

The University of Alabama in Huntsville

Report on Federal Awards in Accordance with OMB

Circular A-133

September 30, 2010

EIN: 63-0520830

The University of Alabama in Huntsville

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September 30, 2010

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Part I

Federal Award Programs



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

To The Board of Trustees of The University of Alabama:

We have audited the financial statements of The University of Alabama in Huntsville (the "University") and its discretely presented component unit, which collectively comprise the financial statements of the University, a campus of The University of Alabama System, which is a component unit of the State of Alabama, as of and for the year ended September 30, 2010, and have issued our report thereon dated January 27, 2011. Our report was modified to include an additional paragraph regarding the presentation of the financial statements as discussed in Note 1 to the financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

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

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



Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated January 18, 2011.

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

PricewaterhouseCoopers LLP

January 27, 2011



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

To the Board of Trustees of The University of Alabama:

Compliance

We have audited the compliance of The University of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.



Internal Control over Compliance

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

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University and its discretely presented component unit as of and for the year ended September 30, 2010, and have issued our report thereon dated January 27, 2011. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



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

PricewaterhouseCoopers LLP

January 27, 2011, except for Compliance and Internal Control over Compliance, which is dated June 29, 2011

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Research and Development Cluster			
U.S. Department of Defense			
Department of Army		12.RD	\$ 37,138,627
Department of Navy		12.RD	69,904
Other		12.RD	178,336
			<u>37,386,867</u>
Pass-through funds			
CFDRC/SBIR/Microfluidic Yeast-bas	1426	12.RD	7,502
AOS/OPTICS TESTING	31904	12.RD	1,768
JHU/APL/Live-Virtual-Constructive	959198	12.RD	117,992
SAIC/Integration Launch Vehicle	4400119811	12.RD	3,242
SAIC/Amcom Express/Military Gamin	4600006511	12.RD	1,770,360
NORTHROP GRUMMAN/S	4600016759	12.RD	620
Academy of Applied Science/Resear	09-114	12.RD	2,600
Academy of Applied Science/Resear	09-115	12.RD	2,600
Radiance/Support Radiance Technol	09S-2740	12.RD	8,745
ODURF/DoD M&S Standards Support	10-152-295251	12.RD	26,617
Streamline Automation/SBIR Phase	1067-SC-01-R0	12.RD	928
AEGIS/Directed Energy Test FY09 B	31-TIPA-UAH-0001 MOD 01	12.RD	27,315
Penn State University/ARL/Unconve	3971-UAH-USARL-0016	12.RD	40,144
AEGIS/SBIR Phase II/Nominally Con	42-BMSTR-UAH-0013	12.RD	41,714
AEGIS/DET S&T Terahertz Imaging P	43-TIPA-UAH-0001	12.RD	44,794
SAIC/02K/CO-OP STU	460002814TN44000488	12.RD	48,016
SAIC/02K/UNMANNED	460002814TASK#440004	12.RD	454
Stevens/Modular Reconfigurable Ar	AGR DTD 2/4/10	12.RD	112,280
Stevens/Verification, Validation,	AGR DTD 7/27/2010	12.RD	18,793
Aquila/SBIR Phase II/World Advers	AGR DTD 8/25/09	12.RD	27,474
Stevens Institute of Tech/Assessi	AGR DTD 9/19/08	12.RD	24,108
AMS/AMCOM EXPRESS/Rocket Deployed	AMS-SC-06-079	12.RD	36,901
ASI/AMCOM EXPRESS/Follow-on Suppo	ASI-2006-C-0003	12.RD	36,135
Ogden Eng/SBIR Phase II/Green Bip	AUTHORIZATION TO PROCEED DTD 6	12.RD	4,968
SAIC/SAP Training & Curriculum De	C/SAIC/CHK # 0001886736	12.RD	96,663
COLSA/SETA FOR NMD/JPO	CA-021132	12.RD	17,215
COLSA/MSE INDEPENDENT REVIEW TEAM	CA031224	12.RD	16,909
Colsa/THAAD Lower Tier	CA061045	12.RD	2,795
Colsa Kinetic Energy Interceptor	CA071049	12.RD	1,816
CAS/Amcom Express/CMDS SLIN 10ET	CAS EXOC 1-05	12.RD	198,279
CAS/Amcom Express/CMDS SLIN 10DR	CAS EXOC 1-50	12.RD	23,345
CAS/Advanced Measurements Optical	CAS SC315-05	12.RD	2,719
CAS/AMCOM Express/RDEC for TSMO M	CASSC39607	12.RD	3,369
UCB/Neutral Atmosphere Density In	CU1544149	12.RD	39,181
DSN/Development of a Supply Chain	DSN 2010-001	12.RD	23,025
Gnosys Systems/STTR Phase II/Alte	GNOSYS SYSTEMS 09-001	12.RD	59,762
GSA/MSIC/Network Simulation and U	GS-23F-0062P	12.RD	1,019,721
Colsa/ARC/Lower-tier Missile	H07018000	12.RD	127,975
COLSA Inc./SETAC/JAGMS Proposal R	HS-091028	12.RD	34,958
John Tiller Software, Inc./Basic	JTS DATED 10/7/09	12.RD	24,311
John Tiller/ STTR Phase I/ Innova	JTS DATED 6/8/10	12.RD	12,051
ITT AES/NLO Testing and Projectil	LTCD-017 PO 312942	12.RD	4,787
ARTS/Amcom Express/Developing and	MA121608	12.RD	522,070
MAXIMUM TECHNOLOGY	MTC02UAH0044	12.RD	25,860
Ogden Engineering/STTR/Enhancing	OGDEN-UAH-2	12.RD	(497)
ORBITEC/Design Tools for Combusti	OTC-GS-0244-1	12.RD	26,983
ORBITEC/STTR Phase I/Support for	OTC-GS-0263-1	12.RD	9,621
Metacomp Technologies, Inc./SBIR/	P.O. #0906	12.RD	2,996
WESTAR/AMCOM EXPRESS/Fatigue Test	P.O. AMX-07-004	12.RD	5,610
IPIX/Aerial Video Reconnaissance	P.O.2573	12.RD	183
ERC/Insensitive Munitions Develop	PO #RS090601	12.RD	40,557
JM Harwood/STTR Phase I/ Developm	PO 182	12.RD	4,830
ARINC/Meeting with ARINC to Deter	PO 238136	12.RD	44,336
ITT AES/SMDC Rod Test Study	PO 312942	12.RD	1,587
SAIC/Masters of Science in Engine	PO 4400155775	12.RD	14,191

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Research and Development Cluster, continued			
CSC/U.S. Army Logistics Moderniza	PO 662912 SED	12.RD	550,010
ASI/SBIR Phase I/Qu Tubes for Eha	PO ASI528	12.RD	20,012
Dynetics/Assessment of World Wide	PO CH002194	12.RD	28,007
WESTAR/AMCOM EXPRESS/Structures S	POAMX07004	12.RD	2,010
UA/Procurement Project FY 2008-20	PTAC-UAH-09-032	12.RD	1,235
UA/Small Business Development Cen	PTAC-UAH-10-004	12.RD	53,742
ERC/New 16 Inch Off-Axis Collimat	SA090631	12.RD	78,987
Streamline Automation/Advanced Pr	SA2008001	12.RD	343
UA/Small Business Development Cen	SBA-UAH-09-048	12.RD	733
MRC/AMCOM Express/Advanced Sensor	SK722-08-UAH-AMCOM-0019	12.RD	82,775
Stanley Assoc. Inc./Reverse	SK904-10-UAH-WARHEADSBAA-T	12.RD	65,874
LMI/Support to OSD in the area of	SUBCONTRACT 0817	12.RD	19,807
ATI/Anti-Counterfeiting & Configu	SUBCONTRACT NO. 2008-389	12.RD	32,456
Academy of Applied Science/Resear	SUBGRANT 10-55	12.RD	1,300
Academy of Applied Science/Resear	SUBGRANT 10-71	12.RD	1,300
L3 CAC/SY COLEMAN	SYCOLE03C.0036TASK#2	12.RD	973
Torch Technologies/Amcom Express/	TO8S019	12.RD	20,166
John Tiller/Research into Optimal	UAH01FA955006C0024	12.RD	1,703
			<u>5,774,711</u>
Total U.S. Department of Defense			<u>43,161,578</u>
U.S. Department of Health & Human Services			
Department of Health & Human Services		93.RD	<u>334,985</u>
ARRA Direct			
DHHS/NIH/ARRA/Investigations into	1 R15 NS066391-01	93.701	98,786
DHHS/NIH/Analysis Of Ubiquitination Enzymes In C. Elegans	3R15GM065444-03	93.701	26,192
DHHS/NIH/Analysis Of Phd: A 73 Aa Protein With Multiple Ligands	2R15GM067668-04	93.701	83,540
DHHS/NIH/Novel Pattern Specific Isotopic Labeling of Aromatic	1R15GM093912-01	93.701	73,286
			<u>281,804</u>
Pass-through funds			
Department of Health & Human Services			
iXpressGenes, Inc./STTR Phase I	IXPRESSGENES 2010-001	93.RD	<u>4,507</u>
ARRA pass-through			
MIT/ARRA/Engineering Development	5710002629	93.701	114,946
Total U.S. Department of Health & Human Services			<u>736,242</u>
National Science Foundation			
		47.RD	<u>1,811,783</u>
ARRA Direct			
NSF/ARRA/Anomalous Diffusion in the Collisionless Solar Wind	904007	47.082	106,938
NSF/ARRA/CAREER:Transport of Ions	847719	47.082	110,776
NSF/Acquisition of Deterministic Polishing Tool	923157	47.082	800,000
NSF/ARRA/Alabama Cyber Connection in Nanotechnology	1006661	47.082	221
			<u>1,017,935</u>
Pass-through funds			
National Science Foundation			
AAMU/Center for Interdisciplinary	SUB-2008-EPS-0814103-CIDEN-	47.RD	209,761
AAMU/EPSCoR/Apex Micro-Cuvettes	EPS-08141403-UAH-PB#2	47.RD	4,850
AAMU/EPSCoR/Partnership Research	EPS-08141403-UAH-PB#1	47.RD	461
AAMU/Polarization Nanoswitch base	EPS-0814103-UAH-PB	47.RD	10,426
UAB/Center for Optical Sensors	SUB 2008-EPS-0814103	47.RD	69,228
AURA/MHD Simulation AR Evolution	SUBAWARD NO. C10569A	47.RD	23,744
SURA/MMI Collaborative Research	SURAMMI2006101	47.RD	11,313
BYU/Photonic Microcantilever	60153	47.RD	20,436
UCSC/Analysis of Terrestrial Gamm	SUBAWARD NO. S0182776	47.RD	13,640
			<u>363,859</u>
ARRA pass-through			
RACNE-IAGT/ARRA/The Climate 1-Stop	AGR DTD 3/17/10	47.082	34,325
Total National Science Foundation			<u>3,227,902</u>

