

The University of Alabama in Huntsville

**Report on Federal Awards in Accordance with OMB
Circular A-133
September 30, 2012
EIN: 63-0520830**

The University of Alabama in Huntsville

Index

September 30, 2012

Page(s)

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* 1–2

Report of Independent Auditors on Compliance with Requirements
That Could Have a Direct and Material Effect on Each Major Program
and on Internal Control Over Compliance in Accordance
With OMB Circular A-133..... 3–5

Schedule of Expenditures of Federal Awards 6–10

Notes to Schedule of Expenditures of Federal Awards 11–12

Part II – Findings and Questioned Costs

Schedule of Findings and Questioned Costs 13–21

Part III – Status of Prior Year Findings and Questioned Costs

Status of Prior Year Findings and Questioned Costs 22

Part IV – 2012 Financial Report

Part I

Federal Award Programs



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

To the Board of Trustees of The University of Alabama:

We have audited the financial statements of The University of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, as of and for the year ended September 30, 2012, and have issued our report thereon dated January 25, 2013. Our report includes an emphasis of a matter regarding the presentation of financial statements as discussed in Note 1 to the financial statements. We conducted our audit of the University in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Other auditors audited the financial statements of University of Alabama in Huntsville Foundation, the University's discretely presented component unit, as described in the University's financial statements. The discretely presented component unit was not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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 June 19, 2013.

This report is intended solely for the information and use of the Board of Trustees of the University of Alabama System, the University's management, 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 25, 2013



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

To the Board of Trustees of The University of Alabama:

Compliance

We have audited the compliance of The University of Alabama in Huntsville (the “University”), a campus of The University of Alabama System, which is a component unit of the State of Alabama, with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012, except as described in the following paragraph of this report. 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.

The University’s basic financial statements include the operations of the University of Alabama Huntsville Foundation, which did not receive federal awards during the year ended September 30, 2012. Accordingly, our audit, described below, did not include the operations of this component unit.

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 of the University’s compliance with those requirements.

In our opinion, the University complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1, 2012-2, 2012-3 and 2012-4.



Internal Control Over Compliance

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

The University's basic financial statements include the operations of the University of Alabama Huntsville Foundation, which did not receive federal awards during the year ended September 30, 2012. Accordingly, we did not consider internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs for this component unit.

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.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's responses and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the University as of and for the year ended September 30, 2012, and have issued our report thereon dated January 25, 2013, which contained an unqualified opinion on those financial statements. Our report included an emphasis of a matter regarding the presentation of financial statements as discussed in Note 1 to the financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional



procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the 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 25, 2013, except for Compliance and Internal Control over Compliance, which is dated June 27, 2013

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Major Programs:			
Research and Development Cluster:			
U.S. Department of Defense:			
Department of Army		12	48,364,897
Department of Navy		12	149,794
Other		12	108,439
			<u>48,623,130</u>
Pass-Through Funds:			
A/Stevens Institute of Technology/E	RT 38_UAH_SUBCONTRACT_20120216	12	74,634
A/Tuskegee University/Support of Hy	30-22420-184-76190	12	15,000
A/U of FL/Lightning Initiation, Pro	UF-EIES-1005014-UAH	12	175,156
C/Aegis Technologies/Fabrication of	PO-120370	12	8,451
C/AEgis/DET S&T Terahertz Imaging P	67-TIPA-UAH-0001	12	13,545
C/Aquila/SBIR Phase II/World Advers	AGR DTD 8/25/09	12	3,442
C/ARINC/Improved Solar Observing Op	PO248104	12	34,257
C/ARTS/AMCOM Express/AMCOM End-to-E	MA 121608	12	1,422,632
C/ASI/SBIR Phase I/Facilities and T	PO ASI1379	12	848
C/ASRI/RATH for T&E of the HFDS	P.O. M12 0003-01	12	65,476
C/CFD Research Corp/UAH/RSESC suppo	SUBCONTRACT NO. 1513	12	2,310
C/CFD/Research Corp/UAH Tooling and	PO 001491	12	3,178
C/CFD/Research Corp/UAH/RSESC Fab W	SUB. PO 20120056	12	1,124
C/CFDRC/STTR/Phase I/Weather Charac	SUBCONTRACT NO. 1492	12	34,829
C/Optical Sciences Corp/Optical En	PO 11199H002	12	13,245
C/Colsa/ARC/Lower-tier Missile	H07018000	12	72,624
C/DMS/STTR Phase I/Weather and Envi	DMSUBCONTRACT-05	12	21,678
C/Gnosys Systems/STTR Phase II/Alte	GNOSYS SYSTEMS 09-001	12	154,527
C/IFOS/SBIR Phase I/Fiber-Optic Ins	IFOS-C-0011	12	2,769
C/Intuitive/Amcom Express/Non-Satnd	AE-P-UAH-001	12	165,314
C/MTSI/STTR Phase I/Reentry Heating	S11-1627-UAH	12	13,830
C/Northrop Grumman/nabling D&S (MI	PO 7500091325	12	59,750
C/SAIC/Amcm Express/Javelin EPBST S	4600006511	12	1,602,072
C/SimTech/STTR Phase I/High Fidelit	SUBCONTRACT NO. 1101	12	33,426
C/Stanley Assoc. Inc./Reverse	SK904-10-UAH-WARHEADSBAA-T	12	23,446
C/Stanley Assoc. Inc./Reverse Balli	PO C110323	12	21,000
C/Subsystem Technologies, Inc./Desi	3474-060 INIT 129	12	58,910
C/Subsystems/Design of Experiment f	3474-060	12	65,919
C/Techno-Sciences/SBIR/Phase II/Com	S340-10-UAH-01	12	8,413
C/Torch Technologies/Amcom Express/	PO11160	12	40
C/Torch/Amcom Express/Current Hardw	TO8S019	12	63,013
C/TRI-Austin/STTR Phase I/Conductin	F7112-11-SC-1505	12	35,003
O/Academy of Applied Science/Resear	SUBGRANT 11-45	12	1,300
O/Academy of Applied Science/Resear	SUBGRANT 11-90	12	2,600
O/Academy of Applied Science/Resear	SUBGRANT 11-23	12	2,600
O/Academy of Applied Science/Resear	SUBGRANT 12-23	12	2,486
O/Academy of Applied Science/Resear	SUBGRANT 12-83	12	2,050
S/UA/Small Business Development Cen	UA11-060	12	46,253
A/UCB/Neutral Atmosphere Density In	CU1544149	12	119,358
C/ASI/SBIR Phase II/Advance Heat Pi	PO ASI573	12	94,826
C/ATK/AMRAAM Propellant Technical I	PO MP00038861	12	13,793
C/CFDRC/STTR Phase I/A General- Pur	2012005	12	24,643
C/John Tiller Software, Inc./Basic	JTS DATED 10/7/09	12	21,972
C/John Tiller Software, Inc./Virtua	JTS DATED 8/8/2011	12	8,523
C/John Tiller Software/TAV Enhancem	JTS DATED 10/5/11	12	12,555
C/Orbitec/SBIR Phase II/ Injector I	OTC-GS-0269-1	12	90,456
A/MIT Lincoln Laboratory/Demonstrat	PO 7000151668	12	78,931
A/JHU/APL/Live-Virtual-Constructive	959198	12	13,708
O/ODURF/Modeling and Simulation Sta	11-160-206401	12	30,634
			<u>4,836,549</u>
Total U.S. Department of Defense			<u>53,459,679</u>

