 30, 2010, to the permanent endowment and intends to fund the purchase 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 as of September 30, 2010, resulting in investment income of approximately \$61.6 million that is offset by an intragovernmental transfer of approximately \$55.5 million. As of September 30, 2011, the Bryce Property is valued at \$84.9 million. The change in value from 2010 to 2011 was driven by appreciation of \$1.7 million offset by \$4.2 million of certain property transferred out of the University’s endowment for use in the University’s operations. Additionally, at the time of purchase, the University recorded an estimated liability of \$3.5 million for environmental remediation now estimated to cost \$6.1 million. 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 University is still in the process of determining the ultimate use of certain portions of the Bryce Property. If the University were to use portions of the endowed investment for operations, the University will transfer those assets out of the endowment and into capital assets and will reimburse the endowment for the fair value at date of transfer of any transferred assets.

As discussed above, along with the acquisition of the Bryce Property came certain potential liabilities. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement requires governments to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Certain future actions by the University may become necessary that can potentially result in additional costs or liabilities not yet determinable, and in addition to the \$6.1 million currently accrued for environmental remediation. As the likelihood of monetary expenses of these actions becomes probable, related entries and disclosures will be made as deemed appropriate under the provisions of GASB Statement No. 49.



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

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2011	2010	2011	2010	2011	2010	2011	2010
Receivables:								
Accrued Income Receivables	\$ 1,107,419	\$ 1,022,703	\$ 650,770	\$ 730,638	\$ 4,991,584	\$ 3,394,772	\$ -	\$ -
Total Receivables	1,107,419	1,022,703	650,770	730,638	4,991,584	3,394,772	-	-
Cash Equivalents:								
Certificates of Deposit	-	-	-	-	9,083,787	2,700,000	-	-
Commercial Paper	-	-	-	-	16,200,000	27,000,000	-	-
Money Market Funds	32,523,163	20,090,042	27,318,415	15,547,782	67,192,267	15,395,631	119,243,909	168,718,531
Total Cash Equivalents	32,523,163	20,090,042	27,318,415	15,547,782	92,476,054	45,095,631	119,243,909	168,718,531
Equities:								
U. S. Common Stock	61,441,298	63,959,778	47,156,571	46,906,064	-	-	-	-
Non-U.S. Stock	3,693,290	3,734,348	2,813,145	2,708,329	-	1	-	-
Total Equities	65,134,588	67,694,126	49,969,716	49,614,393	-	1	-	-
Fixed Income Securities:								
U.S. Government Obligations	32,642,178	33,786,763	11,255,896	19,534,274	237,375,819	192,236,728	-	-
Municipal Government Obligations	-	-	-	-	5,348,375	2,093,673	-	-
Mortgage Backed Securities	-	911,352	-	566,328	47,674,103	19,764,250	-	-
Collateralized Mortgage Obligations	824,701	1,525,678	1,616,040	1,900,449	80,738,496	30,978,826	-	-
Corporate Bonds	45,242,909	31,889,288	20,786,125	21,567,664	349,240,996	256,027,315	-	-
Non-U.S. Bonds	-	-	-	-	20,105,488	7,756,995	-	-
Total Fixed Income Securities	78,709,788	68,113,081	33,658,061	43,568,715	740,483,277	508,857,787	-	-
Commingled Funds:								
U. S. Equity Funds	97,341,436	130,953,359	95,624,301	101,565,158	-	-	-	-
Non-U. S. Equity Funds	204,708,799	209,620,702	190,506,910	173,321,023	-	-	-	-
U. S. Bond Funds	19,459,731	74,155,378	48,810,114	93,914,279	106,131,492	108,159,733	-	-
Non-U. S. Bond Funds	56,083,738	51,744,077	48,033,757	38,096,317	-	-	-	-
Hedge Funds	141,883,144	126,056,610	109,604,285	93,416,606	-	-	-	-
Private Equity Funds	53,444,269	50,904,793	-	-	-	-	-	-
Timberland Funds	5,624,452	8,527,039	-	-	-	-	-	-
Real Estate Funds	111,363,985	69,314,611	87,120,952	40,046,944	-	-	-	-
Total Commingled Funds	689,909,554	721,276,569	579,700,319	540,360,327	106,131,492	108,159,733	-	-
Total Fund Investments	866,277,093	877,173,818	690,646,511	649,091,217	939,090,823	662,113,152	119,243,909	168,718,531
Total Fund Assets	867,384,512	878,196,521	691,297,281	649,821,855	944,082,407	665,507,924	119,243,909	168,718,531
Total Fund Liabilities	(141,349)	(108,538)	(96,905)	(78,054)	(431,667)	(253,747)	-	-
Affiliated Entity Investments	(108,310,387)	(109,872,550)	(46,104,160)	(1,891,880)	(63,559,098)	(8,165,066)	-	-
Total Net Asset Value	\$ 758,932,777	\$ 768,215,433	\$ 645,096,216	\$ 647,851,921	\$ 880,091,643	\$ 657,089,111	\$ 119,243,909	\$ 168,718,531