The University of Alabama in Huntsville

Schedule of Expenditures of Federal Awards

September 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Research & Development Cluster, continued			
National Aeronautics & Space Administration		43.RD	17,442,226
ARRA Direct			
NASA/MSFC/ARRA/Water Supply Management on California	NNM10AA02A	43.006	32,694
Pass through funds			
National Aeronautics & Space Administration			
SGT/ESDAWG Standards Support	633	43.RD	31,714
USRA/2008 RASC-AL Forum	2502.001	43.RD	583
SGT/ESDSWG SPG Engineering Suppor	19268	43.RD	18,954
Barber-Nichols Inc./Risk Memo for	22700	43.RD	53,716
USRA/Direct the Earth System Scie	345004	43.RD	41,141
Lockheed Martin/GOES-R Geostation	8100001543	43.RD	696,421
USRA/Visiting Researcher Exchange	03496-01	43.RD	23,879
USRA/A Estimates	03496-05	43.RD	946
LUNA INNOVATIONS/HIGH FREQUENCY	1133NAS2TUAH	43.RD	999
University of Colorado, Boulder/L	154-6632	43.RD	1,500
Luna Innovations/STTR Phase II: N	1979NAS2T/UAH	43.RD	107,873
SSAI/2009 NASA Advanced Satellite	2616-08-021	43.RD	34,218
Cal Tech/Modeling & Observations	44A-1087454	43.RD	12,120
VCSI/FASTSAT	AGR DTD 2/11/09	43.RD	4,978
VCSI/Data Systems Requirements Sp	AGR DTD 7/29/2010	43.RD	6,555
VCSI/Lightning Imaging Sensor (LI	AGR DTD 9/18/09	43.RD	19,874
VCSI/Collaborative R&D Initiativ	AGR DTD 9/24/08	43.RD	240,478
VCSI/ProtoExist High Altitude Bal	AGR DTD 9/30/08	43.RD	6,297
SAO/Studying Cluster Physics to t	AR0-11015B	43.RD	3,985
DFHS, LLC/Effect of Redox Systems	DFHS 10-001	43.RD	20,685
FIT/An Investigation Of Accelerat	FIT SUBAWARD 2009-001	43.RD	38,581
FIT/A Module of Particle Acceler	FIT SUBAWARD 201291	43.RD	24,167
KU/GRB Models for GLAST	FY2008-112	43.RD	1,892
BU/Incorporation of the Particle	GC207403NGA	43.RD	33,287
SAO/Cosmology with a complete sam	GO0-11002X	43.RD	72,976
SAO/X-Ray Circumnuclear Star Form	GO0-11099B	43.RD	20,110
MRC/Electric Propulsion Component	MRCFFP060008	43.RD	8,687
Man Tech/NeXolve/Flextensional Mi	NXOLV-PSA-09-144	43.RD	1,579
ORBITECH/Advanced Met Fueled by W	OTC-GS-0237-1	43.RD	2,046
TBE/Methane Boiling Instability	PO # 00072059	43.RD	27,627
Teledyne Brown Engineering/Spacec	PO #955471	43.RD	11,647
TBE/Measuring Aerosols from the I	PO 00077137	43.RD	5,000
SWRI/STEREO Guest Investigators:	PO 886957E	43.RD	17,360
Teledyne Brown Engineering/Sensor	PO00080434	43.RD	22,869
Ball Aerospace/PMSA Cryogenic Test	PO04DLB10048	43.RD	279,720
Rice University/Prompt Emission c	R53061	43.RD	6,240
UCR/Self-Consistent Solar Energe	S-00000320	43.RD	31,518
UCR/A New Approach to Modeling Th	S-000366	43.RD	104,298
UCAR/Desicion Support for Thund	S0657992	43.RD	1,851
Jacobs	SRT0023	43.RD	4,270
JHU-APL/Understanding Propagation	SUBAWARD 948871	43.RD	18,674
Johns Hopkins Univ./Applied Physi	SUBAWARD 957385	43.RD	59,054
UC/Heliospheric Foregrounds in th	SUBAWARD NO. 37102-2	43.RD	38,030
SWRI/Supporting Science for the I	SUBCONTRACT A99132BT	43.RD	67,011
SWRI/Data Analysis and Modeling o	SUBCONTRACT NO. B99023LM	43.RD	11,900
SSAI/Dual-Polarimetric Radar Retr	SUBCONTRACT UNDER NNG07EJ50C	43.RD	10,366
SGT/JWST Optics Support Task 82	SUBCONTRACT0759	43.RD	15,938
USRA/A Case Study in growth and e	SUBGRANT 03222-01	43.RD	24,728
SSAI/NASA/Advanced Satellite Aviat	SUBK UNDER NNL07AA00C	43.RD	52,182
Jacobs	SVT-0023	43.RD	744,064
Jacobs	SVT-0041	43.RD	34,860
SWA/ICESat and CALIPSO data for D	SWA08UAH	43.RD	34,032
Wyle/Implementing Multi-Variable	T71902	43.RD	45,734
UNH/Ion Distribution Function at	UNH 09-080	43.RD	27,026
University of Maryland	Z634006	43.RD	248,529
USRA/Beamed Energy for Propulsion	04550-012	43.RD	12,937
			<u>3,487,706</u>

The University of Alabama in Huntsville

Schedule of Expenditures of Federal Awards

September 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Research & Development Cluster, continued			
ARRA pass-through			
Dynetics (Orion)/ARRA/SBIR Phase II	5034-000-700-0001-B	43.006	59,349
Total National Aeronautics & Space Administration			21,021,975
Department of Transportation			492,886
Pass through funds			
Department of Transportation			
UAB Injury Control Research Center ICRC Project	180122-008	20.RD	7,618
UA/UTCA/Modeling Damage in Concrete Pavements & Bridges	TASK ORDER 48 (09-036)	20.RD	20,666
UA/UTCA/Preparing for Transit-Oriented Development	TASK ORDER NO. 52 (09-053)	20.RD	3,134
UA/UTCA/Road Embankment and Slope	TASK ORDER 50 (09-040)	20.RD	24,058
UA/UTCA/Seminar and TRB Conference	TASK ORDER 49 (09-037)	20.RD	12,678
UA/UTCA/Transportation Engineering	TASK ORDER 51 (09-042)	20.RD	4,973
UA/UTCA/UTCA Operating Budget	TASK ORDER 47 (09-035)	20.RD	17,961
ALDOT/Development of Multimedia R	PROJECT#93070303428	20.RD	76,884
JCDH/Operation and Maintenance of the EMPACT Website	MOU DTD 10/1/09	20.RD	16,986
Total Department of Transportation			184,958
			677,844
Department of Commerce			2,756,169
Pass-through funds			
Univ. of Miami/Application of Sea	P105910	11.RD	9,817
Texas A&M/Lightning in the Nowca	S080079	11.RD	18,799
U of Miami/Development of Improve	P151720	11.RD	30,942
SURA/Testbed	2010-006	11.RD	29,837
WJQI/QA/QC Standards Integration	A100575	11.RD	70,283
ATN/MEP/NIST Client Fees FY 2010	AGR DTD 10/1/09	11.RD	595,702
Optechnology/SBIR Phase I/Resilie	OPTECH-09-001	11.RD	8,834
TREX/Constellation X Project	S20078	11.RD	155
ATN/MEP/NIST Client Fees FY09	AGR DTD 10/1/08	11.RD	11,758
Total Department of Commerce			776,127
			3,532,296
Department of Energy			392,333
Pass-through funds			
UM/DOE Center for Predictive Cont	SUBAWARD NO. 3001421626	81.RD	10,885
B&W Y-12 L.L.C./Y-12 National Sec	PO 4300072077	81.RD	120,622
Battelle, LLC/Effect of High Temperature	4000093745	81.RD	14,061
Battelle/SensorNet-Sensor Web	SUBCONTRACR4000061169	81.RD	(2,128)
HyperV Technologies/STTR/Modeling	AGR DTD 1/6/10	81.RD	8,867
Modeling of the Plasma Liner	DE-SC0000833	81.RD	2,785
UChicago Argonne, LLC/Assignment	8F00041	81.RD	43,284
B&W Tech. Services Y-12, L. L. C	43000067647	81.RD	7,434
LANS/Optimizing the GBM on-board	74249-001-09	81.RD	21,914
DESE/Support for the North Alabama	ATP DTD 11/5/08	81.RD	122
Total Department of Energy			227,846
ARRA pass-through			
ADECA/ARRA/Lean/Clean and Practic	1SEP ARRA 01	81.041	258,367
Total Department of Energy			878,546
Department of Agriculture			271,860
Pass-through funds			
FSU/Decision Support System for R	R01320	10.RD	1,622
FSU/UAH Research on Risk Reduc	R01043	10.RD	120,335
FSU/UAH Research on Risk Reductio	R01223	10.RD	20,408
NFWF/Experimentally Quantifying G	2008-0054-900	10.RD	2,014
Total Department of Agriculture			144,379
			416,239

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Research & Development Cluster, continued			
Department of Homeland Security			
Pass-Through Funds			
ACJIC/Task 1 Alabama Fusion Center	AGR dated 8/21/07	97.RD	43,711
Total Department of Homeland Security			<u>43,711</u>
Department of Interior			
Pass-through funds			
CFD Research Corp/SBIR Phase II	SUBCONTRACT NO. 1432	15.RD	28,697
Tennessee Valley Authority			
Pass-through funds			
VCSI/TVA Rain Guage Initiative	VCSI20071		65,801
Department of State			
Total Research and Development Cluster		19.RD	<u>14,604</u>
			<u>73,805,435</u>
Student Financial Aid Cluster			
U.S. Department of Education:			
SEOG			
		84.007	147,696
PELL Grants			
		84.063	7,894,629
Work Study			
		84.033	235,932
Federal SMART Grant			
		84.376	412,367
Federal Academic Competitiveness			
		84.375	166,690
Total U.S. Department of Education			<u>8,857,314</u>
Total Student Financial Aid Cluster			<u>8,857,314</u>
ARRA State Fiscal Stabilization			
ARRA Pass-through			
State of AL/Dept. of Finance/ARRA/SFSF-CGA	10-1330-A	84.394	3,529,066
Total Major Programs			<u>86,191,814</u>
Other Programs			
Department of Education			
DoEd/School Emergency Response to	Q184S00012	84.RD	149,689
Total Department of Education			<u>149,689</u>
National Science Foundation			
Pass-through funds			
National Science Foundation			
UAB/Alabama Louis Stokes Alliance	AGR DTD 7/21/06	47.076	23,232
Total National Science Foundation			<u>23,232</u>
National Endowment for the Humanities			
Pass-Through Funds			
AHF/Dora and the V-2: Slave Labor in the Space Age	0909-1941 EX	45.RD	6,700
Department of State			
Pass-through funds			
AED/Study of the United States for Global Student Leaders 2009	4135-02-05	19.430	39,642
Georgetown University/Near Eas	UAH-RX2050-908-10-H	19.430	23,208
IREX/International Leaders in Education Programs (ILEP)	FY09-ILEP-ALABAMA-01	19.430	170,517
Total Department of State			<u>233,367</u>
Department of Defense			
F/DOD/ARMY/AMCOM/Garrison Project:R	W9124P07C0030	12.RD	99,724
F/DOD/ARMY/AMCOM/Master of Science	LTR DTD 1/28/08	12.RD	176,120
Total Department of Defense			<u>275,844</u>
Department of Labor			
Pass-through funds			
Calhoun Comm College/North Alabama	CALHOUN 030182		27,965
Total Other Programs			<u>716,797</u>
Total Schedule of Expenditures of Federal Awards			<u>\$ 86,908,611</u>

The accompanying notes are an integral part of this schedule of expenditures of federal awards.

The University of Alabama in Huntsville

Notes to Schedule of Expenditures of Federal Awards

September 30, 2010

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") summarizes the federal expenditures of The University of Alabama in Huntsville (the "University") under programs of the federal government for the year ended September 30, 2010. The amounts reported as federal expenditures were obtained from the University's general ledger. This Schedule presents only a selected portion of the operations of the University, and, accordingly, is not intended to and does not present the net assets, changes in net assets, and cash flows of the University.