The accompanying notes are an integral part of this schedule.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
U.S Department of Health & Human Services:		93	215,078
ARRA Direct			
F/DHHS/NIH/ARRA/Analysis of Phd: a	2R15GM067668-04	93.701	80,812
F/DHHS/NIH/ARRA/Investigations into	1 R15 NS066391-01	93.701	8,337
F/DHHS/NIH/ARRA/Novel Pattern Speci	1R15GM093912-01	93.701	138,470
			<u>227,619</u>
Pass-Through Funds:			
ARRA Pass-Through Funds			
A/MIT/ARRA/Engineering Development	5710002629	93.701	22,069
Total U.S. Department of Health & Human Services			<u>464,766</u>
National Science Foundation:		47	2,625,048
ARRA Direct			
F/NSF/ARRA/Alabama Cyber Connection	1006661	47.082	233,701
F/NSF/ARRA/Anomalous Diffusion in t	0904007	47.082	108,667
F/NSF/ARRA/CAREER:Transport of Ions	0847719	47.082	77,849
F/NSF/ARRA/MRI: Acquisition of Dete	0923157	47.082	14,517
			<u>434,734</u>
Pass-Through Funds:			
A/UAB/Alabama LSAMP Student Transit	000398033-007	47	40,942
A/MSU/Assessment of Potential Impac	034900-362518-04 MOD 1	47	21,166
A/Tuskegee University/EPSCoR/Alabam	34-21530-200-76190	47	130,017
A/UNH/FESD Type I: Sun to Ice - Imp	SUBAWARD NO. 12-028	47	26,137
			<u>218,262</u>
Total National Science Foundation			<u>3,278,044</u>
National Aeronautics & Space Administration:		43	16,076,946
Pass Through Funds:			
A/FIT/A Module of Particle Accelera	FIT SUBAWARD 201291	43	22,036
A/FIT/An Investigation Of Accelerat	FIT SUBAWARD 2009-001	43	28,144
A/Johns Hopkins Univ./Applied Physi	SUBAWARD 957385	43	54,926
A/PSU/Probing Sterile Neutrino Dark	SUAWARD NO. 4536-UAH-NSAS-046G	43	14,586
A/RiceUniversity/Application of Sat	R53141	43	69,573
A/UC/Heliospheric Foregrounds in th	SUBAWARD NO. 37102-2	43	5,956
A/UNH/Earth-Moon-Stars Radiation Ex	SUBAWARD NO. 12-036	43	25,457
A/UNH/Ion Distribution Function at	UNH 09-080	43	26,028
A/University of AZ/Energetic Charge	PO 13390	43	41,523
A/University of Maryland/Laboratory	Z634006 MOD G	43	30,290
A/USRA/Direct the Earth System Scie	0345004	43	8,968
A/USRA/Visiting Researcher Exchange	03496-01	43	1,097
C/Ball Aerospace/PMSA Cryogenic Test	P.O. 04DLB10048	43	205,381
C/Barber-Nichols Inc./Risk Memo for	22700	43	96,321
C/CRAFT/STTR Phase I/ Novel Design	NNX11C143P.002/C471	43	19,016
C/Dynetics/Support for the MSFC Rob	PO SF000926	43	5,000
C/IFOS/Inertial Rate Sensors for Ne	IFOS-002	43	29,106
C/IFOS/Miniaturizable, High Perform	IFOS-001	43	28,774
C/Jacobs/Advanced Concepts Office E	SVT-0023	43	289,451
C/Lockheed Martin/GOES-R Geostation	8100001543	43	583,806
C/Norhrop Grumman/Heavy Lift and P	PO 2765215	43	282
C/PSI/SBIR Phase I/Anticipating the	PSI-NNX12CE25P	43	22,180
C/SAIC/Developing a Framework for D	P010053760	43	207
C/SGT/JWST Optics Support Task 82	SUBCONTRACT0759	43	30,082
C/Southeast Atmospheric Modeling, L	SEAM AQAST 2011-1	43	57,552
C/Southern Research Institute/Micro	PO 057574	43	3,721
C/SSAI/2009 NASA Advanced Satellite	2616-08-021	43	7,527
C/Teledyne Brown Engineering/Sensor	PO00080434	43	4,433

The accompanying notes are an integral part of this schedule.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
C/Time Domain/STTR Phase 1/Autonomo	12-0033	43	23,816
C/Wyle/Implementing Multi-Variable	P.O. T72058	43	57,908
C/Wyle/Probabilistic Model for Solar	PO T72252	43	32,940
O/SAO/Support for Solar-B X-Ray Tel	SV2-82006	43	17,810
O/SAO/Support of Dynamics and Physi	SV2-82007	43	28,553
O/SI/SAO/Cosmology Independent Meas	AR1-12013A	43	12,365
O/SI/SAO/Extending X-Ray and Synyae	GO1-12005X	43	5,437
O/SI/SAO/Studying Cluster Physics t	AR0-11015B	43	5,087
O/SWRI/STEREO Guest Investigators:	PO 886957E	43	800
O/SWRI/Supporting Science for the I	SUBCONTRACT A99132BT	43	46,048
O/VCSI/Assessment of Arcitic Environ	AGR DATED 4/13/11	43	3,055
O/VCSI/Systems and Operations Archi	ATP DATED 10/13/11	43	697,480
			<u>2,642,722</u>
Total National Aeronautics & Space Administration			<u>18,719,668</u>
Department of Transportation:		20	<u>174,197</u>
Pass Through Funds:			
A/UA/UTCA/Alabama Public Transporta	TASK ORDER NO. 61 (UA11-028)	20	11,346
A/UA/UTCA/Analysis of Rural Public	TASK ORDER NO. 62 (UA11-029)	20	50,424
A/UA/UTCA/Developing Sustainable Tr	TASK ORDER NO. 63 (UA12-010)	20	17,370
A/UA/UTCA/Student Funding to Attend	TASK ORDER NO. 59 (UA11-026)	20	18,926
A/UA/UTCA/Transportation Engineerin	TASK ORDER NO. 58 (UA11-025)	20	3,506
A/UA/UTCA/UTCA Operating Budget	TASK ORDER NO. 64 (UA12-011)	20	1,492
A/UCSD/Assesment and Reliability of	10307912-SUB	20	35,843
A/UM/Enhancing Rural Rail/Memphis T	MEMORANDUM OF UNDERSTANDING	20	1,847
A/UM/Realigning Multimodal Freight	MEMORANDUM OF UNDERSTANDING	20	1,847
A/UM/Support CFIRE UTC Initiative/M	MEMORANDUM OF UNDERSTANDING	20	7,774
S/ALDOT/Evaluation or Origin-Destin	03-428	20	7,211
S/ALDOT/Load and Resistance Factor	930-812	20	58,698
S/ALDOT/PERFORMANCE REVIEWS FOR SEC	K-12-0496	20	28,476
S/ALDOT/Pilot Project: Retaining Wa	930-785	20	22,206
S/ALDOT/Protege Program	K-11-0098	20	85,236
S/ALDOT/Protege Program for ALDOT	K-120996	20	145,549
S/ALDOT/Transportation Modeling Sup	K-11-1587	20	39,777
S/ALDOT/Upgrade of Axially Loaded P	930-769	20	3,766
			<u>541,294</u>
Total Department of Transportation			<u>715,491</u>
Department of Commerce:		11	<u>559,280</u>
Pass-Through Funds:			
A/Texas A&M/Lightning in the Nowca	S080079	11	538
A/U of FL/The Southeast Climate Con	UF 10292	11	99,656
O/EDPA/A Collaborative & Regional F	AGREEMENT DATED 6/27/11	11	151,960
O/SURA/Testbed	2010-006	11	2,334
O/SURA/U.S. IOOS Modeling Testbed:	2011-016	11	75,651
			<u>330,139</u>
Total Department of Commerce			<u>889,419</u>
Department of Energy:		81	<u>956,164</u>
Pass-Through Funds:			
A/UChicago Argonne, LLC/Evaluation	2F-31781	81	2,956
A/UM/DOE Center for Predictive Cont	SUBAWARD NO. 3001421626	81	55,916
C/Battelle, LLC/Effect of High Temp	4000093745	81	14,768
C/HiTek Services/Low Cost Heliostat	PO 021295	81	116,641