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

	2011	2010
Cash, Receivables and Equivalents		
Money Market Funds	\$ 416,262	\$ 217,463
Other	50,610	40,770
<b>Total Cash, Receivables and Equivalents</b>	<b>466,872</b>	<b>258,233</b>
Equities		
Common Stock	3,241,868	3,029,175
<b>Total Equities</b>	<b>3,241,868</b>	<b>3,029,175</b>
Fixed Income Securities		
U.S. Government Obligations	377,389	355,802
<b>Total Fixed Income Securities</b>	<b>377,389</b>	<b>355,802</b>
Commingled Funds		
U.S. Equity Funds	33,444,438	48,005,267
U.S. Bond Funds	3,999,826	73,396,284
Private Equity Funds	1,375,936	1,369,222
<b>Total Commingled Funds</b>	<b>38,820,200</b>	<b>122,770,773</b>
<b>Total Real Estate</b>	<b>165,627,657</b>	<b>174,697,488</b>
System Pooled Investments		
Short-Term Fund	50,659,546	8,164,615
Endowment Fund	445,186,643	450,636,670
Prime Fund	204,673,462	140,964,609
Intermediate Fund	395,590,285	291,834,184
<b>Total System Pooled Investments</b>	<b>1,096,109,936</b>	<b>891,600,078</b>
<b>Less Short-Term Fund Cash Equivalents</b>	<b>(50,659,545)</b>	<b>(8,164,615)</b>
<b>Total University Investments</b>	<b>\$ 1,253,984,377</b>	<b>\$ 1,184,546,934</b>

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### **Investment Risk Factors**

There are many factors that can affect the value of investments. Some, such as custodial credit risk, concentration of credit risk and foreign currency risk, may affect both equity and fixed income securities. Equity securities respond to such factors as economic conditions, individual company earnings performance and market liquidity, while fixed income securities are particularly sensitive to credit risks and changes in interest rates.

### **Credit Risk**

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

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

Board policy recognizes that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark. Credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. Fixed income holdings in a single entity (excluding obligations of the U.S. government and its agencies) may not exceed 5% of a manager's portfolio measured at market value. At least 95% of these fixed income investments must be in investment grade securities (securities with ratings of BBB- or Baa3) or higher. However, multi-strategy fixed income managers may have up to 20% of their investments in non-investment grade securities. Securities of foreign entities denominated in U.S. dollars are limited to 10% of a manager's portfolio. Securities denominated in currencies other than U.S. dollars are not permissible unless part of a multi-strategy fixed income account where the limitation is 20% of the manager's portfolio.

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Government Credit Index for US investments and the Citigroup WGBI Index for international investments benchmarks for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate, mortgage backed, asset backed and U.S. treasury and/or agency bonds with a minimum BBB- rating and an average duration of four years. In addition, approximately \$1.6 million and \$3.8 million in the Endowment and Prime Funds, at September 30, 2011 and 2010, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$232.2 million and \$293.5 million in the Endowment and Prime Funds, at September 30, 2011 and 2010, respectively.

The Intermediate Fund is benchmarked against the 1-3 Year Barclays Government Credit Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For September 30, 2011 and 2010, approximately \$59.2 million and \$62.0 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 \$189.5 million and \$150.6 million at September 30, 2011 and 2010, 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 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 3 for additional information related to the Short-Term Fund.