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

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

Subrecipients

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subrecipients and reimbursed by the University are presented in the Schedule. The University provided approximately \$1,690,652 of research and development cluster awards to subrecipients during the year ended September 30, 2010.

2. Summary of Significant Accounting Policies

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

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

The University operates under predetermined fixed F&A cost rates which are effective from October 1, 2004 through September 30, 2010. The predetermined fixed rates were based on 2003 financial information. For fiscal year ending September 30, 2010, the base rate for on-campus research is 47.3%. Base rates for other F&A cost recoveries range from 26% to 47.3%.

4. Federal Student Loan Programs

Federal Direct Student Loans (CFDA Number 84.268)

The Federal Direct Student Loan Program (FDSLPL) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLPL on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During 2010, the University disbursed approximately \$28,687,872 under the FDSLPL, which is not reflected on the schedule.

Part II

Findings and Questioned Costs

The University of Alabama in Huntsville
Audit Findings and Questioned Costs
Year Ended September 30, 2010

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued Unqualified

Internal control over financial reporting

Material weakness(es) identified? Yes No

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

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs

Material weakness(es) identified? Yes None reported

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

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

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

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

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

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

A. No findings to report.

B. Other Matters:

During the course of applying for a new award from a federal agency, the University determined that there was a potential error in the application of the indirect cost rate during the period comprised of fiscal years ended September 30, 2006 through September 30, 2010. This error may have resulted in the over-collection of approximately \$1.1 million in indirect costs during the period. Management has contacted its cognizant agency and is working with that agency to complete its analysis of the matter and determine a corrective action plan.

Part III

Prior Year Findings and Questioned Cost

The University of Alabama in Huntsville
Status of Prior Year Findings and Questioned Costs
Year Ended September 30, 2009

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

Part IV

2010 Financial Report

**FINANCIAL REPORT
2009-2010**



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**The University
of Alabama
in Huntsville**

A Space Grant College
An Affirmative Action/Equal Opportunity Institution



Report of Independent Auditors

To the Board of Trustees of
The University of Alabama:

In our opinion, based upon our audit and the report of other auditors, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of The University of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit at September 30, 2010 and 2009, and the respective changes in financial position of the University and its discretely presented component unit, and cash flows of the University for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of University of Alabama Huntsville Foundation, the University's discretely presented component unit, as of September 30, 2010 and for the year then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for University of Alabama Huntsville Foundation, is based solely on the report of the other auditors. We conducted our audits of the financial statements of the University and its discretely presented component unit in accordance with auditing standards generally accepted in the United States of America, and we conducted our audit of the University in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2011 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, for the year ended September 30, 2010. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 1, the financial statements of the University are intended to present the financial position, the changes in financial position, and, where applicable, the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2010 and 2009, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

PricewaterhouseCoopers LLP

January 27, 2011

PricewaterhouseCoopers LLP, 1901 6th Ave. N., Suite 1600, Birmingham, AL 35203
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The University of Alabama in Huntsville

Management's Discussion and Analysis (Unaudited)

This section of The University of Alabama in Huntsville (the "University") annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal years ended September 30, 2010 and 2009. This discussion has been prepared by University management and should be read in conjunction with the financial statements and the related footnotes. The financial statements, footnotes and this discussion are the responsibility of University management.

Introduction

The University is a public research university that offers 65 degree-granting programs that meet the highest standards of excellence, including 31 bachelor's degree programs, 20 master's degree programs, and 14 doctoral programs through its five colleges: Business Administration, Liberal Arts, Engineering, Nursing, and Science. The University is an autonomous campus within The University of Alabama System (the "System").

The University received \$92.1 million for externally funded projects during fiscal year 2010. Sponsors of research include federal and state agencies, academic institutions, industry and private foundations. Research is conducted within the five individual colleges and through the University's 14 independent research centers, laboratories and institutes. Major interdisciplinary research thrusts include: modeling and simulation; systems engineering; rotorcraft and aerospace engineering; propulsion; optics; space physics and astrophysics; earth and atmospheric system science; information technology; materials science; biotechnology; nanotechnology; humanities; and lean supply chain, acquisition, and logistics.



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

Financial and Enrollment Highlights

- Total net assets increased \$16.6 million, primarily due to an increase in tuition and fees, net investment income, and contracts and grants.

Equivalent Full-time Student Enrollment (FTE)					
	2006	2007	2008	2009	2010
Undergraduate	4456	4477	4654	4906	4831
Graduate	709	773	773	784	811
Total	5165	5250	5427	5690	5642

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

Historical Fall Headcount by Earned Hours					
	2006*	2007*	2008*	2009*	2010
Graduates	1372	1513	1538	1562	1609
Seniors	1709	1761	1560	1640	1817
Juniors	1186	1116	1178	1339	1323
Sophomores	1052	1087	1211	1257	1183
Freshmen	1701	1612	1753	1638	1424
Others	71	175	191	245	258
Total	7091	7264	7431	7681	7614

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

- The total of full-time equivalent students decreased 0.8% in 2010, compared to the 4.8% increase in 2009. UAH also had a 0.9% decrease in the total number of students attending in the fall semester in 2010, compared to the 3.4% increase in 2009.

Degrees Conferred					
	2006	2007	2008	2009	2010
Bachelor's	816	840	889	900	933
Master's	343	299	322	384	364
Doctorate	31	30	37	32	38
Certificate	39	21	31	29	25
Total	1229	1190	1279	1345	1360

- Approximately \$43.1 million in appropriations for operations were received from the State of Alabama for fiscal year 2010. In comparison to the prior year, appropriations decreased 6.1% or \$2.8 million.

Statement of Net Assets

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

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

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

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

Summary of Statements of Net Assets			
	2010	2009	2008
Current assets	\$ 120,537,020	\$ 98,599,124	\$ 80,489,781
Noncurrent assets:			
Endowment, life income and other investments	52,096,534	51,153,427	53,275,982
Capital assets, net	212,762,299	193,327,170	191,234,402
Legal settlement receivable	4,312,772	4,910,379	5,478,770
Other	2,672,705	2,147,925	2,155,424
Total assets	392,381,330	350,138,025	332,634,359
Current liabilities	46,734,545	46,582,274	39,572,189
Noncurrent liabilities	83,651,000	58,111,000	52,486,000
Total liabilities	130,385,545	104,693,274	92,058,189
Net assets			
Invested in capital assets, net of related debt	130,165,018	135,705,109	139,604,839
Restricted	9,720,007	9,619,562	9,572,427
Unrestricted	122,110,760	100,120,080	91,398,904
Total net assets	\$ 261,995,785	\$ 245,444,751	\$ 240,576,170

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

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

For the year ending September 30, 2008, the University's current assets increased \$2.5 million. Endowment, life income and other investments increased \$209,860. Capital assets, net of depreciation, increased \$6.7 million primarily due to the construction of the Intermodal Facility. The legal settlement receivable of \$5.5 million is the net present value of an amount to be received in future years. Current liabilities increased \$4.3 million. The majority of this increase is due to payroll related liabilities and deferred revenues. Noncurrent liabilities decreased \$2.1 million, the result of bond principal payments.



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

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

designated for capital projects, as well as various academic and research programs and initiatives.

For the year ending September 30, 2008, the University’s total net assets increased 2.9%. The University’s investments in capital assets, net of related debt, increased approximately \$8.8 million primarily due to capital grants. Restricted net assets increased \$0.9 million. Unrestricted net assets decreased approximately \$2.9 million. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University’s unrestricted net assets have been designated for capital projects, as well as various academic and research programs and initiatives.

Capital Assets

At September 30, 2010, 2009 and 2008, the University had approximately \$386.6 million, \$356.7 million and \$345.0 million invested in capital assets and accumulated depreciation of \$173.8 million, \$163.4 million and \$153.8 million, respectively. Depreciation charges for fiscal year 2010, 2009 and 2008 were \$11.2 million, \$11.3 million and \$11.7 million, respectively.

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

Capital Assets, Net			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 3,910,290	\$ 3,871,290	\$ 3,846,290
Land improvements and infrastructure, net	2,125,825	2,300,240	2,441,533
Buildings and building improvements, net	188,820,790	171,233,440	168,024,517
Equipment, net	10,799,069	8,318,826	9,524,769
Library books, net	5,036,758	5,530,447	5,382,108
Computer software, net	1,619,652	1,913,627	2,015,185
Artwork	449,915	159,300	-
Total capital assets, net	<u>\$ 212,762,299</u>	<u>\$ 193,327,170</u>	<u>\$ 191,234,402</u>

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

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

Major capital expenditures during the year ended September 30, 2008, included the construction of the Intermodal Facility. Funding for this project was provided by federal sources.

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

Debt

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

	Debt		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Bonds - Current	\$ 2,575,000	\$ 2,490,000	\$ 2,125,000
Bonds - Long Term	83,526,000	58,111,000	52,486,000
Notes - Long Term	125,000	-	-
Total debt outstanding	<u>\$ 86,226,000</u>	<u>\$ 60,601,000</u>	<u>\$ 54,611,000</u>



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

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenses, and changes in net assets, which presents the University's results of operations. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the University. State appropriations are nonoperating because they are provided by the State Legislature to the University without the Legislature directly receiving commensurate goods and services in return for those revenues. Without the nonoperating revenues, in particular the state appropriations, the University would not be able to cover its costs of operations. These sources are critical to the University's financial stability and directly impact the quality of its program.

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

Summary of Statements of Revenues, Expenses, and Changes in Net Assets			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating revenues:			
Tuition and fees	\$ 57,539,507	\$ 49,171,895	\$ 41,856,861
Less: scholarship allowances	(15,866,010)	(11,842,131)	(9,789,836)
Tuition and fees, net	41,673,497	37,329,764	32,067,025
Federal, state and private grants and contracts	80,584,998	75,442,370	67,621,950
Sales and services of educational departments	3,382,871	3,267,819	2,236,694
Auxiliary, net of \$832,271 in 2010 and \$544,732 in 2009 of scholarship allowances	6,079,895	5,860,094	5,596,733
Total operating revenues	131,721,261	121,900,047	107,522,402
Operating expenses	175,666,077	169,352,221	166,798,051
Operating loss	(43,944,816)	(47,452,174)	(59,275,649)
Nonoperating revenues (expenses):			
State appropriations	43,072,625	45,861,449	58,100,801
Private gifts	2,827,316	3,017,524	3,128,625
Net investment income (loss)	5,177,809	865,840	(8,114,771)
Loss on disposal of capital assets	(268,920)	(1,045,093)	(471,496)
Interest expense	(2,531,893)	(2,323,481)	(2,384,569)
Capital gifts and grants	791,115	640,330	11,473,364
Pell grants revenue	7,894,629	5,205,261	4,306,328
State fiscal stabilization funds	3,529,066	98,925	-
Legal settlement	4,103	-	-
Net nonoperating revenues	60,495,850	52,320,755	66,038,282
Increase in net assets	16,551,034	4,868,581	6,762,633
Net assets, beginning of year	245,444,751	240,576,170	233,813,537
Net assets, end of year	\$ 261,995,785	\$ 245,444,751	\$ 240,576,170

Tuition and fees increased \$8.4 million in fiscal year ended September 30, 2010 due to a 9.4% increase in tuition. The \$7.3 and \$4.1 million increases in 2009 and 2008 were also the result of tuition increases. The following is a summary of revenues by source (both operating and nonoperating) for the years ended September 30, which are used to fund the University’s operating activities. Significant recurring sources of the University’s revenues, such as state appropriations, are considered nonoperating, as defined by GASB Statement No. 35, *Basic Financial Statements-Management Discussion and Analysis for Public colleges and Universities*.

