

THE UNIVERSITY OF ALABAMA
FINANCIAL REPORT
2011-2012



2011-2012 Financial Report

Table of Contents

Report of Independent Auditors	3
Management's Discussion and Analysis (Unaudited)	4
Financial Statements:	
Statements of Net Assets	18
Statements of Revenues, Expenses and Changes in Net Assets.....	19
Statements of Cash Flows.....	20
Discretely Presented Component Units	
Statements of Net Assets	22
Statements of Revenues, Expenses and Changes in Net Assets	23
Notes to Financial Statements:	
Note 1 Summary of Significant Accounting Policies.....	24
Note 2 Component Units	28
Note 3 Cash and Cash Equivalents	41
Note 4 Investments.....	42
Note 5 Accounts and Notes Receivable.....	52
Note 6 Loans and Pledges Receivable	52
Note 7 Capital Assets.....	53
Note 8 Construction Commitments and Financing	54
Note 9 Long-Term Debt.....	54
Note 10 Self-Insurance	57
Note 11 Retirement Plan.....	58
Note 12 Post-Employment Benefits	59
Note 13 Compensated Absences	59
Note 14 Federal Direct Lending Program.....	59
Note 15 Contingencies and Commitments	60
Note 16 Operating Expense by Function	61
Note 17 Other Noncurrent Assets and Liabilities	62
Note 18 Grants and Contracts	63
Note 19 Subsequent Events.....	63
Note 20 Recently Issued Pronouncements	63
The Board of Trustees of The University of Alabama	
Executive Officers	65



Report of Independent Auditors

To the Board of Trustees of The University of Alabama:

In our opinion, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of The University of Alabama (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, present fairly, in all material respects, the respective financial position of the University and its discretely presented component units at September 30, 2012 and 2011, and the respective changes in financial position and cash flows, where applicable, thereof 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 conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the University are intended to present the financial position, the changes in financial position, and, where applicable, the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2012 and 2011, its changes in financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis on pages 4 through 16 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The enrollment and statistics information included 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 audits of the basic financial statements, and accordingly, we express no opinion nor provide any assurance on it.

PricewaterhouseCoopers LLP

January 25, 2013

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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, 2012 and 2011. 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, 2012 and 2011.

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, 2012, the University's assets exceeded \$2.9 billion, liabilities were \$1.1 billion leaving net assets of \$1.8 billion, an overall increase in net assets of \$232.4 million from 2011.

The University's Assets

The University's cash and cash equivalents include both current and noncurrent balances of \$60.9 million and \$2.3 million, respectively, at the end of 2012. Noncurrent cash and cash equivalents are reported in Other Noncurrent Assets in the Condensed Statements of Net Assets. Noncurrent cash and cash equivalents are comprised of restricted cash balances of endowment funds. The University considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents. Total cash and cash equivalents decreased \$13.4 million in 2012 from the prior year principally due to cash expended for capital projects. Total cash and cash equivalents increased \$62.3 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.

Accounts receivable experienced an increase of approximately \$5.3 million in fiscal year 2012, largely as a result of increased enrollment and related student receivable accounts. Headcount enrollment for Fall 2011 increased 5.0% with 1,515 additional students attending the University. The current portion of notes receivable experienced an increase of \$2.2 million primarily from the issuance of additional Greek housing loans. In conjunction with those loans, noncurrent notes receivable increased \$21.9 million. This follows an increase in noncurrent notes receivable of \$9.9 million in fiscal year 2011 also related primarily to Greek housing loans.

Pledges receivable (current and noncurrent) decreased \$2.1 million in 2012 to \$31.4 million from \$33.5 million in 2011. The University is still a state-assisted institution, but the percentage of its annual budget provided by the taxes of Alabama's citizens has declined 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. In 2012 there was no declaration of proration. However, proration of 3% was implemented in the 2011 fiscal year and 9.5% in 2010.

Condensed Statements of Net Assets

	September 30,		
	2012	2011	2010
Current assets			
Cash and cash equivalents	\$ 60,917,369	\$ 73,013,896	\$ 10,341,562
Short-term investments	273,564,466	213,353,837	284,426,135
Accounts receivable, net	104,714,972	99,429,818	88,684,134
Other current assets	80,786,800	66,905,630	53,590,945
Noncurrent assets			
Endowment, life income and other investments	1,021,810,297	1,040,630,540	900,120,799
Capital assets, net	1,290,466,310	1,126,752,587	1,028,387,343
Other noncurrent assets	105,260,696	86,199,825	76,216,253
Total assets	<u>2,937,520,910</u>	<u>2,706,286,133</u>	<u>2,441,767,171</u>
Current liabilities	413,375,798	377,380,141	295,824,349
Noncurrent liabilities	674,726,638	711,851,414	610,016,347
Total liabilities	<u>1,088,102,436</u>	<u>1,089,231,555</u>	<u>905,840,696</u>
Net assets			
Invested in capital assets, net of related debt	671,586,724	598,396,660	535,715,079
Restricted	646,445,273	591,311,502	602,149,736
Unrestricted	531,386,477	427,346,416	398,061,660
Total net assets	<u>\$ 1,849,418,474</u>	<u>\$ 1,617,054,578</u>	<u>\$ 1,535,926,475</u>

Total combined investments, which includes short-term investments, endowment and life income investments, investments for capital activities, and other long-term investments, increased \$41.4 million from 2011 to 2012, primarily as a result of unrealized gains netted with a decrease in investments of bond proceeds that were expended for capital projects. Fiscal year 2011 saw an increase of \$69.4 million due primarily to 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.

Investments classified as current are available for operating purposes while noncurrent investments relate primarily 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. At the 2012 fiscal year-end, short-term investments increased \$60.2 million due to favorable market returns and cash received for the Fall 2012 term. 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. In 2012, capital assets increased \$163.7 million due primarily to new buildings. The University was gifted a conservation easement valued at \$25.0 million and classified as an intangible asset. In 2011, capital assets increased \$98.4 million, net of annual depreciation, from \$1.0 billion in 2010 to \$1.1 billion in 2011. 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 2012 included the Science and Engineering Building Phase IV (\$34.1 million), the Presidential Village I (formerly North Bluff Residential Community) (\$32.9 million), Russell Hall renovation and addition (\$12.8 million), the Science and Engineering Building Phase III (\$8.9 million), Moore Hall renovation (\$7.5 million), East Quad Energy Plant (\$5.0 million), the University Police Center (\$4.5 million), Presidential Village II (\$3.6 million), Indoor Tennis Stadium (\$3.4 million), and the Athletic Practice Fields replacement project (\$3.3 million).

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.

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 2012, the University's receivable from The Capstone Foundation Investment for the Eminent Scholars Program increased \$0.5 million from \$7.9 million in 2011 to \$8.4 million in 2012, the result of unrealized gains at year end. Debt issuance costs, totaling \$3.7 million and \$4.1 million, at September 30, 2012 and 2011 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 housing 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 \$413.4 million in 2012 compared to \$377.4 million in 2011, an increase of \$36.0 million. Deferred revenue contributes to this increase due to tuition and fee income. 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 deposits at September 30, 2012 totaled \$66.7 million. Increases in deferred revenue and deposits are offset by a decline in the current portion of long-term debt as the payment due for the Bryce Property purchase decreased according to the payment schedule. In accordance with the purchase agreement, a balance of \$3 million remains on this purchase as of the fiscal year ending September 30, 2012. 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 \$232.4 million, or 14.4%, during the 2012 year, exceeding \$1.8 billion. This follows a 5.3% increase of \$81.1 million in fiscal year 2011, and a 12.3% increase of \$167.8 million in 2010.

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 \$73.2 million, from \$598.4 million in 2011, to \$671.6 million in 2012. The prior year saw an increase of \$62.7 million over 2010.

Restricted nonexpendable net assets increased approximately \$21.7 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 \$29.1 million.

Restricted expendable net assets increased \$33.4 million in 2012, primarily due to investment gains recorded during the year. Fiscal year 2011 experienced a decrease of \$39.9 million, 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.

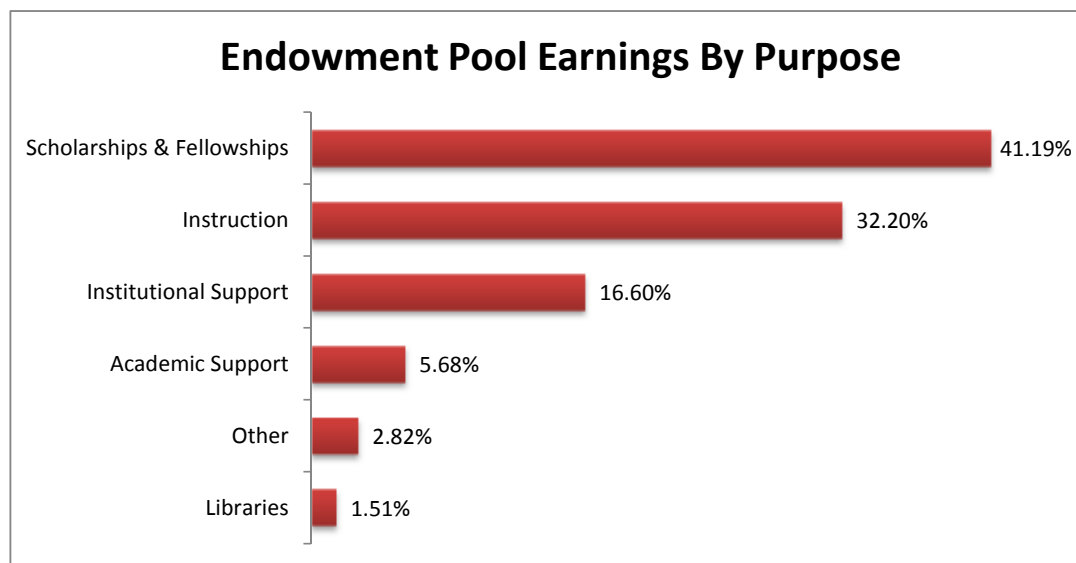
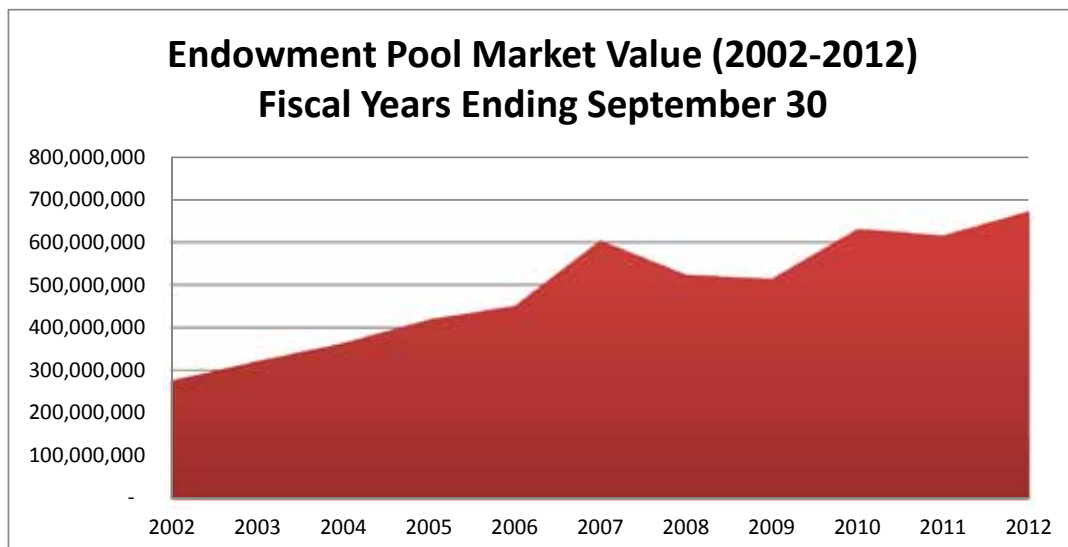
Unrestricted net assets rose \$104.0 million during the 2012 year primarily due to auxiliary activities and gains on unrestricted investments. This change follows a \$28.5 million increase during the 2011 fiscal year resulting from auxiliary activities and the receipt of unrestricted gifts.