The accompanying notes are an integral part of this schedule.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
C/Prism Computational Science/SBIR	UAH-PRISM 2011-01	81	27,928
C/Tech-X/SBIR Phase II/ Modeling of	DE-SC0000833	81	38,632
C/UChicago Argonne, LLC/ Molecular	0F-34562	81	4,286
S/ACHE/Success Through Academic Res	AGREEMENT DATED 1/21/2011	81	35,272
S/ATN/Lean and Practical Energy Ass	1DOE ITP 12 01		22,195
			<u>318,594</u>
Total Department of Energy			<u>1,274,758</u>
Department of Agriculture:		10	<u>434,590</u>
Pass-Through Funds:			
A/FSU/Decision Support System for R	R01320	10	128,082
A/FSU/UAH Research on Risk Reductio	R01223	10	24,105
			<u>152,187</u>
Total Department of Agriculture			<u>586,777</u>
Tennessee Valley Authority:		62	<u>10,798</u>
Pass-Through Funds:			
O/VCSI/TVA Rain Guage Initiative	VCSI20071	62	28,361
Total Tennessee Valley Authority			<u>39,159</u>
Department of Education:		84.365	<u>23,894</u>
Pass-Through Funds:			
S/ACHE/The success Through Academic	AGREEMENT DTD 1/17/2012	84.367	47,083
Total Department of Education			<u>70,977</u>
Appalachian Regional Commission:		23.011	<u>14,604</u>
Enviroment Protection Agency:			
Pass-Through Funds:			
O/JCDH/Operation and Maintenance of	MOU DTD 10/1/10	66	5,079
O/JCDH/Operation and Maintenance of	MOU DTD 11/9/11	66	18,200
Total Environment Protection Agency			<u>23,279</u>
Small Business Administration:			
Pass-Through Funds:			
O/VCSI/Advanced Defense Technology	SBA-010	59	132,462
Total Small Business Administration			<u>132,462</u>
Total Research and Development			<u>79,669,083</u>
Student Financial Aid Cluster:			
U.S. Department of Education:			
SEOG		84.007	131,243
PELL Grants		84.063	8,118,163
Work Study		84.033	166,988
Total U.S. Department of Education			<u>8,416,394</u>
Total Student Financial Aid			<u>8,416,394</u>
Total Major Programs			<u>88,085,477</u>
Other Programs:			
Department of Education:			
Pass-Through Funds:			
S/ALSDE/Content Knowledge Enhanceme	U000713	84.366	131,769
S/ALSDE/Content Knowledge Enhanceme	U100570	84.366	83,630
Total Department of Education			<u>215,399</u>

The accompanying notes are an integral part of this schedule.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2012

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Department of Health & Human Services:		93.358	<u>25,090</u>
Small Business Administration:			
Pass-Through Funds:			
S/UA/Small Business Development Cen	SBA-UA12-021	59.037	62,505
Total Small Business Administration			<u>62,505</u>
Department of State:			
Pass-Through Funds:			
O/IREX/2011-2012 UGRAD Pakistan - A	AGREEMENT DATED 6/29/11	19.009	650
O/IREX/International Leaders in Edu	FY11-ILEP-UAH-01	19.009	174,937
O/IREX/SUSI Azerbaijani Student Lea	FY11-SUSI-UAH-01	19.009	21,600
O/IREX/Study of the United States I	FY12-SUSI-UAH-02	19.009	144,536
O/IREX/Global UGRAD-Pakistan	P.O. UGRADPAKISTAN SPRING12	19.009	647
Total Department of State			<u>342,370</u>
Department of Defense:		12	<u>59,060</u>
Pass-Through Funds:			
C/SAIC/SAP Training & Curriculum De	C/SAIC/CHK # 0001886736	12	85,619
C/CAS/IUDI Labels	CAS 2012-001	12	95
C/Torch Technologies/Telescope Alig	PO11186	12	21
Total Department of Defense			<u>85,735</u> <u>144,795</u>
National Aeronautics & Space Administration:		43	<u>1,886,670</u>
Pass-Through Funds:			
C/Colsa/Colsa Certification Classes	PURCHASE ORDER: 21894	43	4,640
C/Jacobs/MIT Forum: White Paper on	SVT-0041	43	46,592
Total National Aeronautics & Space Administration			<u>51,232</u> <u>1,937,902</u>
Department of Commerce:			
Pass-Through Funds:			
S/ATN/Alabama E3 Program Expansion	2010-MEP-SDCC-01	11	105,720
S/ATN/Program Funds for MEP Center	AGR DTD 10/1/10	11	6,686
S/ATN/Program Funds for MEP Center	AGR DTD 10/1/11	11	174,448
C/Optechnology/SBIR Phase II/Resili	OPTECH-10-001	11	9,445
Total Department of Commerce			<u>296,299</u>
Department of Energy:			
Pass-Through Funds:			
S/ATN/ARRA/Lean and Practical Energy	GRANT AGR DTD 10/7/2010	81	18,842
S/ADECA/Biomass Energy FY2011	1STR11 01	81	9,354
S/ADECA/Biomass Energy Program Supp	1STR12 01	81	18,150
Total Department of Energy			<u>46,346</u>
Tennessee Valley Authority:	AGR DTD 12/6/2012	62	<u>4,893</u>
Department of Transportation		20	<u>848,882</u>
Pass-Through Funds:			
A/UA/UTCA/UTCA Operating Budget	UA11-027	20	11,612
Total Department of Transportation			<u>860,494</u>
Total Other Federal Awards			<u>3,936,093</u>
Total Expenditures of Federal Awards			<u>92,021,570</u>

The accompanying notes are an integral part of this schedule.

The University of Alabama in Huntsville

Notes to Schedule of Expenditures of Federal Awards

September 30, 2012

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, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget ("OMB") Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the statements of net assets, changes in financial position, 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 sub-awards to the University by nonfederal organizations pursuant to federal grants, contracts, and similar agreements.

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

Subrecipients

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subrecipients and reimbursed by the University are presented in the Schedule. The University disbursed \$10,252,801 of research and development cluster awards to subrecipients during the year ended September 30, 2012.

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, and Federal Work-Study Program earnings and administrative cost allowances where applicable. Expenditures related to the Federal Direct Student Loan Program are disclosed in Note 4.

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

The University operates under predetermined fixed F&A cost rates which are effective from October 1, 2008 through September 30, 2012. The predetermined fixed rates were based on 2007 financial information. For the fiscal year ending September 30, 2012, the base rate for on-campus research is 48.0%. Base rates for other F&A cost recoveries range from 26.0% to 48.0%.

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

The University of Alabama in Huntsville
Notes to Schedule of Expenditures of Federal Awards
September 30, 2012

University is not responsible for collection of these loans. During 2012, the University disbursed \$29,954,101 under the FDSLPL, which is not reflected on the Schedule.

Part II

Findings and Questioned Costs

The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
September 30, 2012

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued Unqualified

Internal control over financial reporting

 Material weakness(es) identified? Yes No

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

 Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs

 Material weakness(es) identified? Yes No

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

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

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

Identification of major programs CFDA Number(s) Various Various	Name of Federal Program or Cluster Research and Development Cluster Student Financial Aid 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.

The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
September 30, 2012

Section III – Federal Award Findings and Questioned Costs

Finding 2012-1: Federal Funding Accountability and Transparency Act Reporting
Federal Agency: National Aeronautics and Space Administration, Department of Agriculture
Program: Research and Development Cluster
CFDA#: 43, 10
Award#: NNX11AM11A, 2011-67004-30334
Award year: 2011-2012, 2011-2012

Criteria

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

Condition

Of 9 FFATA sub-awards and sub-contracts selected for FFATA special reporting testing, the University failed to report 2 sub-awards greater than \$25,000 within the required reporting deadlines. The sub-awards were reported to the FFATA sub-award reporting system 7 months and 6 months subsequent to the required reporting deadlines, respectively.