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

	2011			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Fixed or Variable Income Securities				
U.S. Government Obligations	\$ 32,642,178	\$ 11,255,896	\$ 237,375,819	\$ -
Municipal Government Obligations	-	-	5,348,375	-
Other U.S. Denominated:				
AAA	601,838	259,069	82,551,910	-
AA	9,442,755	4,280,773	82,527,357	-
A	20,810,897	10,696,427	155,173,567	-
BBB	14,989,257	5,808,925	93,358,572	-
BB	-	-	19,361,524	-
B	-	-	1,357,676	-
C and < C	-	-	4,257,867	-
Unrated	222,863	1,356,971	59,170,610	-
Commingled Funds:				
U.S. Bond Funds: Unrated	19,459,731	48,810,114	106,131,492	-
Non-U.S. Bond Funds: Unrated	56,083,738	48,033,757	-	-
Money Market Funds: Unrated	32,523,163	27,318,415	67,192,267	119,243,909
Commercial Paper: Unrated	-	-	16,200,000	-
Certificates of Deposits	-	-	9,083,787	-
Total	<u>\$ 186,776,420</u>	<u>\$ 157,820,347</u>	<u>\$ 939,090,823</u>	<u>\$ 119,243,909</u>

	2010			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Fixed or Variable Income Securities				
U.S. Government Obligations	\$ 33,786,763	\$ 19,534,274	\$ 192,236,728	\$ -
Municipal Government Obligations	-	-	2,093,673	-
Other U.S. Denominated:				
AAA	1,352,251	1,180,794	60,795,483	-
AA	3,644,101	2,393,581	58,634,075	-
A	16,695,249	11,416,560	87,821,004	-
BBB	10,994,544	6,919,747	38,692,339	-
BB	-	-	5,937,675	-
B	-	-	436,225	-
C and < C	-	-	197,792	-
Unrated	1,640,173	2,123,759	62,012,793	-
Commingled Funds:				
U.S. Bond Funds: Unrated	74,155,378	93,914,279	108,159,733	-
Non-U.S. Bond Funds: Unrated	51,744,077	38,096,317	-	-
Money Market Funds: Unrated	20,090,042	15,547,782	15,395,631	168,718,531
Commercial Paper: Unrated	-	-	27,000,000	-
Certificates of Deposits	-	-	2,700,000	-
Total	<u>\$ 214,102,578</u>	<u>\$ 191,127,093</u>	<u>\$ 662,113,151</u>	<u>\$ 168,718,531</u>

In accordance with the Board policy disclosed previously, 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, 2011 and 2010 are as follows:

	2011	2010
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$ 377,389	\$ 355,802
Other U.S. Dollar and Commingled Bonds		
AAA	1,273,561	1,251,480
AA	84,898	70,736,972
A	586,888	407,858
BBB	562,789	466,223
BB	146,896	202,124
B	210,451	219,079
Below B	46,537	49,393
Unrated	1,504,068	280,618
	<u>\$ 4,793,477</u>	<u>\$ 73,969,549</u>



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**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, money market funds) represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

**Concentration of Credit Risk**

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

As previously mentioned, credit risk in each investment pool 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, 2011 and 2010, there was no investment in a single issuer that represents 5% or more of total investments held by any single investment manager of the System Pools or the University's separately held investment portfolio, except for investments issued by the U.S. government and money market fund invest-

ments held by the Short Term Fund.

**Interest Rate Risk**

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis 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, 2011 and 2010 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	
	2011	2010	2011	2010	2011	2010	2011	2010
U. S. Government Obligations	4.1	3.4	4.9	3.3	2.6	3.0	-	-
Corporate Bonds	5.8	6.4	5.8	6.0	2.3	2.0	-	-
Commingled Bond Funds	4.2	5.8	3.8	5.2	2.2	2.4	-	-

The effective durations for fixed or variable income securities, for the University's separately held investments, at September 30, 2011 and 2010 are as follows:

	2011	2010
U.S. Government Obligations	7.6	7.9
Commingled Bond Funds	3.7	3.1



Investments may also include mortgage pass through securities and collateralized mortgage obligations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. At September 30, 2011 and 2010 the fair market value of these investments, for the System Pools, are as follows:

	2011			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Mortgage Backed Securities	\$ -	\$ -	\$ 47,674,103	\$ -
Collateralized Mortgage Obligations	824,701	1,616,040	80,738,496	-
Total Fixed	\$ 824,701	\$ 1,616,040	\$ 128,412,599	\$ -