University Endowments

The University's endowments experienced an increase of \$56.7 million in fiscal year 2012 with a September 30 value of \$673.6 million. Favorable market conditions, resulting in the recording of gains, as well as gifts to endowments, are responsible for this growth.

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 student 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,

	2012	2011	2010
Operating revenues			
Tuition and fees	\$ 454,187,595	\$ 378,045,840	\$ 337,623,787
Less: scholarship allowances	(105,643,511)	(89,512,958)	(73,467,255)
Tuition and fees, net	348,544,084	288,532,882	264,156,532
Sponsored programs	74,617,162	80,508,623	68,583,560
Sales and services of educational activities	11,643,489	11,836,707	13,602,206
Auxiliary sales and services, net	140,948,823	122,446,271	124,338,611
Other operating revenues	44,505,964	42,297,178	38,797,326
Total operating revenues	620,259,522	545,621,661	509,478,235
Operating expenses	755,944,606	721,073,120	683,936,848
Operating loss	(135,685,084)	(175,451,459)	(174,458,613)
Nonoperating revenues (expenses)			
State educational appropriations	145,951,239	137,427,195	138,540,845
State fiscal stabilization funds	-	14,699,372	14,699,372
Gifts	50,354,337	53,594,605	45,811,070
Grants	31,128,382	30,492,746	26,228,993
Investment income, net	94,052,944	1,125,350	130,274,948
Interest expense	(34,153,468)	(35,340,619)	(24,948,682)
Other nonoperating revenues (expenses), net	1,971,520	(1,812,839)	(745,051)
Net nonoperating revenues	289,304,954	200,185,810	329,861,495
Income before other changes in net assets	153,619,870	24,734,351	155,402,882
Other changes in net assets			
Capital appropriations	1,040,837	20,257,391	15,939,908
Capital gifts and grants	52,078,458	26,900,828	28,956,006
Additions to permanent endowments	18,209,743	16,623,409	16,208,005
Intragovernmental transfers	7,414,988	(7,387,876)	(48,750,945)
Increase in net assets	232,363,896	81,128,103	167,755,856
Net assets, beginning of year	1,617,054,578	1,535,926,475	1,368,170,619
Net assets, end of year	\$ 1,849,418,474	\$ 1,617,054,578	\$ 1,535,926,475

The statement of revenues, expenses and changes in net assets (the "SRECNA") presents the increase in net assets of \$232.4 million, \$81.1 million, and \$167.8 million, for the fiscal years ended September 30, 2012, 2011, and 2010, respectively. As noted in the SRECNA, the University experienced operating losses in all fiscal years presented of \$135.7 million, \$175.5 million, and \$174.4 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 \$60.0 million to \$348.5 million in 2012 from \$288.5 million in 2011 due to student enrollment growth and a Board approved tuition rate increase. 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 a minor decrease of \$0.8 million in 2012, following increases of \$6.5 million and \$1.9 million in 2011 and 2010, respectively. State and local grants and contracts increased \$2.1 million, following a decrease of \$129,000 collectively, while private grants and contracts decreased by approximately \$7.5 million, following a large software contribution in 2011. During fiscal year 2012, the University continued expending federal funding under the American Recovery and Reinvestment Act (ARRA), primarily in the form of sponsored research grants. Approximately \$6.0 million was expended in the 2012 fiscal year. As many ARRA projects have been or will soon be completed, ARRA expenditures are expected to be lower in fiscal year 2013.

The University's auxiliary activities are comprised of Intercollegiate Athletics, food service, housing, supply store, telecommunications, and other miscellaneous auxiliary enterprises. Auxiliary income increased \$18.5 million, due principally to athletic income, housing income, and supply store sales. This increase follows a decrease of \$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.

Other operating revenue saw an increase of \$2.2 million in 2012 as a result of University departments impacted by higher enrollment figures, such as University Recreation and the Student Health Center. This follows a \$3.5 million increase in other operating revenues for 2011, primarily due to Capstone Village and its first full year of operations under the auspices of the University.

Non-Operating Revenues and Expenses

The University's non-operating revenues assist in offsetting the University's operating loss of \$135.7 million for 2012. In fiscal year 2012, the University received \$146.0 million in state educational appropriations for operating purposes, \$50.4 million in private gifts, and \$94.0 million in net investment income. In fiscal year 2011, the University received \$137.4 million in state educational appropriations to be used for operating purposes, \$53.6 million in private gifts, and \$1.1 million in net investment income. In 2010, the University received \$138.5 million in state educational appropriations, \$45.8 million in private gifts and net investment income totaling \$130.3 million.

Gift revenues decreased \$3.2 million in 2012 due primarily to a change in estimate regarding the pledge allowance policy and a decrease in gifts received for Greek housing projects. Gifts increased in 2011 by \$7.8 million, followed by a \$1.3 million decrease in fiscal year 2010. The primary influence on the 2011 increase in gift revenue stems from gifts and pledges in support of Greek Housing capital gift campaigns. Plus, \$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. Also, included in nonoperating grants are Build America Bonds interest reimbursements. In 2012, nonoperating grant revenue rose slightly to \$31.1 million, up \$0.6 million from \$30.5 million in 2011.

Investment income increased \$92.9 million to \$94.1 million, in the 2012 fiscal year. Unrealized gains are responsible for this large increase, as investments rebounded from an unrealized loss of \$45.5 million in 2011. This follows a decrease of \$129.1 million in 2011,

which reflected turbulent market activity for the year. In 2010, investment income was \$129.2 million, following a favorable market, as well as a \$61.6 million entry to record the Bryce Property at fair value because 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 gains and losses on endowment investments were mainly responsible for the dramatic year to year volatility in investment revenue.

Operating Expenses

Salaries, wages and benefits increased \$19.0 million to \$485.6 million in 2012 from \$466.6 million in 2011, which was a \$37.8 million increase over 2010. The University maintains a competitive salary base to attract and retain talented faculty, staff and graduate

students and has strategically added new positions to accommodate growth in student enrollment.

Supplies and other services experienced a modest increase of \$6.1 million. A portion of this increase is attributable to the cost of goods sold at the University's Supply Store, as well as travel and other similar expenses related to athletic post-season participation.

Scholarships and fellowships expense is reported net of scholarship allowances totaling \$113.9 million. The net expenses of \$19.5 million, \$10.3 million and \$18.3 million for fiscal years 2012, 2011 and 2010, respectively, represent payments made directly to students after awards have been applied against tuition and fees charged to student accounts. Gross scholarship expenses totaled \$133.0 million, \$107.0 million and \$97.9 million for the years ended September 30, 2012, 2011 and 2010, respectively.

Operating Expenses (by natural classification)

	Year ended September 30,		
	2012	2011	2010
Salaries, wages and benefits	\$ 485,618,389	\$ 466,596,025	\$ 428,794,945
Scholarships and fellowships	19,454,077	10,323,158	18,321,811
Supplies and other services	202,361,216	196,249,994	192,969,119
Depreciation	48,510,924	47,903,943	43,850,973
Total operating expenses	\$ 755,944,606	\$ 721,073,120	\$ 683,936,848



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.

2012 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 206,268,055	\$ -	\$ 30,774,738	\$ 13,317,643	\$ 250,360,436
Research	22,776,014	-	21,688,211	4,534,233	48,998,458
Public Service	29,375,223	-	9,607,620	1,460,818	40,443,661
Academic Support	53,852,787	-	13,464,738	8,303,145	75,620,670
Student Services	26,689,360	-	13,230,812	3,103,041	43,023,213
Institutional Support	51,581,753	-	9,781,824	3,490,734	64,854,311
Operations and Maintenance	41,818,457	-	36,059,528	-	77,877,985
Scholarships and Fellowships	-	15,710,068	-	-	15,710,068
Auxiliary Enterprises	53,256,740	3,744,009	67,753,745	14,301,310	139,055,804
	<u>\$ 485,618,389</u>	<u>\$ 19,454,077</u>	<u>\$ 202,361,216</u>	<u>\$ 48,510,924</u>	<u>\$ 755,944,606</u>

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>

Other Changes in Net Assets

Capital gifts and grants have fluctuated somewhat over the three years presented in the condensed SRECNA. In 2012, the University received a capital gift-in-kind of a conservation easement, valued at \$25.0 million. 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. No additional bond money was received in 2012 for the Science and Engineering complex from the State. 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 2012 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, 2012, the University had \$1.8 billion invested in gross capital assets and accumulated depreciation of \$540.4 million. Depreciation expense totaled \$48.5 million for the current fiscal year. Buildings and fixed equipment are responsible for the largest increase. The following schedule summarizes the University’s capital assets, net of accumulated depreciation.