Questioned Costs

None

Cause

The finding resulted from a lack of prompt communication by the Office of Sponsored Programs of the subaward obligations to Contracts and Grants Accounting who report sub-awards to the FFATA Sub-award Reporting System.

Effect

There was no effect on the Schedule of Expenditures of Federal Awards. However, the applicable information concerning the sub-awards was not made available to the Federal agency and reporting website on a timely basis.

Recommendation

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



June 14, 2013

Finding 2012-1: Federal Funding Accountability and Transparency Act Reporting

Management View

We concur with this finding and will review controls and procedures around Federal Funding Accountability and Transparency Act (“FFATA”) grant and contract reporting to ensure appropriate timelines for reporting are met. We will continue to enforce the already established process to monitor sub-awards greater than \$25K that are subject to federal reporting.

Corrective Action Plan

The University has evaluated its procedures and has implemented modifications to ensure appropriate timelines for reporting are met. Effective June 2013, the Office of Sponsored Programs has processes in place that will ensure all fully executed sub-awards are distributed to contracts and Grants Accounting within 72 hours of execution.

Respectfully,

A handwritten signature in black ink that reads 'Robert Leonard'.

Robert C. Leonard
Associate Vice President for
Finance and Business Services

The University of Alabama in Huntsville

Schedule of Findings and Questioned Costs

September 30, 2012

Finding 2012-2: Financial Management System
Federal Agency: Department of Education
Program: Student Financial Aid Cluster
CFDA#: 84.033
Award year: 2011-2012

Criteria

A-110 Section 21 notes that financial management systems of recipients should provide accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with A-110 reporting requirements.

Condition

Federal Work Study expenditures in the amount of \$20,279 were excluded from the Schedule of Expenditures of Federal Awards.

Questioned Costs

None

Cause

The finding resulted from the lack of appropriate reconciliation procedures between the Federal Work Study expenditures and Department of Education draw downs.

Effect

The error resulted in an understatement of Federal Work Study expenditures on the Schedule of Expenditures of Federal Awards in the amount of \$20,279. The accompanying Schedule of Expenditures of Federal Awards has been corrected by management.

Recommendation

We recommend management perform a reconciliation of Federal Work Study expenditures and Department of Education draw downs to ensure all revenues and expenditures are appropriately recorded and ensure requests for draw downs of federal funds are limited to the University's immediate needs.



June 14, 2013

Finding 2012-2: Financial Management System

Management View

We concur with this finding, and we have examined our procedures related to the reconciliation of Federal Work Study expenditures.

Corrective Action Plan

Effective June 2013, we have implemented a reconciliation of Federal Work Study expenditures and Department of Education draw downs to ensure all revenues and expenditures are appropriately recorded in the proper period.

Respectfully,

A handwritten signature in black ink that reads 'Robert Leonard'.

Robert C. Leonard
Associate Vice President for
Finance and Business Services

The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
September 30, 2012

Finding 2012-3: Financial Management System
Federal Agency: Department of Defense
Program: Research and Development Cluster
CFDA#: 12
Award#: W31P4Q-09-0010
Award year: 2011-2012

Criteria

A-110 Section 21 notes that financial management systems of recipients should provide accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with A-110 reporting requirements.

Condition

Federal expenditures of \$146,345 for contract services under an award were excluded from the Schedule of Expenditures of Federal Awards as of 9/30/2012.

Questioned Costs

None

Cause

The finding resulted from a late invoice received by the University from a sub-recipient, which was not appropriately accrued as a Federal expenditure in fiscal year 2012.

Effect

The error resulted in an understatement of Federal Research and Development expenditures on the Schedule of Expenditures of Federal Awards in the amount of \$146,345. The accompanying Schedule of Expenditures of Federal Awards has been corrected by management.

Recommendation

We recommend management improve cut-off procedures to identify invoices received subsequent to year-end that should be included as an expenditure as of year-end.



June 24, 2013

Finding 2012-3: Financial Management System

Management View

We concur with this finding, and we have examined our cut-off procedures for expenditures at year-end.

Corrective Action Plan

Effective June 2013, the University has implemented additional cut-off procedures in the Accounts Payable department for year-end reporting, which will ensure appropriate review of invoices received after year-end.

Respectfully,

A handwritten signature in black ink that reads 'Robert Leonard'. The signature is written in a cursive style.

Robert C. Leonard
Associate Vice President for
Finance and Business Services

The University of Alabama in Huntsville
Schedule of Findings and Questioned Costs
September 30, 2012

Finding 2012-4: **Subrecipient Monitoring Policies**
Federal Agency: **National Science Foundation, Department of Defense**
Program: **Research and Development Cluster**
CFDA#: **47.082, 12**
Award#: **EPS-1006661, HQ0147-11-C-6006**
Award year: **2010-2013, 2011-2012**

Criteria

Part 3 of the OMB Circular A-133 Compliance Supplement notes pass-through entities should ensure subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period. Pass-through entities should issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition

Of 25 sub-awards and 2 ARRA sub-awards selected for subrecipient monitoring testing, we identified 2 subrecipient organizations for which the University did not document an adequate response to findings disclosed within the subrecipients' most recent A-133 audit reports.

Questioned Costs

None

Cause

The finding resulted from a lack of documentation policies to support subrecipient monitoring procedures to comply with OMB Circular A-133 requirements.

Effect

A lack of formally documented subrecipient monitoring procedures could create a risk to the University's ability to monitor sub-awards with organizations reporting expenditures on Federal awards. Findings from A-133 audit reports could directly or indirectly affect sub-award expenditures of the University.

Recommendation

We recommend management formalize subrecipient monitoring documentation procedures to ensure adequate follow-up is performed on audit report findings. This should include documentation of the evaluation of findings, records of emails or phone calls with the subrecipient, and documentation of the conclusions and action plans of management of both the subrecipient and the University depending on the facts of each circumstance. This documentation should be completed within 6 months of the receipt of subrecipient A-133 audit filings.



June 24, 2013

Finding 2012-4: Subrecipient Monitoring Policies

Management View

We concur with this finding, and we have modified our documentation procedures to ensure adequate follow-up is performed on subrecipient audit report findings.

Corrective Action Plan

Effective June 2013, The Office of Sponsored Programs has implemented procedures, which will require them to review all subrecipient A-133 Audit Reports, when findings are noted. Reports that are questionable as to any impact on federal pass-through funding will be elevated to the Associate VP for Finance and Business Services, and the Director of Contracts and Grants Accounting for further review and resolution documentation.

Respectfully,

A handwritten signature in cursive script that reads 'Robert Leonard'.

Robert C. Leonard
Associate Vice President for
Finance and Business Services

Part III

Prior Year Findings and Questioned Cost

The University of Alabama in Huntsville

Status of Prior Year Findings and Questioned Costs

September 30, 2012

Finding 2011-1 - Valuation of Capital Gift

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

Status

Issue resolved. A gift of this type and magnitude to the University is a very infrequent transaction, and management implemented an additional review process to internal control procedures. The value of future high-dollar value gifts of a similar nature will be evaluated by a third-party valuation specialist.

No similar findings noted in the current year.

Finding 2011-2 - Federal Equipment Inventory Procedures

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

Status

Issue resolved. The University has implemented procedures to ensure that equipment inventoried is properly recorded in the University's fixed assets system and that all inventory records are maintained in accordance with University policy.

No similar findings noted in the current year.

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

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

Status

The University has evaluated its procedures and has implemented modifications to identify awards that fall within the new FFATA reporting requirements. Effective June 2013, the Office of Sponsored Programs has processes in place that will ensure all fully executed sub-awards are distributed to Contracts and Grants Accounting within 72 hours of execution.