	Revenue Sources					
	2010		2009		2008	
State appropriations	\$43,072,625	22.1%	\$45,861,449	25.8%	\$58,100,801	32.9%
Net investment income (loss)	5,177,809	2.7%	865,840	0.5%	(8,114,771)	-4.6%
Grants and contracts	80,584,998	41.3%	75,442,370	42.5%	67,621,950	38.3%
Gifts	2,827,316	1.5%	3,017,524	1.7%	3,128,625	1.8%
Auxiliary	6,079,895	3.1%	5,860,094	3.3%	5,596,733	3.2%
Net tuition and fees	41,673,497	21.4%	37,329,764	21.0%	32,067,025	18.2%
Sales and services	3,382,871	1.7%	3,267,819	1.8%	2,236,694	1.3%
Capital gifts and grants	791,115	0.4%	640,330	0.4%	11,473,364	6.5%
Legal settlement	4,103	0.0%	-	0.0%	-	0.0%
Pell grants	7,894,629	4.0%	5,205,261	2.9%	4,306,328	2.4%
State fiscal stabilization funds	3,529,066	1.8%	98,925	0.1%	-	0.0%
Total revenues	\$195,017,924		\$177,589,376		\$176,416,749	

Investment income continued to improve in 2010, after suffering significantly in 2008 as considerable unrealized losses were recorded due to unfavorable market conditions and activity. Investment activity produced a net increase of \$4.3 million from the prior year. Investments experienced gains of \$0.9 million in 2009, a \$9.0 million increase over 2008. Fiscal year 2008 saw an overall decrease of \$17.4 million in investment income.

Grants and contracts increased \$5.1 million in fiscal year ended September 30, 2010 primarily due to an increase in federal contracts and grants. Grants and contracts increased \$7.8 million and \$3.2 million in fiscal year ended September 30, 2009 and 2008, respectively, primarily due to an increase in federal grants and contracts. Capital gifts and grants increased \$150,785 during fiscal year 2010. There was a decrease of \$10.8 million during fiscal year 2009, the result of the completion of a construction grant for the Intermodal Facility. The \$16.6 million decrease during fiscal year 2008 was due to the completion of a construction grant for the Shelby Center.

The University receives grant and contract revenue from federal, state and local governments and private agencies. These funds are used to further the mission of the University: research, education, and public service. These funds were received in exchange for services performed and are recorded as operating revenues. The chart reflects the funding sources for federal operating grant and contract revenue for the years ended September 30:

Detail of Federal Grants & Contracts Revenue			
	2010	2009	2008
National Aeronautics and Space Administration	\$ 20,969,792	\$ 20,886,686	\$ 19,186,398
Department of Defense	43,303,784	35,590,965	29,105,733
National Science Foundation	3,243,906	1,715,550	2,094,877
Department of Education	1,112,374	532,789	933,809
Other	6,855,061	7,867,802	7,867,459
Total	\$ 75,484,916	\$ 66,593,792	\$ 59,188,276

Department of Defense revenues increased \$7.7 million, \$6.5 million and \$7.2 million in fiscal year ended September 30, 2010, 2009 and 2008 respectively, primarily due to an increase in Army contracts.

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

Operating expenses (by functional classification)			
	2010	2009	2008
Instruction	\$ 46,626,681	\$ 46,572,499	\$ 43,779,703
Research	70,977,492	65,218,878	64,417,660
Public service	492,098	267,414	462,367
Academic support	8,053,427	7,093,760	7,483,125
Student services	10,109,980	9,494,792	10,740,295
Institutional support	15,506,263	15,673,674	15,250,766
Operations and maintenance of plant	8,538,183	9,434,866	9,952,047
Scholarships and fellowships	981,010	928,253	510,664
Auxiliary enterprises	3,203,326	3,329,830	2,516,492
Depreciation	11,177,617	11,338,255	11,684,932
Total operating expenses	\$ 175,666,077	\$ 169,352,221	\$ 166,798,051
Operating expenses (by natural classification)			
Compensation and benefits	\$ 125,809,835	\$ 122,500,135	\$ 119,696,443
Supplies and services	37,697,615	34,585,578	34,906,012
Depreciation	11,177,617	11,338,255	11,684,932
Scholarships and fellowships	981,010	928,253	510,664
Total operating expenses	\$ 175,666,077	\$ 169,352,221	\$ 166,798,051

Instruction expense increased \$54,182 in fiscal year ended September 30, 2010. The increase of \$2.8 million and \$0.3 million in 2009 and 2008, respectively, was primarily due to increases in health insurance and other benefit costs.

Research expense increased \$5.8 million, \$0.8 million and \$8.4 million in fiscal year ended September 30, 2010, 2009 and 2008, respectively, primarily due to an increase in contracts and grants.

Compensation and benefits increased \$3.3 million and \$2.8 million in fiscal year ended September 30, 2010, and 2009, respectively, primarily due to increases in health insurance and other benefit costs. The increase of \$10.3 million in fiscal year ended September 30, 2008, was primarily due to annual merit based salary increases and increases in health insurance and other benefit costs.

Scholarships and fellowships increased \$52,757 and \$0.4 million in fiscal year ended September 30, 2010 and 2009, respectively, due to increases in tuition.

Statement of Cash Flows

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

Condensed Statements of Cash Flows		
	2010	2009
Cash received from operations	\$ 138,936,194	\$ 120,044,594
Cash payments for operations	(165,882,624)	(159,372,397)
Net cash used in operating activities	<u>(26,946,430)</u>	<u>(39,327,803)</u>
Net cash provided by capital and related financing activities	(9,013,004)	(5,342,746)
Net cash (Used in) provided by investing activities	(30,775,257)	9,566,390
Net cash provided by noncapital financing activities	<u>57,715,914</u>	<u>54,857,634</u>
Net increase (decrease) in cash and cash equivalents from other than operating activities	17,927,653	59,081,278
Net (decrease) increase in cash	(9,018,777)	19,753,475
Cash, beginning of year	38,898,952	19,145,477
Cash, end of year	<u>\$ 29,880,175</u>	<u>\$ 38,898,952</u>

The University used \$26.9 million of cash for operating activities in 2010, offset by approximately \$57.7 million of cash provided by noncapital financing activities. Similarly, in 2009, \$39.3 million of cash used for operating activities was offset by \$54.9 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses. The decrease in cash provided by noncapital financing activities was due to a decrease in state appropriations.

Cash of \$9.0 million and \$5.3 million in 2010 and 2009, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that included gifts, grants and contracts for capital purposes.

Cash used in investing activities totaled \$30.8 million in 2010. Cash provided by investing activities totaled \$9.6 million in 2009. The differences are primarily a result of investments made to the System Intermediate Fund, and the primary reason for the overall decrease in the University's cash from 2009 to 2010.



Economic Factors That Will Affect the Future

The University's state appropriations have not kept pace with the amounts recommended by the Alabama Commission on Higher Education (ACHE). For fiscal year 2010, the University was funded at approximately 52.1% of the ACHE funding recommendation.

There is a direct relationship between the growth of State support and the University's ability to control tuition growth as declines in State appropriations adversely affect tuition levels. Proration of 9.5% and 11.0% was enacted in fiscal year 2010 and 2009, respectively, reducing appropriations the University received. There can be no assurance of future State appropriations. The University expects to be able to absorb this loss of State funds, without material reduction of its budget, through a combination of increased tuition and any increased enrollment and internal reserves. State appropriations are not, and cannot lawfully be, pledged under debt indentures. Major financial strengths of the University include a diverse source of revenues, including State appropriations, tuition and fees (net of scholarship allowances), auxiliary units' revenue, private support and federally sponsored grants and contracts.

The University continues to attract federal grant and contract revenue. Over 85% of the University's federal operating revenue comes from two agencies: the National Aeronautical and Space Administration and the Department of Defense. The outcome of the federal budget process has important ramifications for the University's research budget.



The University's achievement in recent years in obtaining private and federal support is a testament to the high regard in which the University is held. The level of support underscores the continued confidence among donors and grantors in the quality of the University's programs and the importance of its mission.

The University must have a balanced array of many categories of facilities to meet its educational, research and public service goals and continues to assess its long-term capital requirements. Support for the University's recent capital expenditures has been provided primarily from federal funds, bond issues repaid through student rental and facility fees, and gifts.

Requests for Information

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



FINANCIAL STATEMENTS



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

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 29,350,455	\$ 38,316,550
Operating investments	61,906,105	26,970,506
Accounts receivable, net	21,931,129	27,175,965
Other current assets	7,349,331	6,136,103
Total current assets	<u>120,537,020</u>	<u>98,599,124</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	529,720	582,402
Endowment investments	18,029,917	17,034,128
Investments for capital activities	33,536,897	33,536,897
Capital assets, net	212,762,299	193,327,170
Legal settlement receivable	4,312,772	4,910,379
Other noncurrent assets	2,672,705	2,147,925
Total noncurrent assets	<u>271,844,310</u>	<u>251,538,901</u>
Total Assets	<u>\$ 392,381,330</u>	<u>\$ 350,138,025</u>
 Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 18,054,386	\$ 19,726,102
Deferred revenues	22,931,071	21,052,323
Current portion of long-term debt	2,575,000	2,490,000
Deposits held for others	3,174,088	3,313,849
Total current liabilities	<u>46,734,545</u>	<u>46,582,274</u>
Noncurrent Liabilities:		
Long-term debt	<u>83,651,000</u>	<u>58,111,000</u>
Total noncurrent liabilities	<u>83,651,000</u>	<u>58,111,000</u>
Total Liabilities	<u>130,385,545</u>	<u>104,693,274</u>
Net Assets:		
Invested in capital assets, net of related debt	130,165,018	135,705,109
Restricted:		
Nonexpendable	3,055,800	2,906,024
Expendable	6,664,207	6,713,538
Unrestricted	<u>122,110,760</u>	<u>100,120,080</u>
Total Net Assets	<u>261,995,785</u>	<u>245,444,751</u>
Total Liabilities and Net Assets	<u>\$ 392,381,330</u>	<u>\$ 350,138,025</u>

See accompanying notes to financial statements

UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
STATEMENTS OF FINANCIAL POSITION DISCRETELY PRESENTED COMPONENT UNIT
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 2,054,158	\$ 3,326,017
Investments	33,807,671	33,233,406
Investment real estate	2,813,018	2,813,938
Investment in trust	5,145,485	5,111,552
Accrued interest	413,105	394,806
Mortgages receivable	36,897	56,650
Pledges receivable, net	116,040	336,868
Trust receivable	484,959	484,959
Income tax receivable	56,794	-
Other receivable	176,090	39,390
Collections	60,390	60,390
Total Assets	<u>\$ 45,164,607</u>	<u>\$ 45,857,976</u>
Accounts payable	\$ 1,669	\$ 16,841
Annuity payable	175,770	141,913
Other payable	2,224	-
Total Liabilities	<u>179,663</u>	<u>158,754</u>
Unrestricted net assets	21,566,649	21,256,947
Temporarily restricted net assets	6,110,077	7,380,825
Permanently restricted net assets	17,308,218	17,061,450
Total Net Assets	<u>44,984,944</u>	<u>45,699,222</u>
Total Liabilities and Net Assets	<u>\$ 45,164,607</u>	<u>\$ 45,857,976</u>