	2010			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Mortgage Backed Securities	\$ 911,352	\$ 566,328	\$ 19,764,250	\$ -
Collateralized Mortgage Obligations	1,525,678	1,900,449	30,978,826	-
Total Fixed	\$ 2,437,030	\$ 2,466,777	\$ 50,743,076	\$ -

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

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

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

	2011			
	Endowment Fund	Prime Fund	Intermediate Fund	Short-Term Fund
Mortgage Backed Securities	-	-	2.7	-
Collateralized Mortgage Obligations	2.4	1.2	0.9	-

	2010			
	Endowment Fund	Prime Fund	Intermediate Fund	Short-Term Fund
Mortgage Backed Securities	2.3	2.2	2.9	-
Collateralized Mortgage Obligations	2.2	1.6	1.6	-

At September 30, 2011 and 2010, 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, 2011 and 2010, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$20.1 million and \$7.8 million of foreign bonds denominated in U.S.

dollars and held by the Intermediate Fund at September 30, 2011 and 2010, respectively. At September 30, 2011 and 2010, 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, 2011 and 2010, there were no securities on loan from the investment pools.

## Note 5 – 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 receivable at September 30, 2011 and 2010 is summarized as follows:

	2011	2010
<b>Accounts Receivable</b>		
Student accounts	\$ 49,815,965	\$ 45,422,343
Receivables from sponsoring agencies	29,833,661	22,596,170
Accrued interest receivable	8,192,488	8,107,763
Other	10,313,358	13,057,898
	<u>98,155,472</u>	<u>89,184,174</u>
Less provision for doubtful accounts	(2,626,656)	(2,085,025)
Accounts receivable, net	<u>\$ 95,528,816</u>	<u>\$ 87,099,149</u>
<b>Notes Receivable</b>		
Note receivable from 1831 Foundation	\$ 9,127,699	\$ 11,101,921
Notes receivable from student organizations	32,198,519	20,003,993
	<u>41,326,218</u>	<u>31,105,914</u>
Less current portion	(3,669,701)	(3,368,918)
Notes receivable, net	<u>\$ 37,656,517</u>	<u>\$ 27,736,996</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% and payments are determined annually by the management of The 1831 Foundation. Notes receivable from student organizations bear interest rates ranging from 3.55% to 5.73% with terms between 10 and 40 years.

## Note 6 – 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, 2011 and 2010, is summarized as follows:

	2011	2010
<b>Loans receivable</b>		
Federal loan program	\$ 12,801,852	\$ 12,937,221
University loan funds	1,557,491	1,105,476
Less allowance for doubtful loans	(3,696,717)	(3,696,717)
Total loans outstanding, net	<u>10,662,626</u>	<u>10,345,980</u>
Less current portion	(2,050,423)	(2,292,669)
Total loans outstanding, noncurrent	<u>\$ 8,612,203</u>	<u>\$ 8,053,311</u>
<b>Pledges outstanding</b>		
Operations	\$ 31,509,577	\$ 30,447,689
Capital	1,987,399	2,278,692
Total pledges, net	<u>33,496,976</u>	<u>32,726,381</u>
Less current portion	(9,630,926)	(8,018,042)
Total pledges, noncurrent	<u>\$ 23,866,050</u>	<u>\$ 24,708,339</u>