A similar finding was identified in the current year and is reported as item 2012-1. This finding occurred prior to the implementation of modified sub-award procedures by management.

Part IV

2012 Financial Report



FINANCIAL REPORT
2012

FINANCIAL REPORT 2011-2012



Table of Contents

Report of Independent Auditors.....	2
Management’s Discussion and Analysis (Unaudited).....	3
Statements of Net Assets.....	17
Component Unit Statements of Financial Position.....	18
Statements of Revenues, Expenses, and Changes in Net Assets.....	19
Component Unit Statements of Activities.....	20
Statements of Cash Flows.....	21
Notes to Financial Statements.....	23
The Board of Trustees of The University of Alabama.....	55
Administration and Financial Staff.....	56

**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 on our audits and the report of other auditors, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of The University of Alabama 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, 2012 and 2011, and the respective changes in financial position of the University and its discretely presented component unit, and cash flows of the University, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of University of Alabama Huntsville Foundation, the University's discretely presented component unit, as of September 30, 2012 and 2011 and for the years then ended. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for University of Alabama Huntsville Foundation, is based on the report of the other auditors. We conducted our audits of the University's statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinions.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013 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, grant agreements, and other matters, for the year ended September 30, 2012. 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, 2012 and 2011, 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 accompanying management's discussion and analysis on pages 3 through 14 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PricewaterhouseCoopers LLP

January 25, 2013

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, 2012 and 2011. 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 72 degree-granting programs that meet the highest standards of excellence, including 33 bachelor's degree programs, 24 master's degree programs, and 15 doctoral programs through its five colleges: Business Administration, Liberal Arts, Engineering, Nursing, and Science. The University is an autonomous campus within The University of Alabama System (the "System").

The University received \$90.8 million for externally funded projects during fiscal year 2012. 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 \$18.7 million compared to 2011, primarily due to an increase in tuition and fees, gifts, and net investment income.

Equivalent Full-time Student Enrollment (FTE)					
	2008	2009	2010	2011	2012
Undergraduate	4,654	4,906	4,831	4,767	4,728
Graduate	773	784	811	888	928
Total	5,427	5,690	5,642	5,655	5,656

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					
	2008	2009	2010	2011	2012
Graduates	1,538	1,562	1,609	1,694	1,754
Seniors	1,560	1,640	1,817	1,810	1,854
Juniors	1,178	1,339	1,323	1,371	1,299
Sophomores	1,211	1,257	1,183	1,127	1,148
Freshmen	1,753	1,638	1,424	1,377	1,333
Others	191	245	258	250	248
Total	7,431	7,681	7,614	7,629	7,636

- The total of full-time equivalent students has remained constant from 2011 to 2012. UAH also had a 0.1% increase in the total number of students attending in the fall semester in 2012, compared to the 0.2% increase in 2011.

Degrees Conferred					
	2008	2009	2010	2011	2012
Bachelor's	889	900	933	1,028	1,084
Master's	322	384	364	337	364
Doctorate	37	32	38	41	45
Certificate	31	29	25	35	22
Total	1,279	1,345	1,360	1,441	1,515

- Approximately \$43.2 million in appropriations for operations were received from the State of Alabama for fiscal year 2012. In comparison to the prior year, appropriations increased 1.3% or \$537 thousand.

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			
	2012	2011	2010
Current assets	\$ 147,977,985	\$ 131,568,438	\$ 120,537,020
Noncurrent assets:			
Endowment, life income and other investments	59,541,146	52,730,053	52,096,534
Capital assets, net	203,090,500	206,671,409	212,762,299
Legal settlement receivable	2,716,120	3,534,449	4,312,772
Other	1,306,624	2,507,239	2,672,705
Total assets	414,632,375	397,011,588	392,381,330
Current liabilities	49,898,977	48,413,908	46,734,545
Noncurrent liabilities	78,266,000	80,861,000	83,651,000
Total liabilities	128,164,977	129,274,908	130,385,545
Net assets			
Invested in capital assets, net of related debt	125,072,139	126,483,662	130,165,018
Restricted	15,961,579	11,410,878	9,720,007
Unrestricted	145,433,680	129,842,140	122,110,760
Total net assets	\$ 286,467,398	\$ 267,736,680	\$ 261,995,785

For the year ending September 30, 2012, the University's current assets increased \$16.4 million. Endowment, life income and other investments increased \$6.8 million due to additional endowment investments of \$5.2 million and improved earnings from the portfolio offset by distributed endowment earnings. Capital assets, net of depreciation, decreased \$3.6 million due to depreciation offset by capital expenditures. The noncurrent portion of the legal settlement receivable of \$2.7 million is the net present value of an amount to be received in future years. Current liabilities increased \$1.5 million. The majority of this increase is due to the current portion of debt and deferred revenues. Noncurrent liabilities decreased \$2.6 million, the result of bond principal payments.

For the year ending September 30, 2011, the University's current assets increased \$11.0 million. Endowment, life income and other investments increased \$634 thousand due to improved earnings from the portfolio. Capital assets, net of depreciation, decreased \$6.1 million due to depreciation offset by capital expenditures. The noncurrent portion of the legal settlement receivable of \$3.5 million is the net present value of an amount to be received in future years. Current liabilities increased \$1.7 million. The majority of this increase is due to payroll related liabilities and deferred revenues. Noncurrent liabilities decreased \$2.8 million, the result of bond principal payments.

For the year ending September 30, 2010, the University's current assets increased \$21.9 million. Endowment, life income and other investments increased \$943 thousand due to improved earnings from portfolio. 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 noncurrent portion of 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 thousand. The majority of the increase is due to payroll related liabilities. Noncurrent liabilities increased \$25.5 million, the result of the issuance of Student Housing Revenue Bonds.

For the year ending September 30, 2012, the University's total net assets increased 7.0%. The University's investments in capital assets, net of related debt, decreased approximately \$1.4 million primarily due to reduced capital expenditures during 2012. Restricted net assets increased \$4.6 million. Unrestricted net assets increased approximately \$15.6 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, 2011, the University's total net assets increased 2.2%. The University's investments in capital assets, net of related debt, decreased approximately \$3.7 million primarily due to depreciation offset by capital expenditures. Restricted net assets increased \$1.7 million. Unrestricted net assets increased approximately \$7.7 million. Although unrestricted net assets are not subject to externally imposed stipulations,



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

For the year ending September 30, 2010, the University's total net assets increased 6.7%. The University's investments in capital assets, net of related debt, decreased approximately \$5.5 million primarily due to the issuance of Student Housing Revenue Bonds. Restricted net assets increased \$100 thousand. 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.

Capital Assets

At September 30, 2012, 2011 and 2010, the University had approximately \$397.8 million, \$389.9 million and \$386.6 million invested in capital assets and accumulated depreciation of \$194.7 million, \$183.2 million, and \$173.8 million, respectively. Depreciation charges for fiscal year 2012, 2011 and 2010 were \$12.2 million, \$12.2 million and \$11.2 million, respectively.

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

Capital Assets, Net			
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Land	\$ 3,960,290	\$ 3,910,290	\$ 3,910,290
Land improvements and infrastructure, net	4,154,200	1,921,904	2,125,825
Buildings and building improvements, net	179,875,917	184,777,581	188,820,790
Equipment, net	11,258,269	11,578,172	10,799,069
Library books, net	2,299,817	2,647,480	5,036,758
Computer software, net	1,031,702	1,325,677	1,619,652
Artwork	510,305	510,305	449,915
Total capital assets, net	<u>\$ 203,090,500</u>	<u>\$ 206,671,409</u>	<u>\$ 212,762,299</u>

Major capital additions during the year ended September 30, 2012 included the construction of a new student life center and athletics improvements.