See accompanying notes to financial statements

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

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Tuition and fees	\$ 57,539,507	\$ 49,171,895
Less: scholarship allowances	(15,866,010)	(11,842,131)
Tuition and fees, net	<u>41,673,497</u>	<u>37,329,764</u>
Grants and contracts		
Federal	75,484,916	66,706,249
State	3,794,394	5,284,366
Private	1,305,688	3,451,755
Sales and services of educational departments	3,382,871	3,267,819
Auxiliary, net of \$832,271 in 2010 and \$544,732 in 2009 of scholarship allowances	<u>6,079,895</u>	<u>5,860,094</u>
Total Operating Revenues	<u>131,721,261</u>	<u>121,900,047</u>
Operating Expenses		
Compensation and benefits	125,809,835	122,500,135
Supplies and services	37,697,615	34,585,578
Depreciation	11,177,617	11,338,255
Scholarships and fellowships	981,010	928,253
Total Operating Expenses	<u>175,666,077</u>	<u>169,352,221</u>
Operating loss	(43,944,816)	(47,452,174)
Nonoperating Revenues (Expenses)		
State appropriations	43,072,625	45,861,449
Private gifts	2,827,316	3,017,524
Net investment income	5,177,809	865,840
Pell grant revenue	7,894,629	5,205,261
State Fiscal Stabilization Funds	3,529,066	98,925
Legal settlement	4,103	-
Loss on disposal of capital assets	(268,920)	(1,045,093)
Interest expense	<u>(2,531,893)</u>	<u>(2,323,481)</u>
Net Nonoperating Revenues	59,704,735	51,680,425
Capital gifts	791,115	159,300
Capital grants	<u>-</u>	<u>481,030</u>
	60,495,850	52,320,755
Increase in net assets	16,551,034	4,868,581
Net Assets, Beginning of Year	<u>245,444,751</u>	<u>240,576,170</u>
Net Assets, End of Year	<u>\$ 261,995,785</u>	<u>\$ 245,444,751</u>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF ACTIVITIES
Years Ended September 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Changes in net assets		
Revenue, gains, and other support:		
Contributions	\$ 300,660	\$ 376,225
Rent income	24,400	22,810
Investment income	1,915,221	1,891,748
Unrealized gain/(loss) on investments	1,735,883	2,444,783
Equity in earnings of trust	520,262	813,310
Other income	390,234	270,736
Change in value of split-interest agreement	-	104,328
Total Revenues	<u>4,886,660</u>	<u>5,923,940</u>
Expenses:		
Realized gain/(loss) on sale of investments	1,459,607	3,999,086
Contributions to UAH	2,325,839	1,401,574
Scholarships to UAH	1,180,055	1,172,080
Professional services	135,721	237,902
Income tax expense	167,565	157,903
Labor/Payroll expense	86,120	-
Bad debts expense	119,854	18,244
Change in value of split-interest agreement	86,502	-
Other expenses	39,675	57,115
Total Expenses	<u>5,600,938</u>	<u>7,043,904</u>
Change in net assets	(714,278)	(1,119,964)
Net Assets, Beginning of Year	<u>45,699,222</u>	<u>46,819,186</u>
Net Assets, End of Year	<u>\$ 44,984,944</u>	<u>\$ 45,699,222</u>

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENT OF CASH FLOWS
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Student tuition and fees	\$ 42,344,929	\$ 39,050,410
Federal grants and contracts	80,362,044	62,827,133
State grants and contracts	4,094,174	4,867,843
Private grants and contracts	1,408,845	3,179,681
Sales and services of educational and other departmental activities	3,371,436	3,438,261
Auxiliary enterprises	7,354,766	6,681,266
Payments to suppliers	(38,265,613)	(34,201,872)
Payments to employees and related fringes	(125,551,251)	(123,083,337)
Payments for scholarships and fellowships	(2,065,760)	(2,087,188)
Net Cash Used in Operating Activities	<u>(26,946,430)</u>	<u>(39,327,803)</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of bonds	27,990,000	8,115,000
Proceeds from issuance of note payable	125,000	-
Bond issuance cost	(657,214)	(124,935)
Capital gifts, grants and contracts		3,185,144
Purchase of capital assets	(31,674,480)	(12,157,119)
Proceeds from sale of capital assets	-	-
Principal payments on capital debt	(2,490,000)	(2,125,000)
Interest payments on capital debt	(2,306,310)	(2,235,836)
Net Cash Used in Capital and Related Financing Activities	<u>(9,013,004)</u>	<u>(5,342,746)</u>
Cash Flows from Investing Activities		
Gain (loss) from investments, net	1,276,999	1,494,188
Proceeds from sales and maturities of investments	921,426	9,295,496
Purchase of investments	(32,973,682)	(1,223,294)
Net Cash (Used in) Provided by Investing Activities	<u>(30,775,257)</u>	<u>9,566,390</u>
Cash Flows from Noncapital Financing Activities		
State educational appropriations	43,072,625	45,861,449
Private gifts	2,827,316	3,017,524
Student direct lending receipts	28,647,367	25,949,444
Student direct lending disbursements	(28,687,822)	(25,821,128)
Amounts received from affiliates	54,729	183,294
Amounts paid to affiliates	(194,490)	(177,739)
Legal Settlement	572,494	540,604
Pell Grant Revenue	7,894,629	5,205,261
State Fiscal Stabilization Funds	3,529,066	98,925
Net Cash Provided by Noncapital Financing Activities	<u>57,715,914</u>	<u>54,857,634</u>
Net (decrease) increase in cash and cash equivalents	(9,018,777)	19,753,475
Cash and Cash Equivalents, Beginning of Year	38,898,952	19,145,477
Cash and Cash Equivalents, End of Year	<u>\$ 29,880,175</u>	<u>\$ 38,898,952</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents in current assets	29,350,455	38,316,550
Restricted cash and cash equivalents	529,720	582,402
Total Cash and Cash Equivalents	<u>\$ 29,880,175</u>	<u>\$ 38,898,952</u>

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENT OF CASH FLOWS -- Continued
Years Ended September 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (43,944,816)	\$ (47,452,174)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	11,177,617	11,338,255
Changes in allowance for doubtful accounts	83,967	306,584
Changes in assets and liabilities:		
Accounts receivable, net	5,252,218	(6,565,604)
Other current assets	(1,213,228)	(1,320,186)
Accounts payable and accrued liabilities	(180,936)	(38,245)
Deferred revenues	1,878,748	4,403,567
Net Cash Used in Operating Activities	<u><u>\$ (26,946,430)</u></u>	<u><u>\$ (39,327,803)</u></u>
Supplemental Noncash Activities Information		
Loss on disposal of capital assets	\$ 268,920	\$ 1,045,093
Gift of capital assets	791,115	159,300
Capital assets acquired with a liability at year end	781,360	2,365,289

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
Notes to Financial Statements
Years Ended September 30, 2010 and 2009

Note 1 – Organization and Summary of Significant Accounting Policies

Financial Reporting Entity - The University of Alabama in Huntsville (the “University”) is one of three campuses of The University of Alabama System (the “System”), which is a discretely presented component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business type activities of the financial reporting entity of the System that is attributable to the transactions of the University. The financial statements include individual schools, colleges and departments, and certain affiliated operations determined to be a part of the University’s financial reporting entity. The System is recognized as an organization exempt from Federal Income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code.

Scope of Statements - The University follows Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units* (GASB 39). This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

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

UAHF is a legally separate, tax-exempt component unit of the University. UAHF is organized exclusively for charitable, scientific, and educational purposes in order to benefit the University. UAHF is governed by a 31-member board of trustees. Although the University does not control the timing or amount of receipts from UAHF, the majority of resources, or income thereon that UAHF holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by UAHF can only be used by, or for the benefit of, the University, UAHF is considered a component unit of the University. UAHF is reported in separate financial statements because of the difference in its reporting model, as further described below.

UAHF is a not-for-profit organization that reports its financial results under the Financial Accounting Standard Board (FASB) Statements. Most significant to UAHF’s operations and reporting model is Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria presentation features. No modifications have been made to UAHF’s financial information in the University’s financial reporting entity for these differences; however, significant note disclosures (see Note 16) to UAHF’s financial statements have been incorporated into the University’s

notes to the financial statements. During the years ended September 30, 2010 and 2009, UAHF distributed \$3,505,893 and \$2,573,654, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF can be obtained by calling 1-256-824-6503.

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

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, an amendment of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the GASB and all statements of the FASB through November 30, 1989, using the economic measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

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

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted:**
 - Nonexpendable** – Net assets subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the corpus of the University's permanent endowment funds.
 - Expendable** – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.
- **Unrestricted:** Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management. Substantially all unrestricted net assets are designated for academic, research, and capital programs.

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

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

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

Accounts Receivable: Accounts receivable consist primarily of tuition and fees charged to students, amounts due from the federal government, state and local governments, or private sources in connection with reimbursement of allowable expenditures made pursuant to the University's contracts and grants, and amounts due to the University related to a legal settlement. Accounts receivable are recorded net of estimated uncollectible amounts; the legal settlement receivable is recorded at net present value as the term is greater than one year.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at date of donation in the case of gifts, less accumulated depreciation. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was

incurred. The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Implementation costs, which are capitalized, include consulting expenses and allocation of internal salaries and fringes for the core implementation team. Training costs are expensed as incurred.

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

Depreciation of buildings and building improvements (5-50 years), land improvements and infrastructure (10 years), library collection (10 years), computer software (10 years) and inventoried equipment (5-8 years) is computed on a straight-line basis. The University computes depreciation for certain buildings and building improvements using a componentized method.

Collections: Collections are recognized as an asset on the accompanying statement of net assets in accordance with GASB 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The University defines collections as works of art or similar assets that are held for public exhibition, education, or research in furtherance of public service rather than financial gain which are protected, kept unencumbered, cared for, and preserved. Collection items are recorded at cost as of the date of acquisition or at their appraised or fair value on the date of donation in the case of gifts. Gains or losses from the sale of collection items are reflected on the statement of revenues, expenses, and changes in net assets as changes in the appropriate net asset classes, depending on the existence and type of donor-imposed restrictions.

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

Revenues: The University's policy for defining operating activities as reported on the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nearly all of the University's operating revenues are from exchange transactions. Certain significant revenue streams relied upon to support operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

Auxiliary enterprise revenues are primarily generated by University Housing.

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

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

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

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

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

Endowment Spending: For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Alabama, permits The Board of Trustees of the University of Alabama (the Board) to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. The University's policy is to retain the endowment realized and unrealized appreciation within the endowment after the spending rate distributions. The Board approved a spending rate for the fiscal years ended September 30, 2010 and 2009 of 5.0% of a moving three-year average of the market (unit) value.

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

Note 2 - Cash

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

to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss.

The System sponsors a short-term investment pool for the System entities to invest operating cash reserves. The Short-Term Fund is invested in a treasury obligation money market fund managed by Federated. As of September 30, 2010, the University had approximately \$10.5 million in the Short-Term Fund all of which was invested in the money market fund. The assets held in the money market fund are presented in cash and cash equivalents and restricted cash and cash equivalents. As of September 30, 2009, the University, within the Short-Term Fund, had approximately \$12.5 million as money market funds and approximately \$0.9 million as short term investments.