## Note 7 – 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, 2011 and 2010 are summarized as follows:

	Balance October 1, 2010	Additions	Retirements/ Transfers	Balance September 30, 2011
<b>Nondepreciable capital assets:</b>				
Land	\$ 13,698,674	\$ 3,672,898	\$ -	\$ 17,371,572
Collections	20,102,088	313,967	(5,255)	20,410,800
Construction in progress	46,630,106	134,163,987	(47,874,319)	132,919,774
<b>Total nondepreciable capital assets</b>	<u>80,430,868</u>	<u>138,150,852</u>	<u>(47,879,574)</u>	<u>170,702,146</u>
<b>Depreciable capital assets:</b>				
Land improvements	40,042,563	6,970,306	(1,871,386)	45,141,483
Infrastructure	41,661,304	2,665,037	(20,347)	44,305,994
Buildings and fixed equipment	1,085,371,364	42,520,132	(21,911,322)	1,105,980,174
Equipment	102,224,378	10,342,709	(3,387,014)	109,180,073
Library materials	100,261,365	619,202	-	100,880,567
Intangible assets	41,867,435	8,206,936	(1,600,000)	48,474,371
<b>Total depreciable capital assets</b>	<u>1,411,428,409</u>	<u>71,324,322</u>	<u>(28,790,069)</u>	<u>1,453,962,662</u>
<b>Less accumulated depreciation:</b>				
Land improvements	15,046,516	1,712,204	(1,631,074)	15,127,646
Infrastructure	20,738,655	1,327,148	(20,056)	22,045,747
Buildings and fixed equipment	247,942,897	23,931,183	(6,516,795)	265,357,285
Equipment	68,859,931	8,199,450	(2,779,335)	74,280,046
Library materials	89,277,139	2,687,638	-	91,964,777
Intangible assets	21,606,796	10,046,320	(2,516,396)	29,136,720
<b>Total accumulated depreciation</b>	<u>463,471,934</u>	<u>47,903,943</u>	<u>(13,463,656)</u>	<u>497,912,221</u>
<b>Total depreciable capital assets, net</b>	<u>947,956,475</u>	<u>23,420,379</u>	<u>(15,326,413)</u>	<u>956,050,441</u>
<b>Total capital assets, net</b>	<u>\$ 1,028,387,343</u>	<u>\$ 161,571,231</u>	<u>\$ (63,205,987)</u>	<u>\$ 1,126,752,587</u>

	Balance October 1, 2009	Additions	Retirements/ Transfers	Balance September 30, 2010
<b>Nondepreciable capital assets:</b>				
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
<b>Total nondepreciable capital assets</b>	<u>70,996,507</u>	<u>121,477,626</u>	<u>(112,043,265)</u>	<u>80,430,868</u>
<b>Depreciable capital assets:</b>				
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	98,884,890	11,036,660	(7,697,172)	102,224,378
Library materials	99,485,792	775,573	-	100,261,365
Intangible assets	40,773,300	1,094,135	-	41,867,435
<b>Total depreciable capital assets</b>	<u>1,265,079,598</u>	<u>159,755,959</u>	<u>(13,407,148)</u>	<u>1,411,428,409</u>
<b>Less accumulated depreciation:</b>				
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	67,782,290	7,483,149	(6,405,508)	68,859,931
Library materials	86,186,856	3,090,283	-	89,277,139
Intangible assets	12,548,412	9,058,384	-	21,606,796
<b>Total accumulated depreciation</b>	<u>430,269,090</u>	<u>44,008,706</u>	<u>(10,805,862)</u>	<u>463,471,934</u>
<b>Total depreciable capital assets, net</b>	<u>834,810,508</u>	<u>115,747,253</u>	<u>(2,601,286)</u>	<u>947,956,475</u>
<b>Total capital assets, net</b>	<u>\$ 905,807,015</u>	<u>\$ 237,224,879</u>	<u>\$ (114,644,551)</u>	<u>\$ 1,028,387,343</u>

## Note 8 – Construction Commitments and Financing

The University has contracted for the construction and renovation of several facilities. At September 30, 2011 and 2010, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$154.5 million and \$68.4 million, respectively, which is expected to be financed from grants, bond proceeds, University funds and private gifts.

## Note 9 – Long-term Debt

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

Type/Supported by	Balance October 1, 2010	New Debt	Principal Repayment	Reclass	Balance September 30, 2011
Notes payable					
Crimson Tide Foundation airplane	\$ 2,845,381	\$ -	\$ 510,298	\$ -	\$ 2,335,083
Student housing revenue	3,342,270	-	190,118	-	3,152,152
Rental income	1,820,773	-	312,225	-	1,508,548
Bryce Property	65,750,000	-	23,000,000	-	42,750,000
Bonds					
Student housing revenue	86,288,050	67,863,751	897,769	-	153,254,032
Fraternities/Sororities	24,634,718	22,621,574	5,324,830	-	41,931,462
Intercollegiate athletics	198,796,119	6,000,000	3,774,446	-	201,021,673
Auxiliaries	26,515,203	2,000,000	1,054,601	-	27,460,602
General fee	206,950,911	50,974,675	5,478,355	-	252,447,231
	<u>616,943,425</u>	<u>\$149,460,000</u>	<u>\$ 40,542,642</u>	<u>\$ -</u>	<u>725,860,783</u>
Plus net unamortized bond premium/discount	1,819,125				1,751,725
Less deferred amount on refunding	(2,146,881)				(2,057,428)
Less current portion	(35,627,642)				(43,293,272)
	<u>\$ 580,988,027</u>				<u>\$ 682,261,808</u>