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

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

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

Debt

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

	Debt		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Bonds - Current	\$ 3,450,000	\$ 2,790,000	\$ 2,575,000
Bonds - Long Term	78,266,000	80,736,000	83,526,000
Notes - Long Term	-	125,000	125,000
Total debt outstanding	<u>\$ 81,716,000</u>	<u>\$ 83,651,000</u>	<u>\$ 86,226,000</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>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues:			
Tuition and fees	\$ 68,218,529	\$ 62,722,011	\$ 57,539,507
Less: scholarship allowances	(18,185,728)	(17,691,842)	(15,866,010)
Tuition and fees, net	50,032,801	45,030,169	41,673,497
Federal, state and private grants and contracts	89,660,258	81,504,667	80,584,998
Sales and services of educational departments	3,451,345	5,229,509	3,382,871
Auxiliary, net of \$1,083,968 in 2012 and \$1,193,885 in 2011 of scholarship allowances	6,718,898	8,172,943	6,079,895
Total operating revenues	149,863,302	139,937,288	131,721,261
Operating expenses	195,746,564	191,821,815	175,666,077
Operating loss	(45,883,262)	(51,884,527)	(43,944,816)
Nonoperating revenues (expenses):			
State educational appropriations	43,240,587	42,703,771	43,072,625
Private gifts	6,020,498	3,313,101	2,827,316
Net investment income	9,961,393	306,941	5,177,809
Pell grant revenue	8,118,163	8,558,340	7,894,629
State fiscal stabilization funds	(1,442)	4,739,873	3,529,066
Legal settlement	4,665	371	4,103
Loss on disposal of capital assets	(559,937)	(139,164)	(268,920)
Interest expense	(3,345,280)	(3,413,201)	(2,531,893)
Capital gifts and grants	1,175,333	1,555,390	791,115
Net nonoperating revenues	64,613,980	57,625,422	60,495,850
Increase in net assets	18,730,718	5,740,895	16,551,034
Net assets, beginning of year	267,736,680	261,995,785	245,444,751
Net assets, end of year	\$ 286,467,398	\$ 267,736,680	\$ 261,995,785

Tuition and fees increased \$5.5 million in fiscal year ended September 30, 2012 due to a 8.04% increase in tuition. The \$5.2 and \$8.4 million increases in 2011 and 2010 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					
	2012		2011		2010	
State educational appropriations	\$43,240,587	19.8%	\$42,703,771	21.2%	\$43,072,625	22.1%
Net investment income	9,961,393	4.6%	306,941	0.1%	5,177,809	2.7%
Grants and contracts	89,660,258	41.0%	81,504,667	40.5%	80,584,998	41.3%
Gifts	6,020,498	2.8%	3,313,101	1.6%	2,827,316	1.5%
Auxiliary	6,718,898	3.1%	8,172,943	4.1%	6,079,895	3.1%
Net tuition and fees	50,032,801	22.9%	45,030,169	22.4%	41,673,497	21.4%
Sales and services	3,451,345	1.6%	5,229,509	2.6%	3,382,871	1.7%
Capital gifts and grants	1,175,333	0.5%	1,555,390	0.8%	791,115	0.4%
Legal settlement	4,665	0.0%	371	0.0%	4,103	0.0%
Pell grants	8,118,163	3.7%	8,558,340	4.3%	7,894,629	4.0%
State fiscal stabilization funds	(1,442)	0.0%	4,739,873	2.4%	3,529,066	1.8%
Total revenues	\$218,382,499		\$201,115,075		\$195,017,924	

In 2012, investment activity produced a net increase of \$9.7 million from the prior year. Investment income decreased \$4.9 million in the year ended 2011 as considerable unrealized losses were recorded due to unfavorable market conditions and activity. Investments experienced gains of \$4.3 million in 2010.

Grants and contracts increased \$8.2 million in the year ended September 30, 2012 primarily due to new federal contracts and grants. Grants and contracts increased \$900 thousand and \$5.1 million in the year ended September 30, 2011 and 2010, respectively, primarily due to an increase in federal grants and contracts.

Gifts increased \$2.7 million in the year ended September 30, 2012 primarily due to a single donor gift of \$3.7 million. Gifts increased \$485 thousand in the year ended September 30, 2011, due to an increase in single donor gifts to the University. Gifts decreased \$190 thousand in the year ended September 30, 2010, due to a slight reduction in corporate gifts to the University.

The University auxiliary activities are comprised of the Bevill Center, food service, housing, book store and other miscellaneous auxiliary enterprises. Auxiliary activities decreased \$1.5 million in the year ended September 30, 2012 due to the Bevill Center, housing, book store and food services all experiencing a decline in revenue and changes in mandatory food and housing policies. Auxiliary activities increased \$2.1 million and \$220 thousand in the year ended September 30, 2011 and 2010, respectively, primarily due to housing and food services receiving increases in revenue due to the opening of the University Charger Village complex.

Sales and services decreased \$1.8 million in the year ended September 30, 2012 primarily due to a prior year onetime \$1.5 million payment described below and decreases in parking decals and athletic ticket sales. Sales and services increased \$ 1.8 million and \$115 thousand in the years ended September 30, 2011 and 2010, respectively. The 2011 increase was due to a onetime \$1.5 million food service payment to assist students in several program initiatives.

Capital gifts and grants decreased \$300 thousand during 2012 mainly due to the difference in value assigned to one time capital asset gifts received in 2012 and 2011.

Capital gifts and grants increased \$764 thousand and \$151 thousand during the years 2011 and 2010.

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 are recorded as operating revenues. The chart reflects the funding sources for federal operating grant and contract revenue for the years ended September 30:

Detail of Federal Grants & Contracts Revenue			
	<u>2012</u>	<u>2011</u>	<u>2010</u>
National Aeronautics and Space Administration	\$ 20,113,728	\$ 19,920,857	\$ 20,969,792
Department of Defense	53,552,714	45,617,018	43,303,784
National Science Foundation	3,278,044	2,414,183	3,243,906
Department of Education	337,118	940,410	1,112,374
Other	6,455,179	7,094,679	6,855,061
Total	\$ 83,736,783	\$ 75,987,147	\$ 75,484,916

Department of Defense revenues increased \$7.9 million, \$2.3 million and \$7.7 million in the years ended September 30, 2012, 2011 and 2010 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)			
	2012	2011	2010
Instruction	\$ 50,230,099	\$ 52,788,595	\$ 46,626,681
Research	76,373,523	72,161,096	70,977,492
Public service	2,769,564	1,271,245	492,098
Academic support	9,203,532	10,979,107	8,053,427
Student services	12,963,863	12,288,975	10,109,980
Institutional support	15,734,176	16,674,715	15,506,263
Operations and maintenance of plant	11,675,038	7,663,698	8,538,183
Scholarships and fellowships	606,364	1,286,400	981,010
Auxiliary enterprises	4,018,964	4,500,595	3,203,326
Depreciation	12,171,441	12,207,389	11,177,617
Total operating expenses	\$ 195,746,564	\$ 191,821,815	\$ 175,666,077
Operating expenses (by natural classification)			
Compensation and benefits	\$ 136,791,650	\$ 135,629,341	\$ 125,809,835
Supplies and services	46,177,109	42,698,685	37,697,615
Depreciation	12,171,441	12,207,389	11,177,617
Scholarships and fellowships	606,364	1,286,400	981,010
Total operating expenses	\$ 195,746,564	\$ 191,821,815	\$ 175,666,077

In 2012, instruction expense decreased \$2.6 million primarily due to end of the American Recovery and Reinvestment Act of 2009 funding. Instruction expense increased \$6.2 million in the year 2011, primarily due to annual merit based salary increases, increases in health insurance, and the American Recovery and Reinvestment Act of 2009 funding.