As of September 30, 2010 and 2009, the University had cash and cash equivalents totaling \$29,880,175 and \$38,898,952, respectively. Included in the amounts are deposits with trustees held for reserves, which totaled \$529,720 in 2010 and \$582,402 in 2009.

Note 3 – Investments

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

At September 30, 2010 and 2009, the University’s investments included custodial credit risk category I investments (investments that are insured or registered, or securities held by the University or its agent in the University’s name) and other investments not categorized by risk category as follows:

	2010	2009
Category I:		
Time deposits	\$ 134,619	\$ 133,938
Not categorized:		
Mutual funds	41,147	38,561
System Short-term Fund	10,505,856	13,409,005
System Intermediate Fund	56,953,381	23,484,133
System Prime Investment Fund	35,938,637	33,569,317
Pooled Endowment Fund	18,029,917	17,034,128
Agency Funds	2,375,218	2,383,322
Total Investments	<u>\$ 123,978,775</u>	<u>\$ 90,052,404</u>

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

Endowment Fund: The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over a perpetual time frame. Accordingly, the primary investment objectives of the Endowment Funds are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support to the endowment beneficiaries. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocations are established to meet targeted returns while providing adequate diversification in order to minimize investment volatility. Of the \$18,029,917 invested by the University at September 30, 2010, \$4,564,400 is donor restricted. Of the \$17,034,128 invested by the University in 2009, \$4,456,960 is donor restricted. These donor restricted amounts also include unrealized gains. As discussed in Note 1, the Endowment Fund invests in securities with non-readily determinable market values which are valued at cost, unless impaired. The portion of the University’s investment in the Endowment Fund which is reported at cost is approximately \$1,943,000 and \$1,650,000 at September 30, 2010 and 2009, respectively. The remainder of the investment is reported at fair value.

Prime Fund: The Prime Fund is a longer-term fund used as an investment vehicle to manage operating reserves with a time horizon of seven to ten years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid and semi-liquid securities. This fund is not currently invested in long-term lockup funds with illiquid assets. As discussed in Note 1, certain investments within the Prime Fund are valued at cost, unless impaired. The University’s portion of investments in the Prime fund which are measured at cost totaled approximately \$545,000 and \$617,000 at September 30, 2010 and 2009, respectively. The remainder of the investment is reported at fair value.

Intermediate Fund: The Intermediate Fund serves as an investment vehicle to manage operating reserves with a time horizon of two to six years. This fund is also used to balance the other funds when looking at the System’s entire asset allocation of operating reserves relative to its investment objectives. The Intermediate Fund has an investment objective of income with preservation of capital and is invested in intermediate-term fixed income securities. System policy states that at least one of the investment managers must be a large mutual fund providing daily liquidity.

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

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 System Pools are classified as commingled funds. The composition of the System’s investments, by investment type, at September 30, 2010 and 2009 is as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2010	2009	2010	2009	2010	2009	2010	2009
RECEIVABLES:								
ACCRUED INCOME RECEIVABLES	\$ 1,022,703	\$ 795,831	\$ 730,638	\$ 675,968	\$ 3,394,772	\$ 2,165,834	\$ -	\$ -
TOTAL RECEIVABLES	1,022,703	795,831	730,638	675,968	3,394,772	2,165,834		
CASH EQUIVALENTS:								
CERTIFICATES OF DEPOSIT	-	-	-	-	2,700,000	-	-	-
COMMERCIAL PAPER	-	-	-	-	27,000,000	3,660,924	-	-
MONEY MARKET FUNDS	20,090,042	42,002,374	15,547,782	23,706,508	15,395,632	8,444,513	168,718,531	130,246,378
TOTAL CASH EQUIVALENTS	20,090,042	42,002,374	15,547,782	23,706,508	45,095,632	12,105,437	168,718,531	130,246,378
EQUITIES:								
U.S. COMMON STOCK	63,959,778	26,954,210	46,906,064	21,302,169	-	-	-	-
FOREIGN STOCK	3,734,348	3,679,003	2,708,329	2,553,924	-	-	-	-
TOTAL EQUITIES	67,694,126	30,633,213	49,614,393	23,856,093	-	-	-	-
FIXED INCOME SECURITIES:								
U.S. GOVERNMENT OBLIGATIONS	33,786,763	11,842,720	19,534,274	11,091,835	192,236,728	82,914,102	-	-
MUNICIPAL GOVERNMENT OBLIGATIONS	-	-	-	-	2,093,673	1,232,148	-	-
MORTGAGE BACKED SECURITIES	911,352	20,187,898	566,328	18,945,890	19,764,250	27,260,836	-	-
COLLATERALIZED MORTGAGE OBLIGATIONS	1,525,678	4,507,042	1,900,449	3,312,760	30,978,826	64,674,578	-	-
CORPORATE BONDS	31,889,288	20,624,945	21,567,664	17,440,382	256,027,315	145,023,991	-	-
NON-U.S. BONDS	-	-	-	-	7,756,995	2,430,817	-	-
TOTAL FIXED INCOME SECURITIES	68,113,081	57,162,605	43,568,715	50,790,867	508,857,787	323,536,472	-	-
COMMINGLED FUNDS:								
BANK COMMON TRUST FUND	-	-	-	-	-	-	-	16,004,639
U.S. EQUITY FUNDS	130,953,359	155,436,175	101,565,158	116,269,956	-	-	-	-
NON-U.S. EQUITY FUNDS	209,620,702	219,549,152	173,321,023	157,123,290	-	-	-	-
U.S. BOND FUNDS	74,155,378	56,912,057	93,914,279	79,196,422	108,159,733	55,722,603	-	-
NON-U.S. BOND FUNDS	51,744,077	49,888,842	38,096,317	40,741,576	-	-	-	-
HEDGE FUNDS	126,056,610	122,211,021	93,416,606	94,900,567	-	-	-	-
PRIVATE EQUITY FUNDS	50,904,793	48,589,401	-	-	-	-	-	-
TIMBERLAND FUNDS	8,527,039	8,527,039	-	-	-	-	-	-
REAL ESTATE FUNDS	69,314,611	50,834,637	40,046,944	32,673,281	-	-	-	-
TOTAL COMMINGLED FUNDS	721,276,569	711,748,324	540,360,327	520,905,092	108,159,733	55,722,603	-	16,004,639
TOTAL FUND INVESTMENTS	877,173,818	841,546,516	649,091,217	619,258,560	662,113,152	391,364,512	168,718,531	146,251,017
TOTAL FUND ASSETS	878,196,521	842,342,347	649,821,855	619,934,528	665,507,924	393,530,346	168,718,531	146,251,017
TOTAL FUND LIABILITIES	(108,538)	(153,016)	(78,054)	(107,821)	(253,747)	(198,701)	-	-
AFFILIATED ENTITY INVESTMENTS IN FUNDS	(109,872,550)	(104,078,093)	(1,891,880)	-	(8,165,066)	(4,048,791)	-	-
TOTAL NET ASSET VALUE	\$ 768,215,433	\$ 738,111,238	\$ 647,951,921	\$ 619,826,707	\$ 657,089,111	\$ 389,282,854	\$ 168,718,531	\$ 146,251,017

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

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

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

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

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

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Aggregate Bond Index benchmark for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate, mortgage backed, asset backed and U.S. treasury and/or agency bonds with a minimum BBB-rating and an average duration of four years. In addition, approximately \$3,800,000 and \$47,000,000 in the Endowment and Prime Funds, at September 30, 2010 and 2009, is invested in unrated fixed income securities, excluding fixed income commingled funds.

Fixed income commingled funds were approximately \$294,000,000 and \$292,000,000, in the Endowment and Prime Funds, at September 30, 2010 and 2009, respectively.

The Intermediate Fund is benchmarked against the Barclays 1-3 Government Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For September 30, 2010 and 2009, respectively, approximately \$62,000,000 and \$36,000,000 was invested by the Intermediate Fund in unrated fixed income securities, excluding commingled bond funds, money market funds and commercial paper. Fixed income commingled funds and commercial paper totaled approximately \$150,000,000 and \$68,000,000 at September 30, 2010 and 2009, respectively.

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

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

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

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

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

As previously mentioned, credit risk in each investment pool and the University’s separately held investment portfolio is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2010 and 2009, there was no investment in a single issuer that represents 5% or more of total investments held by any single investment manager of the System Pools or in the System Pools.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time. The Board does not have a specific policy relative to interest rate risk. As such, there are no restrictions on weighted average maturity for each portfolio as they are managed relative to the investment objectives and liquidity demands of the investors. The effective durations for fixed or variable income securities, for the System Pools, at September 30, 2010 and 2009 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2010	2009	2010	2009	2010	2009
U.S. GOVERNMENT OBLIGATIONS	3.4	4.8	3.3	4.4	3.0	1.4
CORPORATE BONDS	6.4	5.4	6.0	5.6	2.0	1.2
COMMINGLED BOND FUNDS	5.8	5.0	5.2	4.5	2.4	1.9

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

Investments may also include mortgage pass through securities and collateralized mortgage obligations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. At September 30, 2010 and 2009, the fair market value of these investments for the System Pools, are as follows:

At September 30, 2008 and 2009, the fair values of such investments are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2010	2009	2010	2009	2010	2009
MORTGAGE BACKED SECURITIES \$	911,352	\$ 20,187,898	\$ 566,328	\$ 18,945,890	\$ 19,764,250	\$ 27,260,836
COLLATERALIZED MORTGAGE OBLIGATIONS	1,525,678	4,507,042	1,900,449	3,312,760	30,978,826	64,674,578
TOTAL FIXED	\$ 2,437,030	\$ 24,694,940	\$ 2,466,777	\$ 22,258,650	\$ 50,743,076	\$ 91,935,414

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, 2010 and 2009 the effective durations for these securities are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2010	2009	2010	2009	2010	2009
MORTGAGE BACKED SECURITIES	2.3	2.7	2.2	2.7	2.9	1.3
COLLATERALIZED MORTGAGE OBLIGATIONS	2.2	1.5	1.6	0.3	1.6	1.0

Foreign Currency Risk: The strategic asset allocation policy for the Endowment Fund and the Prime Fund includes an allocation to non-United States equity securities. Under Board policy, foreign equity holdings in a single industry should not exceed 25% of the investment manager’s portfolio measured at market value, with 50% of the portfolio’s holdings representing Europe, Australia, and the Far East Index firms. Each investment 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. Hedging of foreign currency risks is allowed at the investment manager’s discretion. In addition, investments in foreign bonds are allowed under Board policy. Foreign bonds denominated in U.S. dollars are limited to 10% of the investment manager’s portfolio, and bonds denominated in currencies other than U.S. dollars are generally limited to 20% of the investment manager’s portfolio, measured at market value. As of September 30, 2010 and 2009, all foreign investments are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$7,800,000 and \$2,400,000 of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2010 and 2009, respectively.

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

At September 30, 2010 and 2009, there were no securities on loan from the investment pools.