Capital Assets, Net of Accumulated Depreciation

	2012	2011	2010
Land	\$ 18,508,472	\$ 17,371,572	\$ 13,698,674
Land Improvements	34,066,091	30,013,837	24,996,047
Infrastructure	25,977,797	22,260,247	20,922,649
Buildings and Fixed Equipment	1,005,847,577	840,622,889	837,428,467
Construction in Progress	97,613,604	132,919,774	46,630,106
Equipment	39,450,466	34,900,027	33,364,447
Library Materials & Collections	28,126,882	29,326,590	31,086,314
Intangible Assets	40,875,421	19,337,651	20,260,639
	<u>\$ 1,290,466,310</u>	<u>\$ 1,126,752,587</u>	<u>\$ 1,028,387,343</u>





Capital asset expenditures for fiscal year 2012
(in millions):

• Science & Engineering Phase IV	\$34.1
• Presidential Village I (former North Bluff)	\$32.9
• Russell Hall Renovation & Addition	\$12.8
• Science & Engineering Phase III	\$8.9
• Moore Hall Renovation	\$7.5
• East Quad Energy Plant	\$5.0
• University Police Center	\$4.5
• Presidential Village II	\$3.6
• Indoor Tennis Stadium	\$3.4
• Athletic Practice Fields Replacement	\$3.3

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

• Science & Engineering Phase III	\$41.7
• North Bluff Residential Community	\$23.5
• East Quad Energy Plant	\$12.6
• Science & Engineering 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 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

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

At September 30, 2012, the University had \$669.8 million of debt outstanding, of which \$19.6 million 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

	2012	2011	2010
Bonds Payable	\$ 660,880,000	\$ 676,115,000	\$ 543,185,000
Notes Payable	8,937,510	49,745,783	73,758,425
	<u>\$ 669,817,510</u>	<u>\$ 725,860,783</u>	<u>\$ 616,943,425</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

	2012	2011	2010
Cash received from operations	\$ 643,431,697	\$ 565,179,121	\$ 523,927,080
Cash payments from operations	(716,371,350)	(679,755,274)	(633,472,046)
Net cash used in operating activities	(72,939,653)	(114,576,153)	(109,544,966)
Net cash provided by noncapital financing activities	279,717,287	271,376,574	243,790,719
Net cash (used in) provided by capital and related financing activities	(248,181,281)	(15,655,155)	53,622,640
Net cash provided by (used in) investing activities	27,976,528	(78,864,642)	(221,373,179)
Net (decrease) increase in cash and cash equivalents	(13,427,119)	62,280,624	(33,504,786)
Cash and cash equivalents, beginning of year	76,632,550	14,351,926	47,856,712
Cash and cash equivalents, end of year	<u>\$ 63,205,431</u>	<u>\$ 76,632,550</u>	<u>\$ 14,351,926</u>

In 2012, the University used \$73.0 million of cash for operating activities, while \$279.7 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 \$114.6 million of cash for operating activities in 2011, offset by approximately \$271.4 million of cash provided by noncapital financing activities. Similarly, in 2010, \$109.5 million of cash used for operating activities was offset by \$243.8 million in cash provided by noncapital financing activities.

In 2012, \$248.2 million of cash was used in capital and related financing activities, while \$15.7 million was used in 2011, following \$53.6 million in cash provided by these activities in 2010. Cash provided by investing activities of \$28.0 million in 2012, followed cash used in investing activities of \$78.9 million and \$221.4 million in 2011 and 2010, respectively.

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. 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.

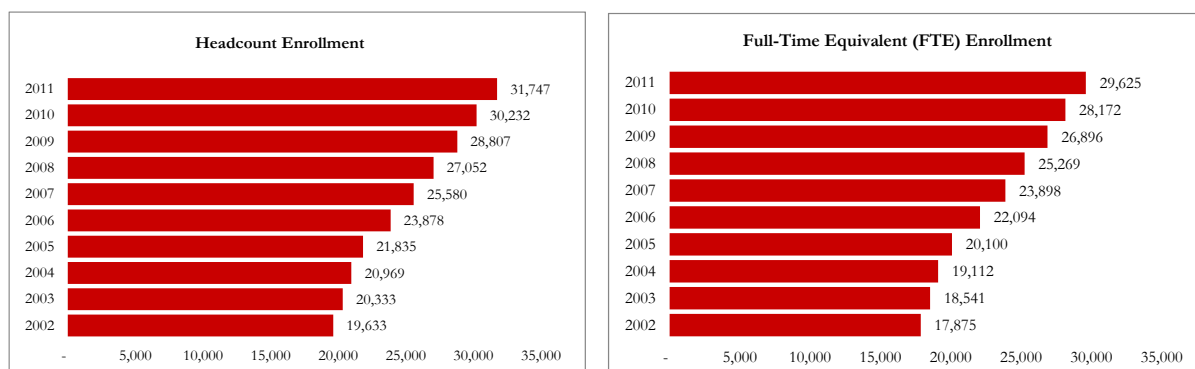
Requests for Information

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 31,747 in Fall 2011, a significant increase of 1,515, while Full-time equivalent (“FTE”) enrollment totaled 29,625, an increase of 1,453. The chart below displays counts taken for each fall semester; the last of which (2011), demonstrates enrollment figures occurring for the fall semester of the 2012 fiscal year.



The University of Alabama Statistical Highlights Fall Semester

Fall Headcount Enrollment	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Undergraduate	26,234	24,884	23,702	22,343	21,082	19,474	17,553	16,571	15,892	15,452
Graduate	4,913	4,726	4,473	3,978	3,851	3,781	3,687	3,756	3,763	3,542
Professional	600	622	632	731	647	623	595	642	678	639
Total Fall Enrollment	31,747	30,232	28,807	27,052	25,580	23,878	21,835	20,969	20,333	19,633

Fall First-Time Freshman Admissions	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Applications	22,136	20,112	19,518	18,500	14,313	12,513	10,707	9,106	8,298	7,322
Admits	9,636	10,790	11,194	11,172	9,140	8,766	7,755	7,021	7,194	6,196
Enrolled	5,772	5,519	5,116	5,116	4,538	4,378	3,735	3,368	3,077	2,655
Percent Admitted	43.5%	53.7%	57.4%	60.4%	63.9%	70.1%	72.4%	77.1%	86.7%	84.6%
Percent Enrolled	59.9%	51.2%	45.7%	45.8%	49.6%	49.9%	48.2%	48.0%	42.8%	42.9%

Degrees Conferred Academic Years Ending May	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Baccalaureate	4,482	4,463	4,284	3,713	3,398	3,131	2,815	2,931	3,024	2,892
Master's	1,571	1,513	1,287	1,265	1,237	1,183	1,151	1,283	1,072	1,070
Educational Specialist	53	44	52	51	83	62	50	107	103	60
First Professional	175	159	171	172	154	152	172	183	172	165
Doctoral	252	242	209	192	191	160	181	154	158	178
Total Degrees Conferred	6,533	6,421	6,003	5,393	5,063	4,688	4,369	4,658	4,529	4,365

Academic Years Ending May	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03
Undergraduate In-State Academic										
Year Tuition	\$8,600	\$7,900	\$7,000	\$6,400	\$5,700	\$5,278	\$4,864	\$4,630	\$4,134	\$3,556
Percent Increase Over Prior Year	8.9%	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 and Assessment

The University of Alabama
Statements of Net Assets
September 30, 2012 and 2011

	2012	2011
Current assets		
Unrestricted cash and cash equivalents	\$ 11,339,405	\$ 46,634,000
Restricted cash and cash equivalents	49,577,964	26,379,896
Short-term investments	273,564,466	213,353,837
Accounts receivable, net	104,714,972	99,429,818
Current portion of notes receivable, net	5,836,749	3,669,701
Current portion of student loans receivable	1,847,783	2,050,423
Current portion of pledges receivable	9,382,609	9,630,926
Inventories	6,384,239	6,477,222
Prepaid and deferred expenses	56,006,517	43,875,038
Other current assets	1,328,903	1,202,320
Total current assets	<u>519,983,607</u>	<u>452,703,181</u>
Noncurrent assets		
Restricted cash and cash equivalents	2,288,062	3,618,654
Endowment, and life income investments	673,605,620	616,925,376
Investments for capital activities	182,950,944	264,758,927
Other long-term investments	165,253,733	158,946,237
Notes receivable, net	59,596,475	37,656,517
Student loans receivable, net	9,118,287	8,612,203
Pledges receivable, net	22,010,715	23,866,050
Capital assets, net	1,290,466,310	1,126,752,587
Other noncurrent assets	12,247,157	12,446,401
Total noncurrent assets	<u>2,417,537,303</u>	<u>2,253,582,952</u>
Total assets	<u>\$ 2,937,520,910</u>	<u>\$ 2,706,286,133</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 120,294,499	\$ 116,960,727
Current portion of deferred revenue	206,717,811	180,458,353
Deposits	66,741,838	36,667,789
Current portion of long-term debt	19,621,650	43,293,272
Total current liabilities	<u>413,375,798</u>	<u>377,380,141</u>
Noncurrent liabilities		
Federal refundable loans	8,045,094	8,069,170
Other liabilities	5,245,737	5,246,843
Deferred revenue	11,728,826	16,273,593
Long-term debt, net	649,706,981	682,261,808
Total noncurrent liabilities	<u>674,726,638</u>	<u>711,851,414</u>
Total liabilities	<u>1,088,102,436</u>	<u>1,089,231,555</u>
Net assets		
Invested in capital assets, net of related debt	671,586,724	598,396,660
Restricted		
Nonexpendable	333,221,880	311,521,231
Expendable	313,223,393	279,790,271
Unrestricted	531,386,477	427,346,416
Total net assets	<u>1,849,418,474</u>	<u>1,617,054,578</u>
Total liabilities and net assets	<u>\$ 2,937,520,910</u>	<u>\$ 2,706,286,133</u>

See accompanying notes to financial statements.