Research expense increased \$4.2 million, \$1.2 million and \$5.8 million in the years ended September 30, 2012, 2011 and 2010, respectively, primarily due to an increase in contracts and grants.

Public service increased \$1.5 million during 2012 due to an increase in federal contracts and grants. Public service increased \$779 thousand and \$225 thousand during the years 2011 and 2010, respectively, primarily due to an increase in federal contracts and grants.

Academic support decreased \$1.7 million during the year 2012 due to a prior year write-off of electronic database. Academic support increased \$2.9 million and \$960 thousand during the years 2011 and 2010, respectively. The 2011 increase was primarily due to the write-off of electronic databases and the availability of funding from the American Recovery and Reinvestment Act of 2009.

Operations and maintenance of plant increased \$4 million during 2012 primarily due to increases in utilities costs and other services, as well as the expiration of funding from the American Recovery and Reinvestment Act of 2009. In 2011, approximately \$2.3 million of this funding was included within the instruction functional classification above, which explains the majority of the decrease in 2011 from 2010. Operations and maintenance of plant decreased \$897 thousand during 2010.

The increase in compensation and benefits of \$1.2 million and \$9.8 million in years ended September 30, 2012 and 2011, respectively, was primarily due to annual merit based salary increases and increases in health insurance and other benefit costs. The increase of \$3.3 million in the year ended September 30, 2010 was primarily due to increases in health insurance and other benefit costs.

Scholarships and fellowships expense decreased \$680 thousand for the year ended September 30, 2012. Scholarships and fellowships increased \$305 thousand and \$53 thousand in the years ended September 30, 2011 and 2010, respectively. Scholarships and fellowships expense represents the residual expense after applying the scholarship allowance to gross tuition and fees revenue. The scholarship allowance represents the discount applied to student accounts for internal scholarships and financial aid, including pell grant assistance that is reported as nonoperating revenue.

Supplies and services expense increased \$3.5 million in 2012 due to the University's continued growth. Supplies and services expense increased \$5.0 million in 2011, primarily due to the American Recovery and Reinvestment Act of 2009 funding.

Statement of Cash Flows

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

Condensed Statements of Cash Flows		
	<u>2012</u>	<u>2011</u>
Cash received from operations	\$ 151,607,404	\$ 139,503,331
Cash payments for operations	(183,736,818)	(178,784,992)
Net cash used in operating activities	<u>(32,129,414)</u>	<u>(39,281,661)</u>
Net cash used in capital and related financing activities	(13,232,685)	(11,359,231)
Net cash used in investing activities	(3,990,296)	(399,617)
Net cash provided by noncapital financing activities	<u>59,920,446</u>	<u>58,388,597</u>
Net increase in cash and cash equivalents from other than operating activities	42,697,465	46,629,749
Net increase in cash	10,568,051	7,348,088
Cash, beginning of year	37,228,263	29,880,175
Cash, end of year	<u>\$ 47,796,314</u>	<u>\$ 37,228,263</u>

The University used \$32.1 million of cash for operating activities in 2012, offset by \$59.9 million of cash provided by noncapital financing activities. Similarly, in 2011, \$39.3 million of cash used for operating activities was offset by \$58.4 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses. The increase in cash provided by noncapital financing activities was due mainly to an increase in private gifts.

Cash of \$13.2 million and \$11.4 million in 2012 and 2011, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments.

Cash used in investing activities totaled \$4.0 million in 2012. Cash used in investing activities totaled \$400 thousand in 2011. The change is primarily the result of investments made to the System Pooled Endowment Fund during 2012.



Economic Factors That Will Affect the Future

The University's state educational appropriations have not kept pace with the amounts recommended by the Alabama Commission on Higher Education (ACHE). For fiscal year 2012, the University was funded at approximately 55.6% of the ACHE funding recommendation.

State appropriations at the University have been reduced from \$58.1 million in 2008 to \$43.2 million in 2012. Not surprisingly, the state appropriations received by UAH as a percent of ACHE funding recommendation has been reduced from 78% in 2008 to 55.6% in 2012. The University, like many other public universities in Alabama and in the country, has to resort to tuition increases to help close the budget gap. The University also utilizes savings from previous years to fund non-recurring expenditures, primarily in the area of information technology infrastructure and various facilities renewal projects. The University did not reduce departmental budgets in 2012.

The University continues to attract federal grant and contract revenue. Over 88% 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 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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 47,178,224	\$ 36,647,932
Operating investments	69,164,239	62,030,703
Accounts receivable, net	22,643,397	25,017,114
Other current assets	8,992,125	7,872,689
Total current assets	<u>147,977,985</u>	<u>131,568,438</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	618,090	580,331
Endowment investments	25,386,159	18,612,825
Investments for capital activities	33,536,897	33,536,897
Capital assets, net	203,090,500	206,671,409
Legal settlement receivable	2,716,120	3,534,449
Other noncurrent assets	1,306,624	2,507,239
Total noncurrent assets	<u>266,654,390</u>	<u>265,443,150</u>
Total Assets	<u>\$ 414,632,375</u>	<u>\$ 397,011,588</u>
 Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 18,353,188	\$ 18,818,138
Deferred revenues	24,824,073	23,699,868
Current portion of long-term debt	3,450,000	2,790,000
Deposits held for others	3,271,716	3,105,902
Total current liabilities	<u>49,898,977</u>	<u>48,413,908</u>
Noncurrent Liabilities:		
Long-term debt	<u>78,266,000</u>	<u>80,861,000</u>
Total noncurrent liabilities	<u>78,266,000</u>	<u>80,861,000</u>
Total Liabilities	<u>128,164,977</u>	<u>129,274,908</u>
Net Assets:		
Invested in capital assets, net of related debt	125,072,139	126,483,662
Restricted:		
Nonexpendable	7,598,871	3,774,113
Expendable	8,362,708	7,636,765
Unrestricted	<u>145,433,680</u>	<u>129,842,140</u>
Total Net Assets	<u>286,467,398</u>	<u>267,736,680</u>
Total Liabilities and Net Assets	<u>\$ 414,632,375</u>	<u>\$ 397,011,588</u>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION
September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 2,938,686	\$ 3,479,802
Investments	38,252,070	33,561,409
Investment real estate	2,813,018	2,813,018
Investment in trust	5,330,438	5,236,077
Accrued interest	381,724	396,246
Mortgages receivable	-	-
Pledges receivable, net	263,308	393,228
Trust receivable	484,959	484,959
Related party receivable	-	209,434
Income tax receivable	100,794	80,794
Collections	-	-
Total Assets	<u>\$ 50,564,997</u>	<u>\$ 46,654,967</u>
Accounts payable	\$ 22,960	\$ 2,221
Annuity payable	174,629	162,607
Payroll tax payable	4,021	3,624
Total Liabilities	<u>201,610</u>	<u>168,452</u>
Unrestricted net assets	22,299,398	20,741,788
Temporarily restricted net assets	8,496,852	6,483,273
Permanently restricted net assets	19,567,137	19,261,454
Total Net Assets	<u>50,363,387</u>	<u>46,486,515</u>
Total Liabilities and Net Assets	<u>\$ 50,564,997</u>	<u>\$ 46,654,967</u>