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>

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, 2011, 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
2012	\$ 28,058,272	\$ 15,235,000	\$ 43,293,272	\$ 364,915	\$ 34,667,768	\$ 35,032,683	\$ 78,325,955
2013	16,636,650	15,735,000	32,371,650	301,137	34,173,293	34,474,430	66,846,080
2014	937,947	16,290,000	17,227,947	249,841	33,608,249	33,858,090	51,086,037
2015	936,200	16,895,000	17,831,200	195,447	33,015,558	33,211,005	51,042,205
2016	353,097	17,595,000	17,948,097	161,011	32,322,704	32,483,715	50,431,812
2017-2021	1,682,057	100,480,000	102,162,057	550,283	148,961,274	149,511,557	251,673,614
2022-2026	607,160	125,350,000	125,957,160	242,525	121,739,617	121,982,142	247,939,302
2027-2031	534,400	155,290,000	155,824,400	60,378	86,276,703	86,337,081	242,161,481
2032-2036	-	151,215,000	151,215,000	-	41,601,197	41,601,197	192,816,197
2037-2040	-	62,030,000	62,030,000	-	8,602,400	8,602,400	70,632,400
	<u>\$ 49,745,783</u>	<u>\$676,115,000</u>	<u>\$725,860,783</u>	<u>\$ 2,125,537</u>	<u>\$574,968,763</u>	<u>\$577,094,300</u>	<u>\$1,302,955,083</u>

Pledged revenues for the years ended September 30, 2011 and 2010 as defined by outstanding bond covenants are as follows:

	2011	2010
Tuition and fees	\$ 378,045,840	\$ 337,623,787
Sales and services of educational activities	11,836,707	13,602,206
Auxiliary sales and services	129,901,289	130,545,699
Investment income	51,028,917	95,748,091
Other operating revenue	41,465,749	38,837,737
Total pledged revenues	<u>\$ 612,278,502</u>	<u>\$ 616,357,520</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, 2011 and September 30, 2010 is approximately \$18.9 million and \$23.5 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 2011 of \$612.3 million, the projected maximum annual debt service requirement of \$51.3 million in 2012 is covered approximately 11.9 times by pledged revenues. The University is in compliance with all restrictive financial covenants as of September 30, 2011.



The following is a detailed schedule of long-term debt as of September 30, 2011:

Description	Date Issued	Final Maturity	Interest Rate-%	Original Debt	Outstanding Debt
Bonds Payable:					
General Fee Revenue Bond Series 2001	12/1/01	12/1/26	2.75-5.0	\$ 34,645,000	\$ 25,370,000
General Fee Revenue Bond Series 2004A	7/1/04	7/1/34	4.0-5.25	215,995,000	210,720,000
General Fee Revenue Bond Series 2006A	9/1/06	7/1/36	4.125-5.0	40,575,000	40,115,000
General Fee Revenue Bond Series 2006B	9/1/06	7/1/23	5.22-5.9	23,750,000	18,655,000
General Fee Revenue Bond Series 2008A	8/1/08	7/1/34	3.0-5.0	45,425,000	43,125,000
General Fee Revenue Bond Series 2009A	10/30/09	7/1/39	5.14-6.28	135,425,000	135,425,000
General Fee Revenue Bond Series 2009B	10/30/09	7/1/21	1.25-5.14	48,060,000	42,015,000
General Fee Revenue Bond Series 2010A	7/1/10	7/1/40	2.0-5.875	16,495,000	16,145,000
General Fee Revenue Bond Series 2010B	11/18/10	7/1/40	5.7-5.85	18,000,000	18,000,000
General Fee Revenue Bond Series 2010C	11/18/10	7/1/38	3.8-6.1	100,420,000	100,420,000
General Fee Revenue Bond Series 2010D	11/18/10	7/1/19	1.0-4.0	31,040,000	26,125,000
Total Bonds Payable				<u>709,830,000</u>	<u>676,115,000</u>
Notes Payable:					
U. S. Department of Education	7/20/89	4/15/19	3.0	3,188,000	1,194,787
Commercial finance co., CTF airplane	5/10/05	5/10/15	6.25	5,000,000	2,335,083
U.S. Department of Education	3/23/00	1/1/30	5.5	2,483,000	1,957,365
Geist LLC Promissory Note	1/24/07	2/1/21	6.0	1,800,000	1,288,548
CST LTD Promissory Note	1/5/07	1/5/12	7.0	1,100,000	220,000
Department of Mental Health	5/28/10	12/1/11	0.0	65,750,000	42,750,000
Total Notes Payable				<u>79,321,000</u>	<u>49,745,783</u>
Total Bonds & Notes Payable				<u>\$ 789,151,000</u>	<u>\$ 725,860,783</u>