The University of Alabama
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended September 30, 2012 and 2011

	2012	2011
Operating revenues		
Tuition and fees	\$ 454,187,595	\$ 378,045,840
Less: scholarship allowances	(105,643,511)	(89,512,958)
Tuition and fees, net	348,544,084	288,532,882
Federal grants and contracts	48,050,820	48,829,717
State grants and contracts	23,642,389	21,552,559
Local grants and contracts	518,818	268,978
Private grants and contracts	2,405,135	9,857,369
Sales and services of educational activities	11,643,489	11,836,707
Auxiliary sales & services, net of \$8,210,078 in 2012 and \$7,455,018 in 2011 of scholarship allowances	140,948,823	122,446,271
Other operating revenues	44,505,964	42,297,178
Total operating revenues	<u>620,259,522</u>	<u>545,621,661</u>
Operating expenses		
Salaries, wages and benefits	485,618,389	466,596,025
Scholarships and fellowships	19,454,077	10,323,158
Supplies and other services	202,361,216	196,249,994
Depreciation	48,510,924	47,903,943
Total operating expenses	<u>755,944,606</u>	<u>721,073,120</u>
Operating loss	<u>(135,685,084)</u>	<u>(175,451,459)</u>
Nonoperating revenues (expenses)		
State educational appropriations	145,951,239	137,427,195
State fiscal stabilization funds	-	14,699,372
Gifts	50,354,337	53,594,605
Grants	31,128,382	30,492,746
Investment income, net	94,052,944	1,125,350
Interest expense	(34,153,468)	(35,340,619)
Other nonoperating revenues (expenses), net	1,971,520	(1,812,839)
Net nonoperating revenues	<u>289,304,954</u>	<u>200,185,810</u>
Income before other changes in net assets	<u>153,619,870</u>	<u>24,734,351</u>
Other changes in net assets		
State capital appropriations	1,040,837	20,257,391
Capital gifts and grants	52,078,458	26,900,828
Additions to permanent endowments	18,209,743	16,623,409
Intragovernmental transfers	7,414,988	(7,387,876)
Increase in net assets	<u>232,363,896</u>	<u>81,128,103</u>
Net assets, beginning of year	<u>1,617,054,578</u>	<u>1,535,926,475</u>
Net assets, end of year	<u>\$ 1,849,418,474</u>	<u>\$ 1,617,054,578</u>

See accompanying notes to financial statements.

The University of Alabama
Statements of Cash Flows
September 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Student tuition and fees, net	\$ 356,695,309	\$ 311,212,969
Grants and contracts	77,853,323	78,260,067
Receipts from sales and services of:		
Educational activities	7,540,812	12,872,713
Other receipts	41,755,290	39,401,408
Auxiliary enterprises	151,775,834	123,431,964
Other receipts (disbursements)	7,811,129	(4,795,111)
Payments to suppliers	(199,303,760)	(193,451,399)
Payments to employees	(485,319,046)	(459,640,320)
Payments for scholarships and fellowships	(31,445,099)	(21,551,799)
Student loan disbursements	(303,445)	(316,645)
Net cash used in operating activities	<u>(72,939,653)</u>	<u>(114,576,153)</u>
Cash flows from noncapital financing activities		
State educational appropriations	145,951,239	137,427,195
Private gifts	69,823,530	69,022,906
Grants	31,128,382	30,492,746
Student direct lending receipts	165,145,790	160,613,375
Student direct lending disbursements	(165,659,529)	(161,081,002)
Deposits from affiliates, net	513,739	467,627
Other receipts, net	33,133,205	19,862,221
Intragovernmental transfers	(319,069)	(127,866)
State fiscal stabilization funds	-	14,699,372
Net cash provided by noncapital financing activities	<u>279,717,287</u>	<u>271,376,574</u>
Cash flows from capital and related financing activities		
Proceeds from issuance of notes and bonds payable	-	149,460,000
Bond issuance costs	-	(488,479)
Capital gifts, grants and contracts	26,604,562	26,079,874
State capital appropriations	-	20,257,391
Purchases of capital assets	(192,972,184)	(131,766,487)
Principal payments on capital debt	(56,043,273)	(40,542,642)
Interest payments on capital debt	(33,504,443)	(31,394,802)
Intragovernmental transfers	7,734,057	(7,260,010)
Net cash used in capital and related financing activities	<u>(248,181,281)</u>	<u>(15,655,155)</u>
Cash flows from investing activities		
Interest and dividends on investments	41,823,245	49,872,112
Purchases of investments	(210,109,078)	(407,642,664)
Proceeds from sales and maturities of investments	219,675,234	288,049,822
Payments received on notes receivable	5,745,312	4,244,994
Disbursements from issuance of notes receivable	(29,158,185)	(13,388,906)
Net cash provided by (used in) investing activities	<u>27,976,528</u>	<u>(78,864,642)</u>
Net (decrease) increase in cash and cash equivalents	<u>(13,427,119)</u>	<u>62,280,624</u>
Cash and cash equivalents, beginning of year	76,632,550	14,351,926
Cash and cash equivalents, end of year	<u>\$ 63,205,431</u>	<u>\$ 76,632,550</u>

See accompanying notes to financial statements.

	2012	2011
Reconciliation of cash and cash equivalents to the statement of net assets		
Unrestricted cash and cash equivalents-current	\$ 11,339,405	\$ 46,634,000
Restricted cash and cash equivalents-current and noncurrent	51,866,026	29,998,550
Total cash and cash equivalents	<u>\$ 63,205,431</u>	<u>\$ 76,632,550</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (135,685,084)	\$ (176,282,888)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	48,510,924	47,903,943
Bad debt expense	1,519,157	1,283,186
Changes in assets and liabilities		
Accounts and other receivables	(6,972,337)	(11,016,275)
Inventories and other assets	(5,703,653)	(16,780,107)
Accounts payable and accrued liabilities	3,676,649	9,393,943
Deferred revenue	21,714,691	30,922,045
Net cash used in operating activities	<u>\$ (72,939,653)</u>	<u>\$ (114,576,153)</u>
Supplemental noncash activities information		
Gift of capital assets	\$ 25,473,896	\$ 820,954
Gift of investments	\$ (844,200)	\$ 577,314
Assets acquired with a liability	\$ 27,739,801	\$ 27,936,556
Loss on the disposal of capital assets	\$ (1,105,831)	\$ (2,510,757)
Capital appropriations	\$ 1,040,837	\$ -

See accompanying notes to financial statements.



The University of Alabama
Discretely Presented Component Units
Statements of Net Assets
2012 and 2011

	2012	2011
Assets		
Current assets		
Cash and cash equivalents	\$ 1,458,710	\$ 4,414,113
Restricted cash and cash equivalents	9,984,614	8,650,077
Short-term investments	24,568,217	16,035,206
Accounts receivable, net	1,530,610	1,531,148
Current portion of notes receivable, net	718,636	555,495
Current portion of pledges receivable, net	336,436	399,007
Inventories	387,568	293,375
Prepaid and deferred expenses	151,655	119,347
Other current assets	968,692	1,057,712
Due from The University of Alabama	883,155	805,982
Total current assets	<u>40,988,293</u>	<u>33,861,462</u>
Noncurrent assets		
Restricted cash and cash equivalents	8,057,200	8,057,200
Endowment investments	65,913,740	66,472,266
Other long-term investments	15,505,975	17,426,606
Notes receivable, net	-	616,793
Pledges receivable, net	389,969	381,839
Capital assets, net	84,831,932	87,214,869
Other noncurrent assets	65,297	65,297
Total noncurrent assets	<u>174,764,113</u>	<u>180,234,870</u>
Total assets	<u>\$ 215,752,406</u>	<u>\$ 214,096,332</u>
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 3,790,249	\$ 3,353,863
Deferred revenue	4,435,817	4,066,594
Current portion of long-term debt	4,856,060	3,522,208
Due to The University of Alabama	772,726	713,556
Total current liabilities	<u>13,854,852</u>	<u>11,656,221</u>
Noncurrent liabilities		
Other liabilities	4,868,053	4,717,463
Long-term debt, net	95,652,154	100,283,254
Due to The University of Alabama	8,416,740	7,863,074
Total noncurrent liabilities	<u>108,936,947</u>	<u>112,863,791</u>
Total liabilities	<u>122,791,799</u>	<u>124,520,012</u>
Net assets		
Invested in capital assets, net of related debt	(3,580,771)	(4,418,546)
Restricted		
Nonexpendable	43,016,127	40,816,203
Expendable	23,293,557	27,445,829
Unrestricted	30,231,694	25,732,834
Total net assets	<u>92,960,607</u>	<u>89,576,320</u>
Total liabilities and net assets	<u>\$ 215,752,406</u>	<u>\$ 214,096,332</u>

See accompanying notes to financial statements.

The University of Alabama
Discretely Presented Component Units
Statements of Revenues, Expenses and Changes in Net Assets
2012 and 2011

	2012	2011
Operating revenues		
Gifts	\$ 11,916,292	\$ 8,433,915
Other operating revenues	29,491,980	27,357,297
Total operating revenues	<u>41,408,272</u>	<u>35,791,212</u>
Operating expenses		
Salaries, wages and benefits	7,017,085	5,998,009
Scholarships and fellowships	2,266,546	2,895,135
Supplies and services	9,413,667	7,950,208
Depreciation	2,379,734	2,389,074
Total operating expenses	<u>21,007,032</u>	<u>19,232,426</u>
Operating income	<u>20,331,240</u>	<u>16,558,786</u>
Nonoperating revenues (expenses)		
Investment income	1,560,027	10,603,003
Interest expense	(6,599,319)	(6,771,792)
Payments to The University of Alabama	(11,263,561)	(6,993,200)
Change in value of split-interest agreements	(477,817)	(458,283)
Other nonoperating expenses	(168,407)	(168,407)
Net nonoperating expenses	<u>(16,949,077)</u>	<u>(3,788,679)</u>
Income before other changes in net assets	3,382,163	12,770,107
Other changes in net assets		
Intragovernmental transfers	(2,124)	(265,872)
Increase in net assets	<u>3,384,287</u>	<u>12,504,235</u>
Net assets, beginning of year	89,576,320	77,072,085
Net assets, end of year	<u>\$ 92,960,607</u>	<u>\$ 89,576,320</u>

See accompanying notes to financial statements.



The University of Alabama

Notes to Financial Statements

Years Ended September 30, 2012 and 2011

Note 1 – Summary of Significant Accounting Policies

The University of Alabama (the “University”), in 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 University 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 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

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 \$6.5 million and \$5.8 million at September 30, 2012 and 2011, 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 \$4.3 million at September 30, 2012 and 2011, respectively.

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

Endowment Spending: 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, 2012 and 2011 of 5.0% which is based on a moving three-year average of the market (unit) value.