Note 4 – Accounts Receivable

The composition of accounts receivable at September 30, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Tuition and fees (net of allowance for doubtful accounts of \$250,545 in 2010 and \$177,140 in 2009)	\$ 5,161,429	\$ 4,217,542
Auxiliary enterprises and other operating activities	128,049	195,016
Federal, state, and private grants and contracts (net of allowance for doubtful accounts of \$322,688 in 2010 and \$312,126 in 2009)	15,534,316	21,696,723
Legal settlement receivable, net present value	597,607	568,391
Other	509,728	498,293
Net accounts receivable	<u>\$ 21,931,129</u>	<u>\$ 27,175,965</u>

Note 5 – Capital Assets

Capital assets activity for the years ended September 30, 2010 and 2009 is summarized as follows:

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

	October 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2009</u>
Land	\$ 3,846,290	\$ 25,000	\$ -	\$ -	\$ 3,871,290
Land improvements and infrastructure	7,502,133	281,393	-	-	7,783,526
Buildings and building improvements	240,929,426	2,828,094	(2,185,999)	7,749,400	249,320,921
Construction in progress	7,749,400	8,448,111	-	(7,749,400)	8,448,111
Equipment	55,933,946	1,527,825	(850,174)	-	56,611,597
Library books	26,295,990	1,277,626	-	-	27,573,616
Computer software	2,764,825	174,925.00	-	-	2,939,750
Artwork	-	159,300	-	-	159,300
Total cost of capital assets	<u>345,022,010</u>	<u>14,722,274</u>	<u>(3,036,173)</u>	<u>-</u>	<u>356,708,111</u>
Less accumulated depreciation	153,787,608	11,338,255	(1,744,922)	-	163,380,941
Capital assets, net	<u>\$ 191,234,402</u>	<u>\$ 3,384,019</u>	<u>\$ (1,291,251)</u>	<u>\$ -</u>	<u>\$ 193,327,170</u>

Note 6 – Long-term Debt

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

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

Type/Supported by	October 1, 2008	New Debt, net	Principal Repayment	September 30, 2009
Bonds:				
Student housing revenue	\$ 28,066,000	\$ -	\$ 1,180,000	\$ 26,886,000
General fee revenue	26,545,000	8,115,000	945,000	33,715,000
Total debts	<u>54,611,000</u>	<u>\$ 8,115,000</u>	<u>\$ 2,125,000</u>	<u>60,601,000</u>
Less current portion	<u>2,125,000</u>			<u>2,490,000</u>
Total long-term debt	<u><u>\$ 52,486,000</u></u>			<u><u>\$ 58,111,000</u></u>

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

	Principal	Interest	Total
2011	\$ 2,575,000	\$ 3,413,182	\$ 5,988,182
2012	2,790,000	3,452,646	6,242,646
2013	3,160,000	3,359,567	6,519,567
2014	3,280,000	3,251,003	6,531,003
2015	3,395,000	3,134,177	6,529,177
2016-2020	15,855,000	13,803,263	29,658,263
2021-2025	18,341,000	10,297,646	28,638,646
2026-2030	15,960,000	6,039,237	21,999,237
2031-2035	9,675,000	3,327,822	13,002,822
2036-2040	7,510,000	1,665,952	9,175,952
2041-2042	3,685,000	222,153	3,907,153
	<u>\$ 86,226,000</u>	<u>\$ 51,966,648</u>	<u>\$ 138,192,648</u>

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

Description and Purpose	Date Issued	Final Maturity	Interest Rate - %	Original Indebtedness	Outstanding Indebtedness September 30, 2010	Outstanding Indebtedness September 30, 2009
Bonds Payable:						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	\$ 2,180,000	\$ 825,000	\$ 895,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	1,036,000	1,116,000
Student Housing Revenue Bonds-Series 2001	12/27/2001	12/1/2031	3.00 - 5.30	9,370,000	8,065,000	8,260,000
Revenue Bonds-Series 2002-A	12/19/2002	9/30/2027	1.40 - 4.75	3,965,000	3,265,000	3,350,000
Revenue Bonds-Series 2003-A	2/3/2003	9/30/2027	1.45 - 4.70	17,890,000	14,460,000	15,020,000
Student Housing Revenue Bonds-Series 2004-A	9/30/2004	9/1/2034	3.00 - 4.63	13,130,000	11,590,000	11,865,000
Student Housing Revenue Bonds-Series 2004-B	9/30/2004	9/1/2016	3.00 - 3.63	7,515,000	4,155,000	4,750,000
Revenue Bonds-Series 2005-A	10/1/2005	6/1/2025	3.00 - 4.38	8,580,000	6,895,000	7,230,000
Revenue Bonds-Series 2009A	8/4/2009	7/1/2029	3.0-4.50	8,115,000	7,820,000	8,115,000
Student Housing Revenue Bonds-Series 2010-A	7/14/2010	6/1/2042	2.85-6.125	27,990,000	27,990,000	-
Total Bonds Payable				101,337,000	86,101,000	60,601,000
Note Payable:						
UAH Foundation	9/20/2010	7/31/2012		125,000	125,000	
Total Note Payable				125,000	125,000	
Total Debt				\$ 101,462,000	\$ 86,226,000	\$ 60,601,000

The University’s general fee bonds and student housing bonds are subject to certain covenants. These covenants, among other things, require the University to establish and maintain reasonable fees, rates, and other charges to ensure pledged revenues are sufficient for debt service coverage; to maintain books and records pertaining to the pledged revenues; to furnish annual audits and other periodic reports that reflect the financial condition of the Borrower, the project, other pledged facilities, and other pledged assets; and to comply with certain restrictions as to additional indebtedness. The University is in compliance with all restrictive financial covenants as of September 30, 2010.

Note 7 – Self-Insurance

The University participates with other campuses in the System in a self-insurance program for general liability risks. The Board established a separate revocable trust fund for payment of these self-insurance claims under its risk retention program. Annual contributions are made to the consolidated trust fund, at an actuarially determined rate, to provide funding for the retained risk. The accompanying statements of net assets include a reserve of \$183,664 and \$203,915 for general liability at September 30, 2010 and 2009, respectively.

The University also maintains a self-insurance health plan. For the year ended September 30, 2010, the University paid \$20.00 and \$4.60 per month per health insurance contract for administrative charges and stop loss coverage, respectively. The accompanying statements of net assets include a self-insurance reserve of \$1,791,510 and \$1,972,149 for health insurance at September 30, 2010 and 2009, respectively. Annual contributions are made to the health plan, utilizing an actuarially determined rate, to provide funding for the reserve.

The changes in the total reported self-insurance liabilities are summarized as follows:

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 2,176,064	\$ 2,773,870
Claims paid	(8,211,200)	(6,483,952)
Contributions	8,010,310	5,886,146
Balance, end of year	<u>\$ 1,975,174</u>	<u>\$ 2,176,064</u>

Note 8 – Retirement Plans

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

The TRS was established as of September 1939 under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility of the general administration and operation of TRS is vested in its Board of Control.

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

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

The following is a comparative presentation of contributions:

	<u>2010</u>	<u>2009</u>
University contributions	\$10,435,095	\$10,004,282
Employee contributions	4,175,331	4,151,992
Total contributions	<u>\$14,610,426</u>	<u>\$14,156,274</u>
University contribution rate	12.51%	12.07%
Employee contribution rate	5.00%	5.00%

The 10-year historical trend information shows TRS’s progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases, and postretirement benefit increases presented in the September 30, 2009 annual financial report of the TRS. That report is publicly available and may be obtained by contacting the TRS Communication Department at 1-877-517-7000.

The actuarial accrued liability (AAL), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL at September 30, 2009 (the most recent valuation date) and September 30, 2008 for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately as follows:

	<u>2009</u>	<u>2008</u>
Actuarial accrued liability (AAL)	\$ 27,537,400,000	\$ 26,804,117,000
Actuarial valuations of assets	20,582,348,000	20,812,477,000
Overfunded (underfunded) AAL	\$ (6,955,052,000)	\$ (5,991,640,000)

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

The contributions for fiscal years 2010 and 2009, excluding amounts from employees who are not eligible for matching, are summarized as follows:

	<u>2010</u>	<u>2009</u>
University contributions	\$ 2,560,021	\$ 2,695,433
Employee contributions	4,177,155	4,156,172
Total contributions	<u>\$ 6,737,176</u>	<u>\$ 6,851,605</u>

The University's total salaries and wages for fiscal years 2010 and 2009 are summarized in the table below:

	<u>2010</u>	<u>2009</u>
Total Salaries and Wages	\$ 96,105,428	\$ 94,341,400
Salaries and Wages of employees participating in:		
TRS	\$ 83,807,517	\$ 83,182,748
TIAA - CREF	\$ 54,609,262	\$ 57,416,593

Note 9 – Other Post-Employment Benefits

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

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

The University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), as of October 1, 2006. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The adoption of GASB 45 did not have a material impact on the University's financial statements financial statements principally because most

retirees elect to participate in the State-sponsored PEEHIP. PEEHIP is a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board. PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan are subject to a lifetime contract maximum of \$1,000,000 for each covered individual. The *Code of Alabama 1975*, Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers. The required rates of retirees are as follows as of September 30, 2010:

Retired Member Rates:

- Individual Coverage/Non-Medicare Eligible - \$97.54
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents - \$284.94
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$188.54
- Individual Coverage/Medicare Eligible Retired Member - \$1.14
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$188.54
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$92.14
- For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium, and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium
- Tobacco surcharge - \$25.00 per month

The required contribution rate of the employer was \$382 per employee per month in the year ended September 30, 2010. The University paid \$1,478,340 and \$1,378,256 for 331 and 301 retirees for the year ended September 30, 2010 and 2009, respectively. The required contribution rate is determined by PEEHIP in accordance with State statute. The complete financial report for PEEHIP can be obtained at the Public Education Employees' Health Insurance Plan website <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Statements tab.

Note 10 – Compensated Absences

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. The statement of net assets includes accruals of \$3,881,132 and \$3,625,446 as of September 30, 2010 and 2009, respectively, for accrued vacation pay and salary-related payments associated with vacation pay. There is no such accrual recognized for sick leave benefits because no terminal cash benefit is available to employees for accumulated sick leave.

Note 11 – Federal Direct Lending Program

The Federal Direct Student Loan Program (“FDSLPL”) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLPL on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. For fiscal years ended September 30, 2010 and 2009, the University disbursed \$28,687,872 and \$25,821,128 respectively, under the FDSLPL.

Note 12 – Contracts and Grants

At September 30, 2010, the University has been awarded approximately \$63.6 million in contracts and grants which have not been expended. These awards, which represent commitments of sponsors to provide funds for specific research, training, and service projects, have not been reflected in the financial statements.

During fiscal year 2010 and 2009, the University received and expended federal funding under the American Recovery and Reinvestment Act (“ARRA”), primarily in the form of sponsored research grants and State Fiscal Stabilization Funds, in the cumulative amount of \$5,328,517 and \$211,382, respectively.

Note 13 – Contingencies and Commitments

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

Note 14 – Operating Expenses by Function

Operating expenses by functional classification for the years ended September 30, 2010 and 2009 are summarized as follows:

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

	Year Ended September 30, 2009					Total
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	
Instruction	\$ 31,274,119	\$ 9,301,824	\$ 5,996,556	\$ -	\$ -	\$ 46,572,499
Research	40,770,381	11,205,005	13,243,492	-	-	65,218,878
Public service	135,404	65,289	66,721	-	-	267,414
Academic support	4,484,425	1,354,039	1,255,296	-	-	7,093,760
Student services	4,296,551	1,263,064	3,935,177	-	-	9,494,792
Institutional support	9,257,374	3,555,548	2,860,752	-	-	15,673,674
Operations and maintenance of plant	3,369,221	1,216,284	4,849,361	-	-	9,434,866
Scholarships and fellowships	-	-	-	-	928,253	928,253
Auxiliary enterprises	753,925	197,682	2,378,223	-	-	3,329,830
Depreciation	-	-	-	11,338,255	-	11,338,255
Total Operating Expenses	\$ 94,341,400	\$ 28,158,735	\$ 34,585,578	\$ 11,338,255	\$ 928,253	\$ 169,352,221

Note 15 – Recently Issued Accounting Standards

The GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), in December 2006. This statement requires that governments provide more detailed information regarding the effect of environmental cleanups. GASB 49 establishes criteria to ascertain whether certain events result in a requirement for the University to estimate the components of any expected pollution remediation costs and determine whether these costs should be accrued as a liability or, if appropriate, capitalized. The University implemented this statement as of October 1, 2009. GASB Statement No. 49 had no material impact on its financial statements.