## Note 10 – 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. Accounts payable and accrued liabilities in the accompanying statements includes a reserve of approximately \$1.4 million and \$1.5 million for general liability at September 30, 2011 and 2010, 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, 2011 and 2010 are summarized as follows:

	2011	2010
Balance, beginning of year	\$ 1,971,900	\$ 1,789,000
Claims paid	(29,846,625)	(28,673,261)
Contributions	30,316,725	28,856,161
Balance, end of year	<u>\$ 2,442,000</u>	<u>\$ 1,971,900</u>



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## Note 11 – 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 2011, 2010, and 2009 was approximately \$48.5 million; \$44.9 million and \$42.0 million, respectively, which consisted of \$34.6 million from the University and \$13.9 million from employees in 2011, \$32.1 million from the University and \$12.8 million from employees in 2010, and \$29.7 million from the University and \$12.3 million from employees in 2009. The University's contribution rate for both fiscal years ended September 30, 2011 and 2010 was 12.51%, and 12.07% for the fiscal year ended September 30, 2009, 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, 2010 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were \$28.3 billion and \$20.1 billion, respectively, resulting in an under-funded AAL of \$8.2 billion. Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2010 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 and 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 2011 and 2010, excluding amounts not eligible for matching, was approximately \$15.6 million and \$14.4 million, which included approximately \$7.8 million and \$7.2 million each from the University and its employees.

The University's total salaries and wages for fiscal years 2011 and 2010 were approximately \$339.0 million and \$311.0 million, respectively. The total salaries and wages during the fiscal years 2011 and 2010, respectively, for covered employees participating in TRS and TIAA – CREF and VALIC were approximately \$276.8 million and \$256.6 million and \$171.1 million and \$158.6 million, respectively.

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## Note 12 – 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 \$1.0 million for each covered individual. The Code of Alabama 1975, Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers.

The required rates of retirees are as follows as of September 30, 2011:

### Retired Member Rates:

- Individual Coverage/Non-Medicare Eligible - \$146
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)- \$381
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$245
- Individual Coverage/Medicare Eligible Retired Member - \$10
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$245
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109

The required contribution rate of the employer was \$420 per employee per month in the year ended September 30, 2011. The University paid \$7.8 million and \$6.9 million for the years ended September 30, 2011

and 2010 for 1,579 and 1,538 retirees, respectively. The required contribution rate is determined by PEEHIP in accordance with state statute. The complete financial report for PEEHIP can be obtained by contacting TRS at 1-877-517-0020.

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 with 25 or more years of credited service are eligible for tuition assistance benefits for themselves as well as for their spouse and unmarried dependent children.

## Note 13 – 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. Accounts payable and accrued liabilities within the accompanying statements of net assets includes an accrual of approximately \$20.8 million and \$18.4 million as of September 30, 2011 and 2010, respectively, primarily for accrued vacation and sick leave.

## Note 14 – 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, 2011 and 2010, respectively, the University disbursed approximately \$161.1 million and \$151.7 million, respectively, under the FDSLP.



## Note 15 – 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. However, the settlement of legal actions is subject to inherent uncertainties, and it is possible that such outcomes could differ materially from management's current expectations.

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.

The University was a guarantor of third party obligations totaling approximately \$2.5 million and \$1.3 million, respectively at September 30, 2011 and 2010.