Deferred Revenues: Deferred revenues consist primarily of tuition and Intercollegiate Athletics 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 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.



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 Intercollegiate Athletic Department and it exclusively benefits the University.

The comparative financial statements of CTF for the year ended June 30, 2011 were revised to correct an immaterial misstatement. The effect of the misstatement totaled \$2.4 million and was not material to any previously issued financial statements of CTF or the University.

CTF financial information for the years ended June 30, 2012 and June 30, 2011 is included in the University’s financial statements and presented as follows:



The Crimson Tide Foundation

Statements of Net Assets

June 30, 2012 and 2011

Assets	2012	2011
Current assets		
Cash and cash equivalents	\$ 180,852	\$ 123,791
Short-term investments	43,285,401	26,841,891
Pledges receivable, net	6,494,670	6,177,011
Other current assets	2,500	-
Other receivables	3,452,159	9,711,775
Total current assets	<u>53,415,582</u>	<u>42,854,468</u>
Noncurrent assets		
Restricted cash and cash equivalents	6,154	60,100
Endowment investments	9,573,588	6,970,312
Pledges receivable, net	12,344,356	14,297,883
Other long-term investments	46,563,517	50,037,268
Capital assets, net	2,483,781	2,883,475
Total noncurrent assets	<u>70,971,396</u>	<u>74,249,038</u>
Total assets	<u><u>\$ 124,386,978</u></u>	<u><u>\$ 117,103,506</u></u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 585,235	\$ 453,948
Deferred revenue	7,781,915	7,487,147
Note payable, current portion	578,055	543,121
Other current liabilities	1,179,911	-
Total current liabilities	<u>10,125,116</u>	<u>8,484,216</u>
Noncurrent liabilities		
Note payable, long-term portion	<u>1,213,907</u>	<u>1,791,962</u>
Total noncurrent liabilities	<u>1,213,907</u>	<u>1,791,962</u>
Total liabilities	<u>11,339,023</u>	<u>10,276,178</u>
Net assets		
Invested in capital assets, net of related debt	691,819	548,392
Restricted		
Nonexpendable	8,779,008	6,505,181
Expendable	14,384,464	12,765,617
Unrestricted	<u>89,192,664</u>	<u>87,008,138</u>
Total net assets	<u>113,047,955</u>	<u>106,827,328</u>
Total liabilities and net assets	<u><u>\$ 124,386,978</u></u>	<u><u>\$ 117,103,506</u></u>

The Crimson Tide Foundation
Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2012 and 2011

	2012	2011
Operating revenues		
Private gifts	\$ 27,710,358	\$ 26,212,080
Other operating revenues	20,600,432	20,352,901
Total operating revenues	<u>48,310,790</u>	<u>46,564,981</u>
Operating expenses		
Benefits	360,881	419,669
Scholarships	264,540	251,142
Professional fees	515,594	383,391
Travel	476,089	655,534
Supplies	223,355	185,567
Conference and entertainment	821,547	461,178
Communication and information	87,489	28,820
Rentals	250,021	208,983
Repairs and maintenance	299,225	291,250
Depreciation	399,694	436,542
Other	182,699	208,255
Total operating expenses	<u>3,881,134</u>	<u>3,530,331</u>
Operating income	<u>44,429,656</u>	<u>43,034,650</u>
Nonoperating revenues (expenses)		
Investment income, net	(517,819)	6,020,797
Interest expense	(130,560)	(166,190)
Net nonoperating (expenses) revenues	<u>(648,379)</u>	<u>5,854,607</u>
Income before other changes in net assets	43,781,277	48,889,257
Other changes in net assets		
Additions to permanent endowments	2,654,243	2,104,714
Intergovernmental transfers	(40,214,893)	(39,414,734)
Increase in net assets	6,220,627	11,579,237
Net assets		
Beginning of period	106,827,328	95,248,091
End of period	<u><u>\$ 113,047,955</u></u>	<u><u>\$ 106,827,328</u></u>

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"). 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 appropriate for the Foundations because 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 the 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 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.

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 that 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
2012

	National Alumni Association June 30, 2012	Law School Foundation June 30, 2012	Donor Advised Fund June 30, 2012
ASSETS			
Current assets			
Cash and cash equivalents	\$ 144,158	\$ 180,873	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	4,754,285	1,739,750	1,053,229
Accounts receivable, net	-	-	-
Current portion of notes receivable, net	-	5,000	-
Current portion of pledges receivable	-	219,376	-
Inventories	122,808	-	-
Prepaid and deferred expenses	-	-	-
Other current assets	466,435	267,119	6,765
Due from The University of Alabama	518,809	209,024	-
Total current assets	<u>6,006,495</u>	<u>2,621,142</u>	<u>1,059,994</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	-	-
Endowment investments	31,055,607	24,318,995	-
Other long-term investments	2,878,039	109,268	2,053,876
Notes receivable, net	-	-	-
Pledges receivable, net	-	289,532	-
Capital assets, net	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	<u>33,933,646</u>	<u>24,717,795</u>	<u>2,053,876</u>
Total assets	<u>\$ 39,940,141</u>	<u>\$ 27,338,937</u>	<u>\$ 3,113,870</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities	\$ 39,234	\$ 40,546	\$ 404
Deferred revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	-	-	-
Total current liabilities	<u>39,234</u>	<u>40,546</u>	<u>404</u>
Noncurrent liabilities			
Other liabilities	-	-	-
Long-term debt, net	-	-	-
Due to The University of Alabama	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>39,234</u>	<u>40,546</u>	<u>404</u>
Net Assets			
Invested in capital assets, net of related debt	-	-	-
Restricted			
Nonexpendable	22,658,678	20,339,506	-
Expendable	4,255,975	4,926,693	3,067,332
Unrestricted	12,986,254	2,032,192	46,134
Total net assets	<u>39,900,907</u>	<u>27,298,391</u>	<u>3,113,466</u>
Total liabilities and net assets	<u>\$ 39,940,141</u>	<u>\$ 27,338,937</u>	<u>\$ 3,113,870</u>

The University of Alabama
Discretely Presented Component Units
Statements of Net Assets, Continued
2012

	Capstone Foundation Sept. 30, 2012	1831 Foundation Sept. 30, 2012	Capstone Health Services Foundation Sept. 30, 2012
ASSETS			
Current assets			
Cash and cash equivalents	\$ 126,960	\$ 406,381	\$ 600,338
Restricted cash and cash equivalents	-	9,984,614	-
Short-term investments	2,725,846	3,880,755	10,414,352
Accounts receivable, net	-	-	1,530,610
Current portion of notes receivable, net	-	-	713,636
Current portion of pledges receivable	117,060	-	-
Inventories	89,074	-	175,686
Prepaid and deferred expenses	151,655	-	-
Other current assets	223,214	5,159	-
Due from The University of Alabama	-	-	155,322
Total current assets	<u>3,433,809</u>	<u>14,276,909</u>	<u>13,589,944</u>
Noncurrent assets			
Restricted cash and cash equivalents	-	8,057,200	-
Endowment investments	10,539,138	-	-
Other long-term investments	9,286,592	1,178,200	-
Notes receivable, net	-	-	-
Pledges receivable, net	100,437	-	-
Capital assets, net	145,911	84,662,662	23,359
Other noncurrent assets	-	-	65,297
Total noncurrent assets	<u>20,072,078</u>	<u>93,898,062</u>	<u>88,656</u>
Total assets	<u>\$ 23,505,887</u>	<u>\$ 108,174,971</u>	<u>\$ 13,678,600</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities	\$ 552,387	\$ 1,895,373	\$ 1,262,305
Deferred revenue	-	4,435,817	-
Current portion of long-term debt	-	4,856,060	-
Due to The University of Alabama	483,037	289,689	-
Total current liabilities	<u>1,035,424</u>	<u>11,476,939</u>	<u>1,262,305</u>
Noncurrent liabilities			
Other liabilities	4,868,053	-	-
Long-term debt, net	-	95,652,154	-
Due to The University of Alabama	8,416,740	-	-
Total noncurrent liabilities	<u>13,284,793</u>	<u>95,652,154</u>	<u>-</u>
Total liabilities	<u>14,320,217</u>	<u>107,129,093</u>	<u>1,262,305</u>
Net Assets			
Invested in capital assets, net of related debt	-	(3,604,129)	23,358
Restricted			
Nonexpendable	17,943	-	-
Expendable	8,617,089	2,426,468	-
Unrestricted	<u>550,638</u>	<u>2,223,539</u>	<u>12,392,937</u>
Total net assets	<u>9,185,670</u>	<u>1,045,878</u>	<u>12,416,295</u>
Total liabilities and net assets	<u>\$ 23,505,887</u>	<u>\$ 108,174,971</u>	<u>\$ 13,678,600</u>

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
ASSETS			
Current assets			
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>
Noncurrent assets			
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><u>\$ 38,819,432</u></u>	<u><u>\$ 27,565,355</u></u>	<u><u>\$ 6,309,332</u></u>
LIABILITIES AND NET ASSETS			
Current liabilities			
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>
Noncurrent liabilities			
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>
Net Assets			
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><u>\$ 38,819,432</u></u>	<u><u>\$ 27,565,355</u></u>	<u><u>\$ 6,309,332</u></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
ASSETS			
Current assets			
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>
Noncurrent assets			
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>
LIABILITIES AND NET ASSETS			
Current liabilities			
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>
Noncurrent liabilities			
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>
Net Assets			
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 Revenues, Expenses and Changes in Net Assets
Years Ended 2012

	National Alumni Association June 30, 2012	Law School Foundation June 30, 2012	Donor Advised Fund June 30, 2012
Operating revenues			
Gifts	\$ 4,076,829	\$ 1,524,905	\$ 2,241,178
Other operating revenues	1,243,289	140,756	-
Total operating revenues	<u>5,320,118</u>	<u>1,665,661</u>	<u>2,241,178</u>
Operating expenses			
Salaries, wages and benefits	-	-	-
Scholarships and fellowships	1,688,749	437,424	-
Supplies and other services	1,060,209	630,511	161,834
Depreciation	-	-	-
Total operating expenses	<u>2,748,958</u>	<u>1,067,935</u>	<u>161,834</u>
Operating income	<u>2,571,160</u>	<u>597,726</u>	<u>2,079,344</u>
Nonoperating revenues (expenses)			
Investment income	(327,899)	(381,024)	197,543
Interest expense	-	-	-
Payments to The University of Alabama	(1,117,943)	(476,795)	(5,472,753)
Change in value of split-interest agreements	-	-	-
Other nonoperating revenues (expenses)	-	-	-
Net nonoperating expenses	<u>(1,445,842)</u>	<u>(857,819)</u>	<u>(5,275,210)</u>
Income (loss) before other changes in net assets	1,125,318	(260,093)	(3,195,866)
Other changes in net assets			
Intragovernmental transfers	-	-	-
Increase (decrease) in net assets	<u>1,125,318</u>	<u>(260,093)</u>	<u>(3,195,866)</u>
Net assets, beginning of year	38,775,589	27,558,484	6,309,332
Net assets, end of year	<u>\$ 39,900,907</u>	<u>\$ 27,298,391</u>	<u>\$ 3,113,466</u>