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), in June 2007. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The University adopted the Statement on October 1, 2009 and there was no material impact on the University's financial statements.

The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), in June 2008. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The University adopted the standard effective on October 1, 2009, and there was no effect on the University's financial statements as the University has no derivative financial instruments.

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), in March 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The University is currently evaluating the impact, if any, that GASB 54 will have on its financial statements.

The GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 55), in March 2009. This statement was effective upon issuance. The objective of this statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The GASB does not expect that this statement will result in a change of current practice. There was no material impact on the University's financial statements as a result of this pronouncement.

The GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56), in March 2009. This statement was effective upon issuance. The objective of this statement

is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' *Statements on Auditing Standards*. This statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. There was no material impact on the University's financial statements as a result of this pronouncement.

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

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

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

1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

Note 16 – Component Unit

Basis of Accounting – University of Alabama Huntsville Foundation

The financial statements of UAHF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

- **Unrestricted-** Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include 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 UAHF 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 UAHF. 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.

In accordance with ASC 958.320, *Not-for-Profit Entities*, investments in debt securities and investments in equity securities with readily determinable fair values are reported at their fair values based on published market prices. Other investments, including real estate, are stated at cost or fair value at date of donation in the case of gifts. Changes in fair values are reported as unrealized gains or losses in the statement of activities and changes in net assets. All interest income and realized gains and losses are reported in the statement of activities and changes in net assets.

Investments – The cost and reported value of investments at September 30, 2010 and 2009 are presented below:

	<u>2010</u>		<u>2009</u>	
	<u>Reported Value</u>	<u>Cost</u>	<u>Reported Value</u>	<u>Cost</u>
Certificates of deposit	\$ 92,286	\$ 92,286	\$ 92,286	\$ 92,286
Pooled Endowment Fund	31,285,213	31,917,606	30,890,249	33,058,763
Marketable debt securities	368,144	354,892	302,187	288,886
Marketable equity securities	1,286,933	1,161,779	1,211,969	1,148,737
Mutual funds	775,095	781,090	736,715	869,908
Total	<u>\$ 33,807,671</u>	<u>\$ 34,307,653</u>	<u>\$ 33,233,406</u>	<u>\$ 35,458,580</u>

UAHF invests certain amounts in a commingled investment pool (“Pooled Endowment Fund”) sponsored by The University of Alabama System (the “System”). The value recognized for the investment pool is determined by the System and is based on UAHF’s proportionate share of the net asset value of the investment pool. The investment pool invests in various investment securities, including both marketable and non-marketable securities. Marketable investment securities held by the investment pool are carried at reported fair value. The investment pool reports certain investments which do not have readily determinable fair values at cost. The portion of UAHF’s investment in the Pooled Endowment Fund, presented above, which is reported at cost is \$3,371,923 and \$2,992,492 at September 30, 2010 and 2009, respectively. The remainder of the investment is reported at fair value.

Investment in Unconsolidated Entities and Trust Receivable -- UAHF is one of several beneficiaries of a trust established upon the death in 1974 of one of the University's benefactors. The sole assets of the trust consist of ownership interests in two closely-held businesses in Huntsville Alabama, Big Springs, Inc. ("Big Springs") and Chambers Bottling Company, LLC ("Chambers"). The trust holds a 70% interest in the common stock of Big Springs and a 65% interest in Chambers. The trust was established with both lead and remainder beneficiaries. The lead interest in the trust (that is, the rights to the income generated by from the trust assets) is divided equally among three sets of beneficiaries who hold a lifetime interest in those rights. As each lead interest terminates, a proportionate amount of the underlying assets in the trust is distributed among two residual beneficiaries, UAHF and another unrelated charitable organization. UAHF's share of the residual interest of the trust assets is 90 percent. UAHF accounts for its residual interest in the trust as an unconditional promise to give noncash assets, consistent with generally accepted accounting principles for situations where a donee has the eventual right to noncash assets held by a charitable trust but not the cash flows generated by them while they are held by the trust. UAHF recorded this interest at fair value as of the date it was awarded in 1974, and currently carries this interest in the Trust receivable line on UAHF's accompanying statements of financial position.

During 2008, one of the lend interests terminated and a pro-rata distribution of the ownership interests held by the trust were transferred to UAHF. As a result of the satisfaction of a pro-rata share of the pledge, UAHF recognized a gain of \$4,375,835 representing the increase in fair value of the noncash assets between the date the assets were promised in 1974 and their values upon actual receipt in 2008. As a result of the receipt of these equity interests, UAHF currently holds approximately 21% and 19.5% of Big Springs and Chambers, respectively. These equity interests allow UAHF to exercise significant influence over Big Springs and Chambers, and accordingly, UAHF accounts for these interests in under the equity method of accounting. During the years ended September 30, 2010 and 2009, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of \$520,262 and \$813,310, respectively. In addition, UAHF received distributions from Chambers of \$486,329 and \$404,820 in 2010 and 2009, respectively. Big Springs did not make any distributions in either 2010 or 2009.

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

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

	<u>2010</u>	<u>2009</u>
Net sales	\$68,688,045	\$65,650,049
Operating expenses	12,796,338	12,841,000
Net income	2,888,276	4,037,202

Endowments - Discretely Presented Component Units

The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the State Legislature and signed into law effective January 1, 2009. UPMIFA prescribes new guidelines for the expenditure of a donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. Its predecessor, UMIFA, focused on the prudent spending of the net appreciation of the fund. UPMIFA instead focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA eliminates UMIFA's historic-dollar-value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The FASB-reporting Foundations have adopted guidance provided by the FASB relevant to endowments of not-for-profit organization and the related net asset classification of endowment funds subject to an enacted version of UPMIFA and enhanced disclosures for all endowment funds. The impact of this guidance on the classification of net assets for the FASB-

reporting foundations was not material to the Foundations and is disclosed in the financial statements of each of the FASB-reporting foundations. The earnings distributions are appropriated for expenditure by the governing Boards of Directors of the Foundations in a manner consistent with the standard of prudence prescribed by UPMIFA. In order to conform to the standards for prudent fiduciary management of investments, each Foundation's Board of Directors has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets.

Restricted Net Assets – Restricted net assets are classified as either temporarily restricted net assets and available for the following purposes, or permanently restricted net assets, which are restricted to investment in perpetuity, the income from which is expendable for the following purposes at September 30, 2010 and 2009:

	Temporarily Restricted		Permanently Restricted	
	2010	2009	2010	2009
Student support	\$ 3,537,993	\$ 3,610,798	\$ 9,747,731	\$ 9,613,907
Faculty support	1,758,692	1,799,876	3,863,455	3,863,455
Academic support	765,182	1,720,642	3,646,604	3,533,660
Facilities renovation	-	158,732	-	-
Research	4,000	48,918	-	-
Library	44,210	41,859	50,428	50,428
Total	\$ 6,110,077	\$ 7,380,825	\$ 17,308,218	\$ 17,061,450

Note 17 – Segment Information

The University constructed Southeast Housing and issued bonds in 1980 and 1982. The bonds were payable from revenues received by the University for the use and occupancy of the facility. Condensed financial information of the University's segment for the years

ended September 30, 2010 and 2009, is as follows:

Condensed Balance Sheets				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Assets				
Current assets	\$ 314,001	\$ 249,829	\$ 251,842	\$ 387,954
Capital assets, net of accumulated depreciation	<u>1,034,362</u>	<u>1,142,942</u>	<u>1,367,325</u>	<u>1,497,454</u>
Total assets	<u><u>\$ 1,348,363</u></u>	<u><u>\$ 1,392,771</u></u>	<u><u>\$ 1,619,167</u></u>	<u><u>\$ 1,885,408</u></u>
Liabilities				
Current liabilities	\$ 81,884	\$ 82,759	\$ 99,226	\$ 95,226
Noncurrent liabilities	755,000	825,000	1,112,121	1,201,727
Total liabilities	<u><u>\$ 836,884</u></u>	<u><u>\$ 907,759</u></u>	<u><u>\$ 1,211,347</u></u>	<u><u>\$ 1,296,953</u></u>
Net assets				
Invested in capital assets, net of related debt	209,362	247,942	331,325	381,454
Restricted				
Expendable	92,000	72,000	280,000	280,000
Unrestricted	<u>210,117</u>	<u>165,070</u>	<u>(203,505)</u>	<u>(72,999)</u>
Total net assets	<u><u>511,479</u></u>	<u><u>485,012</u></u>	<u><u>407,820</u></u>	<u><u>588,455</u></u>
Total liabilities and net assets	<u><u>\$ 1,348,363</u></u>	<u><u>\$ 1,392,771</u></u>	<u><u>\$ 1,619,167</u></u>	<u><u>\$ 1,885,408</u></u>
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 586,914	\$ 524,693	\$ 547,922	\$ 476,441
Operating expenses	(444,042)	(428,132)	(564,621)	(492,285)
Depreciation expense	<u>(108,580)</u>	<u>(108,580)</u>	<u>(130,129)</u>	<u>(130,129)</u>
Operating income (loss)	34,292	(12,019)	(146,830)	(145,973)
Nonoperating expenses	<u>(7,825)</u>	<u>(29,535)</u>	<u>(33,805)</u>	<u>(36,051)</u>
Changes in net assets	26,467	(41,554)	(180,635)	(182,024)
Net assets, beginning of year	<u>485,012</u>	<u>526,566</u>	<u>588,455</u>	<u>770,479</u>
Net assets, end of year	<u><u>\$ 511,479</u></u>	<u><u>\$ 485,012</u></u>	<u><u>\$ 407,820</u></u>	<u><u>\$ 588,455</u></u>
Condensed Statements of Cash Flows				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Cash flows from				
Operating activities	\$ 161,996	\$ 95,293	\$ (22,307)	\$ (13,656)
Capital and related financing activities	(97,828)	(99,928)	(113,813)	(116,315)
Investing activities	<u>2</u>	<u>393</u>	<u>8</u>	<u>264</u>
Net decrease in cash	64,170	(4,242)	(136,112)	(129,707)
Cash, beginning of year	<u>70,638</u>	<u>74,880</u>	<u>233,063</u>	<u>362,770</u>
Cash, end of year	<u><u>\$ 134,808</u></u>	<u><u>\$ 70,638</u></u>	<u><u>\$ 96,951</u></u>	<u><u>\$ 233,063</u></u>

Note 18 - Legal Settlement

In July 2006, Nektar Therapeutics (Nektar) and the University announced the settlement of the University's litigation against Nektar and Dr. Milton Harris, in exchange for a total cash payment of \$25,000,000. Under the terms of the agreement, Nektar and Dr. Harris jointly made an upfront payment totaling \$15,000,000 to the University during fiscal year 2006 with remaining payments due through 2016. Included in the statements of net assets is the net present value of the remaining payments owed to the University of \$4,910,379 and \$5,478,770 as of September 30, 2010 and 2009, respectively.

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