## Note 16 – 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, 2011 and 2010 are summarized as follows:

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total 2011
Instruction	\$ 198,263,706	\$ -	\$ 28,701,392	\$ 13,561,683	\$ 240,526,781
Research	21,531,790	-	21,940,792	4,434,742	47,907,324
Public service	28,931,275	-	10,362,884	1,409,479	40,703,638
Academic support	50,743,826	-	14,516,542	8,315,400	73,575,768
Student services	24,473,103	-	12,944,373	3,089,421	40,506,897
Institutional support	51,923,837	-	9,674,143	3,239,940	64,837,920
Operations and maintenance	39,963,760	-	35,978,355	-	75,942,115
Scholarships and fellowships	-	6,846,500	-	-	6,846,500
Auxiliary enterprises	50,764,728	3,476,658	62,131,513	13,853,278	130,226,177
	<u>\$ 466,596,025</u>	<u>\$ 10,323,158</u>	<u>\$ 196,249,994</u>	<u>\$ 47,903,943</u>	<u>\$ 721,073,120</u>

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total 2010
Instruction	\$ 181,521,101	\$ -	\$ 29,203,739	\$ 12,355,969	\$ 223,080,809
Research	19,491,829	-	17,183,383	4,142,825	40,818,037
Public service	26,945,376	-	10,917,161	1,414,461	39,276,998
Academic support	46,002,887	-	14,605,702	7,676,491	68,285,080
Student services	22,280,484	-	11,493,499	2,610,815	36,384,798
Institutional support	48,185,520	-	9,883,690	3,008,931	61,078,141
Operations and maintenance	36,644,408	-	33,238,862	-	69,883,270
Scholarships and fellowships	-	13,145,006	-	-	13,145,006
Auxiliary enterprises	47,723,340	5,176,805	66,443,083	12,641,481	131,984,709
	<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>

## Note 17 – Other Noncurrent Assets and Liabilities

The composition of other noncurrent assets at September 30, 2011 and 2010 is summarized as follows:

	2011	2010
Receivable from The Capstone Foundation	\$ 7,863,074	\$ 8,349,981
Debt issuance costs	4,116,761	3,214,019
Other	466,566	143,243
	<u>\$ 12,446,401</u>	<u>\$ 11,707,243</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, 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, 2011 and 2010, is as follows:

	2011	2010
Federal loan funds		
Federal refundable loans, beginning of year	\$ 8,094,406	\$ 9,971,933
Deposits received	498,431	1,795,772
Deposits disbursed	(523,667)	(3,673,299)
Federal refundable loans, end of year	<u>\$ 8,069,170</u>	<u>\$ 8,094,406</u>
Other liabilities		
Split interest agreement obligations, beginning of year	\$ 4,183,890	\$ 3,946,735
New annuities	330,959	96,112
Terminated annuities	(31,739)	-
Investment (loss) income	(63,043)	(185,672)
Payments on obligations	(466,138)	(442,492)
Actuarial change in obligations	351,711	769,207
Total split interest agreement obligations	<u>4,305,640</u>	<u>4,183,890</u>
Less current portion	<u>(465,796)</u>	<u>(450,457)</u>
Split interest agreement obligations, end of year	3,839,844	3,733,433
General liability trust fund liability	1,406,999	1,546,204
Total other liabilities	<u>\$ 5,246,843</u>	<u>\$ 5,279,637</u>

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## Note 18 – Grants and Contracts

At September 30, 2011, the University had been awarded approximately \$45.3 million 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, 2011.

During fiscal year 2011 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 \$20.9 million was expended, with approximately \$14.7 million of that provided to the University through State Fiscal Stabilization Funds. As the State Fiscal Stabilization Funds were fully expended as of the end of fiscal year 2011 and many other ARRA projects have been or will soon be completed, ARRA expenditures are expected to be lower in fiscal year 2012.

## Note 19 – Recently Issued Pronouncements

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 and external investment pools for which significant issues have been identified in practice. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. This Statement did not have a material impact on the University’s financial statements.

The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* (“GASB 60”), in November 2010. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (“SCAs”), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a “facility”) in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University is currently

evaluating the impact, if any, that GASB 60 will have on its 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 entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, were amended to better meet user need 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 and amends the criteria for reporting component units as if there were part of the primary government (that is, blending) in certain circumstances. The Statement also clarifies the reporting of equity interests in legally separate organizations. 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 the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- 1) Financial Accounting Standards Board (FASB) Statements and Interpretation
- 2) Accounting Principles Board Opinions
- 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University is currently evaluating the impact, if any, that GASB 62 will have on its financial statements.

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

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

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