The University of Alabama
Discretely Presented Component Units
Statements of Revenues, Expenses and Changes in Net Assets, Continued
Years Ended 2012

	Capstone Foundation Sept. 30, 2012	1831 Foundation Sept. 30, 2012	Capstone Health Services Foundation Sept. 30, 2012
Operating revenues			
Gifts	\$ 3,673,380	\$ 400,000	\$ -
Other operating revenues	406,604	13,890,224	13,811,107
Total operating revenues	<u>4,079,984</u>	<u>14,290,224</u>	<u>13,811,107</u>
Operating expenses			
Salaries, wages and benefits	-	-	7,017,085
Scholarships and fellowships	140,373	-	-
Supplies and other services	3,646,917	2,772,338	1,141,858
Depreciation	-	2,339,207	40,527
Total operating expenses	<u>3,787,290</u>	<u>5,111,545</u>	<u>8,199,470</u>
Operating income	<u>292,694</u>	<u>9,178,679</u>	<u>5,611,637</u>
Nonoperating revenues (expenses)			
Investment income	1,699,668	148,475	223,264
Interest expense	-	(6,599,319)	-
Payments to The University of Alabama	(907,799)	-	(3,288,271)
Change in value of split-interest agreements	(477,817)	-	-
Other nonoperating revenues (expenses)	-	(168,407)	-
Net nonoperating revenues (expenses)	<u>314,052</u>	<u>(6,619,251)</u>	<u>(3,065,007)</u>
Income before other changes in net assets	606,746	2,559,428	2,546,630
Other changes in net assets			
Intragovernmental transfers	-	2,124	-
Increase in net assets	<u>606,746</u>	<u>2,561,552</u>	<u>2,546,630</u>
Net assets, beginning of year	8,578,924	(1,515,674)	9,869,665
Net assets, end of year	<u>\$ 9,185,670</u>	<u>\$ 1,045,878</u>	<u>\$ 12,416,295</u>

The University of Alabama
Discretely Presented Component Units
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended 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	<u>4,213,609</u>	<u>3,299,914</u>	<u>855,176</u>
Income before other changes in net assets	6,209,201	3,144,349	892,424
Other changes in net assets			
Intragovernmental transfers	-	-	-
Increase 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
Years Ended 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 expenses	<u>(1,532,018)</u>	<u>(6,905,709)</u>	<u>(3,719,651)</u>
Income before other changes in net assets	(218,580)	494,898	2,247,815
Other changes in net assets			
Intragovernmental transfers	-	(265,872)	-
(Decrease) increase 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>



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, 2012 and 2011, the University had approximately \$50 million in the Short-Term Fund. The assets held in the money market fund are presented in unrestricted cash and cash equivalents.

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 \$59.7 million and \$53.6 million at September 30, 2012 and 2011, 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 in 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 approximately \$2.2 million and \$2.6 million at September 30, 2012 and 2011, 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.

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

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 in 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 non-forest land. In the Universi-

ty's opinion, timber production and related commercial recreation is the highest and best use for the 171 tracts individually and as a whole; the property is located in an area with a favorable climate for growing trees and contains good markets for forest products. Timber production is the predominant land use in the counties that contain the property. The fee simple market value of timber and land of \$60.6 million and \$60.3 million as of September 30, 2012 and 2011, 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 \$17.0 million and \$19.7 million as of September 30, 2012 and 2011, 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 is funding 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, 2012, the Bryce Property is valued at \$87.6 million. In accordance with the purchase agreement, \$3 million remains to be paid.

Additionally, at the time of purchase, the University recorded an estimated liability of \$3.5 million for environmental remediation. The University also committed to spending \$6.5 million in building restoration efforts in the future. In connection with the purchase of the Bryce Property, the University also leased the facility back to ADMH for a period estimated to last three to four years for \$1 while ADMH relocates to another property. If the University were to sell any part of the campus within 10 years from the purchase date, any gain on sale would be split evenly between the University and ADMH. The 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 could potentially result in additional costs or liabilities not yet determinable, and in addition to the \$5.4 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, 2012 and 2011 is as follows:

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2012	2011	2012	2011	2012	2011	2012	2011
Receivables:								
Accrued Income Receivables	\$ 1,007,252	\$ 1,107,419	\$ 610,059	\$ 650,770	\$ 4,047,259	\$ 4,991,584	\$ -	\$ -
Total Receivables	1,007,252	1,107,419	610,059	650,770	4,047,259	4,991,584	-	-
Cash Equivalents:								
Certificates of Deposit	-	-	-	-	6,095,374	9,083,787	-	-
Commercial Paper	-	-	-	-	-	16,200,000	-	-
Money Market Funds	37,622,530	32,523,163	25,012,340	27,318,415	117,007,185	67,192,267	165,309,391	119,243,909
Total Cash Equivalents	37,622,530	32,523,163	25,012,340	27,318,415	123,102,559	92,476,054	165,309,391	119,243,909
Equities:								
U. S. Common Stock	71,093,168	61,441,298	49,927,229	47,156,571	-	-	-	-
U. S. Preferred Stock	1,031,250	-	937,500	-	-	-	-	-
Non-U.S. Stock	9,012,235	3,693,290	7,038,544	2,813,145	-	-	-	-
Total Equities	81,136,653	65,134,588	57,903,273	49,969,716	-	-	-	-
Fixed Income Securities:								
U.S. Government Obligations	28,152,015	32,642,178	12,728,703	11,255,896	363,188,133	237,375,819	-	-
Municipal Government Obligations	-	-	-	-	6,423,894	5,348,375	-	-
Mortgage Backed Securities	-	-	-	-	50,978,064	47,674,103	-	-
Collateralized Mortgage Obligations	428,837	824,701	176,195	1,616,040	57,695,598	80,738,496	-	-
Corporate Bonds	48,420,651	45,242,909	25,691,441	20,786,125	324,568,847	349,240,996	-	-
Non-U.S. Bonds	-	-	-	-	8,953,326	20,105,488	-	-
Total Fixed Income Securities	77,001,503	78,709,788	38,596,339	33,658,061	811,807,862	740,483,277	-	-
Commingled Funds:								
U. S. Equity Funds	102,545,643	97,341,436	99,826,894	95,624,301	-	-	-	-
Non-U. S. Equity Funds	250,230,913	204,708,799	220,690,653	190,506,910	-	-	-	-
U. S. Bond Funds	29,518,564	19,459,731	55,590,858	48,810,114	118,258,903	106,131,493	-	-
Non-U. S. Bond Funds	57,589,079	56,083,738	54,429,629	48,033,757	-	-	-	-
Hedge Funds	148,184,664	141,883,144	115,874,279	109,604,285	-	-	-	-
Private Equity Funds	61,912,960	53,444,269	-	-	-	-	-	-
Timberland Funds	5,624,452	5,624,452	-	-	-	-	-	-
Real Estate Funds	128,235,796	111,363,986	102,617,303	87,120,952	-	-	-	-
Total Commingled Funds	783,842,071	689,909,555	649,029,616	579,700,319	118,258,903	106,131,493	-	-
Total Fund Investments	979,602,757	866,277,094	770,541,568	690,646,511	1,053,169,323	939,090,824	165,309,391	119,243,909
Total Fund Assets	980,610,009	867,384,513	771,151,627	691,297,281	1,057,216,582	944,082,408	165,309,391	119,243,909
Total Fund Liabilities	(126,133)	(141,349)	(88,592)	(96,905)	(481,793)	(431,667)	-	-
Affiliated Entity Investments	(124,786,897)	(108,310,387)	(51,504,726)	(46,104,160)	(77,940,650)	(63,559,098)	-	-
Total Net Asset Value	\$ 855,696,979	\$ 758,932,777	\$ 719,558,309	\$ 645,096,216	\$ 978,794,140	\$ 880,091,643	\$ 165,309,391	\$ 119,243,909



The composition of investments, by investment type, for the University's investments, at September 30, 2012 and 2011 is as follows:

	2012	2011
Cash, Receivables and Equivalents		
Money Market Funds	\$ 208,893	\$ 416,262
Other	54,900	50,610
Total Cash, Receivables and Equivalents	263,793	466,872
Equities		
Common Stock	4,200,784	3,241,868
Total Equities	4,200,784	3,241,868
Fixed Income Securities		
U.S. Government Obligations	383,104	377,389
Total Fixed Income Securities	383,104	377,389
Commingled Funds		
U.S. Equity Funds	17,244,939	33,444,438
U.S. Bond Funds	3,009,476	3,999,826
Private Equity Funds	175,935	1,375,936
Total Commingled Funds	20,430,350	38,820,200
Total Real Estate	166,813,374	165,627,657
System Pooled Investments		
Short-Term Fund	50,046,756	50,659,546
Endowment Fund	500,558,993	445,186,643
Prime Fund	215,903,457	204,673,462
Intermediate Fund	386,850,909	395,590,285
Total System Pooled Investments	1,153,360,115	1,096,109,936
Less Short-Term Fund Cash Equivalents	(50,046,756)	(50,659,545)
Total University Investments	\$ 1,295,404,764	\$ 1,253,984,377

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 \$20,000 and \$1.6 million in the Endowment and Prime Funds, at September 30, 2012 and 2011, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$259.8 million and \$232.2 million in the Endowment and Prime Funds, at September 30, 2012 and 2011, 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, 2012 and 2011, approximately \$63.2 million and \$59.2 million, respectively, 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 \$235.2 million and \$189.5 million at September 30, 2012 and 2011, respectively. For September 30, 2012 and 2011, \$6.1 million and \$9.1 million, respectively, was invested by the Intermediate Fund in certificates of deposit.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the System campuses and hospital. The Short-Term Fund is invested in a money market fund, which in turn invests mostly in U.S. Treasury Securities and repurchase agreements that are collateralized by U.S. Treasury Securities. These funds are all commingled with funds of other investors. Refer to Note 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, 2012 and 2011 are as follows:

	2012			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Fixed or Variable Income Securities				
U.S. Government Obligations	\$ 28,152,015	\$ 12,728,703	\$ 363,188,133	\$ -
Municipal Government Obligations	-	-	6,423,894	-
Other U.S. and Non-U.S. Denominated:				
AAA	1,586,686	749,786	30,554,363	-
AA	8,698,140	4,205,006	77,971,612	-
A	23,416,600	12,943,728	195,302,384	-
BBB	15,128,540	7,969,116	61,721,408	-
BB	-	-	9,130,213	-
B	-	-	1,351,313	-
C and < C	-	-	2,939,022	-
Unrated	19,522	-	63,225,520	-
Commingled Funds:				
U.S. Bond Funds: Unrated	29,518,564	55,590,858	118,258,903	-
Non-U.S. Bond Funds: Unrated	57,589,079	54,429,629	-	-
Money Market Funds: Unrated	37,622,530	25,012,340	117,007,185	165,309,391
Certificates of Deposits	-	-	6,095,374	-
Total	<u>\$ 201,731,676</u>	<u>\$ 173,629,166</u>	<u>\$ 1,053,169,324</u>	<u>\$ 165,309,391</u>

	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. and Non-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	106,131,493	-
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>\$ 939,090,824</u>	<u>\$ 119,243,909</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, 2012 and 2011 is as follows:

	2012	2011
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$ 383,104	\$ 377,389
Other U.S. Dollar, Money Market Funds, and Commingled Bonds		
AAA	1,139,350	1,273,561
AA	170,313	84,898
A	435,885	586,888
BBB	511,416	562,789
BB	211,333	146,896
B	191,251	210,451
Below B	7,026	46,537
Unrated	551,796	1,504,068
	<u>\$ 3,601,473</u>	<u>\$ 4,793,477</u>



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, 2012 and 2011, no investment in a single issuer 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 investments held by

the Short Term Fund.

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis 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, 2012 and 2011 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	
	2012	2011	2012	2011	2012	2011	2012	2011
U. S. Government Obligations	5.0	4.1	5.5	4.9	1.9	2.6	-	-
Municipal Government Obligations	-	-	-	-	1.8	4.8	-	-
Corporate Bonds	5.4	5.8	5.2	5.8	1.7	2.3	-	-
Non-U. S. Bonds	-	-	-	-	1.7	1.8	-	-
Commingled Bond Funds	0.6	4.2	1.5	3.8	2.3	2.2	-	-

The effective durations for fixed or variable income securities, for the University's separately held investments, at September 30, 2012 and 2011 are as follows:

	2012	2011
U.S. Government Obligations	7.0	7.6
Commingled Bond Funds	3.9	3.7



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, 2012 and 2011 the fair market value of these investments, for the System Pools, are as follows:

		2012			
		Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Mortgage Backed Securities	\$	-	\$ -	\$ 50,978,064	\$ -
Collateralized Mortgage Obligations		428,837	176,195	57,695,598	-
Total Fixed	\$	428,837	\$ 176,195	\$ 108,673,662	\$ -

		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	\$ -

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, 2012 and 2011, the effective durations for these securities held in the System Pools are as follows:

	2012			
	Endowment Fund	Prime Fund	Intermediate Fund	Short-Term Fund
Mortgage Backed Securities	-	-	1.7	-
Collateralized Mortgage Obligations	2.6	2.7	1.1	-

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

At September 30, 2012 and 2011, 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, 2012 and 2011, 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 \$8.9 million and \$20.1 million of foreign bonds denominated in U.S. dollars

and held by the Intermediate Fund at September 30, 2012 and 2011, respectively. At September 30, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011 is summarized as follows:

	2012	2011
Accounts Receivable		
Student accounts	\$ 58,305,335	\$ 49,815,965
Receivables from sponsoring agencies	32,020,475	29,833,661
Accrued interest receivable	7,575,893	8,192,488
Other	9,955,978	14,214,360
	<u>107,857,681</u>	<u>102,056,474</u>
Less provision for doubtful accounts	(3,142,709)	(2,626,656)
Accounts receivable, net	<u>\$ 104,714,972</u>	<u>\$ 99,429,818</u>
Notes Receivable		
Note receivable from The 1831 Foundation	\$ 6,508,446	\$ 9,127,699
Notes receivable from student organizations	58,924,778	32,198,519
	<u>65,433,224</u>	<u>41,326,218</u>
Less current portion	(5,836,749)	(3,669,701)
Notes receivable, net	<u>\$ 59,596,475</u>	<u>\$ 37,656,517</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 University and The 1831 Foundation. Notes receivable from student organizations bear interest rates ranging from 0% to 5.73% with terms up to 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, 2012 and 2011, is summarized as follows:

	2012	2011
Loans receivable		
Federal loan program	\$ 12,977,760	\$ 12,801,852
University loan funds	1,685,027	1,557,491
Less allowance for doubtful loans	(3,696,717)	(3,696,717)
Total loans outstanding, net	<u>10,966,070</u>	<u>10,662,626</u>
Less current portion	(1,847,783)	(2,050,423)
Total loans outstanding, noncurrent	<u>\$ 9,118,287</u>	<u>\$ 8,612,203</u>
Pledges outstanding		
Operations	\$ 29,990,449	\$ 31,509,577
Capital	1,402,875	1,987,399
Total pledges, net	<u>31,393,324</u>	<u>33,496,976</u>
Less current portion	(9,382,609)	(9,630,926)
Total pledges, noncurrent	<u>\$ 22,010,715</u>	<u>\$ 23,866,050</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, 2012 and 2011 are summarized as follows:

	Balance October 1, 2011	Additions	Retirements/ Transfers	Balance September 30, 2012
Nondepreciable capital assets:				
Land	\$ 17,371,572	\$ 1,136,900	\$ -	\$ 18,508,472
Collections	20,410,800	472,129	-	20,882,929
Construction in progress	132,919,774	177,069,606	(212,375,776)	97,613,604
Total nondepreciable capital assets	170,702,146	178,678,635	(212,375,776)	137,005,005
Depreciable capital assets:				
Land improvements	45,141,483	6,336,034	(597,705)	50,879,812
Infrastructure	44,305,994	5,351,557	(105,630)	49,551,921
Buildings and fixed equipment	1,105,980,174	218,931,173	(31,439,972)	1,293,471,375
Equipment	109,180,073	13,269,898	(2,342,566)	120,107,405
Library materials	100,880,567	504,785	-	101,385,352
Intangible assets	48,474,371	30,034,800	-	78,509,171
Total depreciable capital assets	1,453,962,662	274,428,247	(34,485,873)	1,693,905,036
Less accumulated depreciation:				
Land improvements	15,127,646	1,839,202	(153,127)	16,813,721
Infrastructure	22,045,747	1,563,089	(34,712)	23,574,124
Buildings and fixed equipment	265,357,285	25,777,343	(3,510,830)	287,623,798
Equipment	74,280,046	8,657,638	(2,280,745)	80,656,939
Library materials	91,964,777	2,176,622	-	94,141,399
Intangible assets	29,136,720	8,497,030	-	37,633,750
Total accumulated depreciation	497,912,221	48,510,924	(5,979,414)	540,443,731
Total depreciable capital assets, net	956,050,441	225,917,323	(28,506,459)	1,153,461,305
Total capital assets, net	\$ 1,126,752,587	\$ 404,595,958	\$ (240,882,235)	\$ 1,290,466,310

	Balance October 1, 2010	Additions	Retirements/ Transfers	Balance September 30, 2011
Nondepreciable capital assets:				
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
Total nondepreciable capital assets	80,430,868	138,150,852	(47,879,574)	170,702,146
Depreciable capital assets:				
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
Total depreciable capital assets	1,411,428,409	71,324,322	(28,790,069)	1,453,962,662
Less accumulated depreciation:				
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
Total accumulated depreciation	463,471,934	47,903,943	(13,463,656)	497,912,221
Total depreciable capital assets, net	947,956,475	23,420,379	(15,326,413)	956,050,441
Total capital assets, net	\$ 1,028,387,343	\$ 161,571,231	\$ (63,205,987)	\$ 1,126,752,587

Note 8 – Construction Commitments and Financing

The University has contracted for the construction and renovation of several facilities. At September 30, 2012 and 2011, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$60.5 million and \$154.5 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, 2012 and 2011 is summarized as follows:

Type/Supported by	Balance October 1, 2011	New Debt	Principal Repayment	Reclass	Balance September 30, 2012
Notes payable					
Crimson Tide Foundation airplane	\$ 2,335,083	\$ -	\$ 543,120	\$ -	\$ 1,791,963
Student housing revenue	3,152,152	-	197,393	-	2,954,759
Rental income	1,508,548	-	317,760	-	1,190,788
Bryce Property	42,750,000	-	39,750,000	-	3,000,000
Bonds					
Student housing revenue	153,254,032	-	1,154,175	-	152,099,857
Fraternities/Sororities	41,931,462	-	4,131,563	-	37,799,899
Intercollegiate athletics	201,021,673	-	4,412,843	-	196,608,830
Auxiliaries	27,460,602	-	1,030,238	-	26,430,364
General fee	252,447,231	-	4,506,181	-	247,941,050
	<u>725,860,783</u>	<u>\$ -</u>	<u>\$ 56,043,273</u>	<u>\$ -</u>	<u>669,817,510</u>
Plus net unamortized bond premium/discount	1,751,725				1,711,069
Less deferred amount on refunding	(2,057,428)				(2,199,948)
Less current portion	(43,293,272)				(19,621,650)
	<u>\$ 682,261,808</u>				<u>\$ 649,706,981</u>

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>

Debt obligations generally bear interest at fixed rates ranging from 0% to 6.3% 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, 2012, 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
2013	\$ 3,886,650	\$ 15,735,000	\$ 19,621,650	\$ 301,137	\$ 34,173,293	\$ 34,474,430	\$ 54,096,080
2014	937,946	16,290,000	17,227,946	249,841	33,608,249	33,858,090	51,086,036
2015	936,201	16,895,000	17,831,201	195,447	33,015,558	33,211,005	51,042,206
2016	353,097	17,595,000	17,948,097	161,011	32,322,704	32,483,715	50,431,812
2017	369,446	18,330,000	18,699,446	144,661	31,585,156	31,729,817	50,429,263
2018-2022	1,421,234	105,150,000	106,571,234	446,935	144,142,348	144,609,283	251,180,517
2023-2027	641,012	130,785,000	131,426,012	208,671	115,350,230	115,558,901	246,984,913
2028-2032	391,924	162,235,000	162,626,924	32,918	78,013,134	78,046,052	240,672,976
2033-2037	-	132,990,000	132,990,000	-	33,260,487	33,260,487	166,250,487
2038-2040	-	44,875,000	44,875,000	-	4,829,836	4,829,836	49,704,836
	<u>\$ 8,937,510</u>	<u>\$660,880,000</u>	<u>\$669,817,510</u>	<u>\$ 1,760,621</u>	<u>\$540,300,995</u>	<u>\$ 542,061,616</u>	<u>\$ 1,211,879,126</u>

Pledged revenues for the years ended September 30, 2012 and 2011 as defined by outstanding bond covenants are as follows:

	2012	2011
Tuition and fees	\$ 454,187,595	\$ 378,045,840
Sales and services of educational activities	11,643,489	11,836,707
Auxiliary sales and services	149,158,901	129,901,289
Investment income	41,823,245	49,872,112
Other operating revenue	44,505,964	42,297,178
Total pledged revenues	<u>\$ 701,319,194</u>	<u>\$ 611,953,126</u>

The University defeased certain indebtedness during 2003. 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 2003 defeased

indebtedness at September 30, 2012 and September 30, 2011 is approximately \$14.1 million and \$18.9 million, respectively.

The University's general revenue 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 2012 of \$701.3 million, the projected maximum annual debt service requirement of \$49.9 million in 2013 is covered approximately 14.1 times by pledged revenues. The University is in compliance with all restrictive financial covenants as of September 30, 2012.



The following is a detailed schedule of long-term debt as of September 30, 2012:

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	\$ 23,475,000
General Fee Revenue Bond Series 2004A	7/1/04	7/1/34	4.0-5.25	215,995,000	206,905,000
General Fee Revenue Bond Series 2006A	9/1/06	7/1/36	4.125-5.0	40,575,000	40,085,000
General Fee Revenue Bond Series 2006B	9/1/06	7/1/23	5.22-5.9	23,750,000	17,515,000
General Fee Revenue Bond Series 2008A	8/1/08	7/1/34	3.0-5.0	45,425,000	42,025,000
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	38,330,000
General Fee Revenue Bond Series 2010A	7/1/10	7/1/40	2.0-5.875	16,495,000	15,790,000
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	22,910,000
Total Bonds Payable				<u>709,830,000</u>	<u>660,880,000</u>
Notes Payable:					
U. S. Department of Education	7/20/89	4/15/19	3.0	3,188,000	1,060,532
Commercial finance co., CTF airplane	5/10/05	5/10/15	6.25	5,000,000	1,791,963
U.S. Department of Education	3/23/00	1/1/30	5.5	2,483,000	1,894,227
Geist LLC Promissory Note	1/24/07	2/1/21	6.0	1,800,000	1,190,788
Department of Mental Health	5/28/10	12/1/11	0.0	65,750,000	3,000,000
Total Notes Payable				<u>78,221,000</u>	<u>8,937,510</u>
Total Bonds & Notes Payable				<u>\$ 788,051,000</u>	<u>\$ 669,817,510</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 for general liability at both September 30, 2012 and 2011, 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, 2012 and 2011 are summarized as follows:

	2012	2011
Balance, beginning of year	\$ 2,442,000	\$ 1,971,900
Claims paid	(30,181,570)	(29,846,625)
Contributions	30,205,570	30,316,725
Balance, end of year	<u>\$ 2,466,000</u>	<u>\$ 2,442,000</u>



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 2012, 2011, and 2010 was approximately \$52.3 million, \$48.5 million and \$44.9 million, respectively, which consisted of \$30.3 million from the University and \$22.0 million from employees in 2012, \$34.6 million from the University and \$13.9 million from employees in 2011, and \$32.1 million from the University and \$12.8 million from employees in 2010. The University's contribution rate for both fiscal years ended September 30, 2012 and 2011 was 10.0 % and 12.51%, for covered employees. Covered employees

are required by statute to contribute 7.25% in fiscal year 2012 and 5% in 2011, 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, 2011 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were \$28.8 billion and \$19.4 billion, respectively, resulting in an under-funded AAL of \$9.4 billion. Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2011 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 2012 and 2011, excluding amounts not eligible for matching, was approximately \$16.5 million and \$15.6 million, which included approximately \$8.25 million and \$7.8 million each from the University and its employees.

The University's total salaries and wages for fiscal years 2012 and 2011 were approximately \$361.8 million and \$339.0 million, respectively. The total salaries and wages during the fiscal years 2012 and 2011, respectively, for covered employees participating in TRS and TIAA – CREF and VALIC were approximately \$303.4 million and \$276.8 million and \$191.1 million and \$171.1 million, respectively.

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, 2012:

Retired Member Rates:

- Individual Coverage/Non-Medicare Eligible - \$151
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)- \$391
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$250
- Individual Coverage/Medicare Eligible Retired Member - \$10
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$250
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109

The required contribution rate of the employer was \$370 per employee per month in the year ended September 30, 2012. The University paid \$7.3 million and \$7.8 million for the years ended September 30, 2012

and 2011 for 1,663 and 1,579 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 1-877-517-7000.

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 \$21.4 million and \$20.8 million as of September 30, 2012 and 2011, 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, 2012 and 2011, respectively, the University disbursed approximately \$165.7 million and \$161.1 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 \$0.2 million and \$2.5 million, respectively, at September 30, 2012 and 2011.

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, 2012 and 2011 are summarized as follows:

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total 2012
Instruction	\$ 206,268,055	\$ -	\$ 30,774,738	\$ 13,317,643	\$ 250,360,436
Research	22,776,014	-	21,688,211	4,534,233	48,998,458
Public service	29,375,223	-	9,607,620	1,460,818	40,443,661
Academic support	53,852,787	-	13,464,738	8,303,145	75,620,670
Student services	26,689,360	-	13,230,812	3,103,041	43,023,213
Institutional support	51,581,753	-	9,781,824	3,490,734	64,854,311
Operations and maintenance	41,818,457	-	36,059,528	-	77,877,985
Scholarships and fellowships	-	15,710,068	-	-	15,710,068
Auxiliary enterprises	53,256,740	3,744,009	67,753,745	14,301,310	139,055,804
	<u>\$ 485,618,389</u>	<u>\$ 19,454,077</u>	<u>\$ 202,361,216</u>	<u>\$ 48,510,924</u>	<u>\$ 755,944,606</u>

	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>

Note 17 – Other Noncurrent Assets and Liabilities

The composition of other noncurrent assets at September 30, 2012 and 2011 is summarized as follows:

	2012	2011
Receivable from The Capstone Foundation	\$ 8,416,740	\$ 7,863,074
Debt issuance costs	3,717,723	4,116,761
Other	112,694	466,566
	<u>\$ 12,247,157</u>	<u>\$ 12,446,401</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, 2012 and 2011, is as follows:

	2012	2011
Federal loan funds		
Federal refundable loans, beginning of year	\$ 8,069,170	\$ 8,094,406
Deposits received	470,591	498,431
Deposits disbursed	(494,667)	(523,667)
Federal refundable loans, end of year	<u>\$ 8,045,094</u>	<u>\$ 8,069,170</u>
Other liabilities		
Split interest agreement obligations, beginning of year	\$ 4,305,640	\$ 4,183,890
New annuities	63,166	330,959
Terminated annuities	-	(31,739)
Investment (loss) income	793,416	(63,043)
Payments on obligations	(471,327)	(466,138)
Actuarial change in obligations	(557,522)	351,711
Other income	135,375	-
Total split interest agreement obligations	<u>4,268,748</u>	<u>4,305,640</u>
Less current portion	<u>(471,679)</u>	<u>(465,796)</u>
Split interest agreement obligations, end of year	<u>3,797,069</u>	<u>3,839,844</u>
General liability trust fund liability	1,448,668	1,406,999
Total other liabilities	<u>\$ 5,245,737</u>	<u>\$ 5,246,843</u>

Note 18 – Grants and Contracts

At September 30, 2012, the University had been awarded approximately \$44.1 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, 2012.

During fiscal year 2012, the University continued expending federal funding under the American Recovery and Reinvestment Act (ARRA), primarily in the form of sponsored research grants, totaling approximately \$6 million. As many ARRA projects have been or will soon be completed, ARRA expenditures are expected to be lower in fiscal year 2013.

Note 19 – Subsequent Events

The University issued the Series 2012 A and B General Revenue Bonds on October 16, 2012 totaling \$265.7 million and \$20.3 million, respectively. The proceeds from these bond issuances will fund various capital projects.

A portion of the proceeds of the 2012A Bonds will be used in a current refunding of the remaining 2001 Bonds in the amount of \$23,475,000 and in an advance refunding of a portion of the 2004A Bonds in the amount of \$114,190,000.

Subsequent to year-end, an irrevocable trust fund was established for the benefit of the holders of the Refunded 2001 Bonds. Money deposited in this fund will be held in cash. The cash balance will be sufficient to make the 2001 required escrow payments. An irrevocable trust fund was also established for the benefit of the holders of the Refunded 2004A Bonds. Money deposited in this escrow fund will be used to purchase certain U.S. Treasury obligations. The maturing principal and interest on the securities purchased without reinvestment together with the initial cash balance remaining the escrow fund after purchase of the securities will be sufficient to make the 2004A required escrow payments.

Note 20 – Recently Issued Pronouncements

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

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- 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.

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.

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"), in March

2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The University is currently evaluating the impact, if any, that GASB 65 will have on its financial statements.

The GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62* ("GASB 66"), in March 2012. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The University is currently evaluating the impact, if any, that GASB 66 will have on its financial statements.

The GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* ("GASB 67"), in June 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The University is currently evaluating the impact, if any, that GASB 67 will have on its financial statements.

The GASB issued Statement No. 68, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27* ("GASB 68"), in June 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement is effective for financial statements for fiscal years beginning after June 15, 2014. The University is currently evaluating the impact, if any, that GASB 68 will have on its financial statements.

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