See Note 16

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Tuition and fees	\$ 68,218,529	\$ 62,722,011
Less: scholarship allowances	(18,185,728)	(17,691,842)
Tuition and fees, net	<u>50,032,801</u>	<u>45,030,169</u>
Grants and contracts		
Federal	83,736,783	75,987,147
State	4,067,616	4,094,758
Private	1,855,859	1,422,762
Sales and services of educational departments	3,451,345	5,229,509
Auxiliary, net of \$1,083,968 in 2012 and \$1,193,885 in 2011 of scholarship allowances	<u>6,718,898</u>	<u>8,172,943</u>
Total Operating Revenues	<u>149,863,302</u>	<u>139,937,288</u>
Operating Expenses		
Compensation and benefits	136,791,650	135,629,341
Supplies and services	46,177,109	42,698,685
Depreciation	12,171,441	12,207,389
Scholarships and fellowships	606,364	1,286,400
Total Operating Expenses	<u>195,746,564</u>	<u>191,821,815</u>
Operating loss	(45,883,262)	(51,884,527)
Nonoperating Revenues (Expenses)		
State educational appropriations	43,240,587	42,703,771
Private gifts	6,020,498	3,313,101
Net investment income	9,961,393	306,941
Pell grant revenue	8,118,163	8,558,340
State fiscal stabilization funds	(1,442)	4,739,873
Legal settlement	4,665	371
Loss on disposal of capital assets	(559,937)	(139,164)
Interest expense	<u>(3,345,280)</u>	<u>(3,413,201)</u>
Net Nonoperating Revenues	<u>63,438,647</u>	<u>56,070,032</u>
Capital gifts	<u>1,175,333</u>	<u>1,555,390</u>
	<u>64,613,980</u>	<u>57,625,422</u>
Increase in net assets	18,730,718	5,740,895
Net Assets, Beginning of Year	<u>267,736,680</u>	<u>261,995,785</u>
Net Assets, End of Year	<u>\$ 286,467,398</u>	<u>\$ 267,736,680</u>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Changes in net assets		
Revenue, gains, and other support:		
Contributions	\$ 1,366,346	\$ 3,428,910
Rent income	23,985	23,960
Investment income	1,749,894	1,806,928
Unrealized gain on investments	2,991,398	-
Equity in earnings of trust	747,611	690,802
Other income	297,715	61,307
Change in allowance for uncollectibles	53,775	
Total Revenues	<u>7,230,724</u>	<u>6,011,907</u>
Expenses:		
Unrealized loss on investments	-	1,931,582
Realized loss on sale of investments	328,876	150,880
Contributions to UAH	1,241,531	696,352
Scholarships to UAH	1,311,573	1,205,728
Professional services	114,012	71,913
Income tax expense	173,459	215,173
Labor/Payroll expense	114,109	103,344
Bad debts expense	-	97,883
Change in value of split-interest agreement	29,599	2,238
Other expenses	40,693	35,243
Total Expenses	<u>3,353,852</u>	<u>4,510,336</u>
Change in net assets	3,876,872	1,501,571
Net Assets, Beginning of Year	<u>46,486,515</u>	<u>44,984,944</u>
Net Assets, End of Year	<u>\$ 50,363,387</u>	<u>\$ 46,486,515</u>

See Note 16

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Student tuition and fees	\$ 50,709,689	\$ 46,959,315
Federal grants and contracts	85,418,945	75,933,459
State and local grants and contracts	4,122,921	4,064,723
Private grants and contracts	1,881,092	1,411,960
Sales and services of educational and other departmental activities	3,666,534	4,425,221
Auxiliary enterprises	5,808,223	6,708,653
Payments to suppliers	(43,610,858)	(41,963,442)
Payments to employees and related fringes	(139,295,926)	(135,014,029)
Payments for scholarships and fellowships	(830,034)	(1,807,521)
Net Cash Used in Operating Activities	<u>(32,129,414)</u>	<u>(39,281,661)</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of refinancing bonds	24,870,000	-
Defeasance of bonds	(24,015,100)	-
Purchase of capital assets	(7,699,693)	(5,728,816)
Principal payments on capital debt	(2,789,900)	(2,575,000)
Interest payments on capital debt	(3,597,992)	(3,055,415)
Net Cash Used in Capital and Related Financing Activities	<u>(13,232,685)</u>	<u>(11,359,231)</u>
Cash Flows from Investing Activities		
Income distributions from System investment pool	1,224,944	1,416,495
Proceeds from sales and maturities of other investments	2,898	3,054
Contributions to System investment pool	(5,218,138)	(1,819,166)
Net Cash Used in Investing Activities	<u>(3,990,296)</u>	<u>(399,617)</u>
Cash Flows from Noncapital Financing Activities		
State educational appropriations	43,240,587	42,703,771
Private gifts	6,020,498	3,313,101
Student direct lending receipts	31,547,939	28,593,707
Student direct lending disbursements	(29,954,101)	(30,049,987)
Amounts received from affiliates	347,119	79,812
Amounts paid to affiliates	(181,305)	(147,998)
Legal settlement	782,988	597,978
Pell grant revenue	8,118,163	8,558,340
State fiscal stabilization funds	(1,442)	4,739,873
Net Cash Provided by Noncapital Financing Activities	<u>59,920,446</u>	<u>58,388,597</u>
Net increase in cash and cash equivalents	10,568,051	7,348,088
Cash and Cash Equivalents, Beginning of Year	37,228,263	29,880,175
Cash and Cash Equivalents, End of Year	<u>\$ 47,796,314</u>	<u>\$ 37,228,263</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents in current assets	47,178,224	36,647,932
Restricted cash and cash equivalents	618,090	580,331
Total Cash and Cash Equivalents	<u>\$ 47,796,314</u>	<u>\$ 37,228,263</u>

See accompanying notes to financial statements

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF CASH FLOWS -- Continued
Years Ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (45,883,262)	\$ (51,884,527)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	12,667,056	12,207,389
Changes in allowance for doubtful accounts	316,278	160,093
Changes in assets and liabilities:		
Accounts receivable, net	303,799	(1,362,846)
Other current assets	(414,436)	(523,358)
Accounts payable and accrued liabilities	(243,054)	1,352,791
Deferred revenues	1,124,205	768,797
Net Cash Used in Operating Activities	<u><u>\$ (32,129,414)</u></u>	<u><u>\$ (39,281,661)</u></u>
Supplemental Noncash Activities Information		
Loss on disposal of capital assets	\$ 559,937	\$ 139,165
Gift of capital assets	1,175,333	1,555,390
Capital assets acquired with a liability at year end	271,550	-

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
Notes to Financial Statements
Years Ended September 30, 2012 and 2011

Note 1 – Organization and Summary of Significant Accounting Policies

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

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

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

UAHF is a legally separate, tax-exempt component unit of the University. UAHF is organized exclusively for charitable, scientific, and educational purposes in order to benefit the University. UAHF is governed by a 35-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, 2012 and 2011, UAHF distributed \$2,553,104 and \$1,902,080, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF can be obtained by calling 1-256-824-6350.

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

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

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

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

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

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

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

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

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

capitalized, include consulting expenses and allocation of internal salaries and fringes for the core implementation team. Training costs are expensed as incurred.

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

Depreciation of buildings and building improvements (5-40 years), land improvements and infrastructure (10 years), library collection (10 years), computer software (10 years) and inventoried equipment (5-8 years) is computed on a straight-line basis. The University computes depreciation for certain buildings and building improvements using a componentized method.

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

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

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

Auxiliary enterprise revenues are primarily generated by University Housing.

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

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

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

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

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

Endowment Spending: For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Alabama, permits The Board of Trustees of the University of Alabama (the Board) to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. UPMIFA also prescribes the guidelines for the expenditure of donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. UPMIFA focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA includes a robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The University's policy is to retain the endowment realized and unrealized appreciation with the endowment after the spending rate distributions in a manner consistent with the standards of prudence prescribed by UPMIFA. The Board approved a spending rate for the fiscal years ended September 30, 2012 and 2011 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, 2012 and 2011, the University had approximately \$25.2 million and \$15.2 million in the Short-Term Fund all of which was invested in the money market fund. The assets held in the money market fund are presented in cash and cash equivalents at September 30, 2012 and 2011.

As of September 30, 2012 and 2011, the University had cash and cash equivalents totaling \$47,796,314 and \$37,228,263 respectively. Included in the amounts are deposits with trustees held for reserves, which totaled \$564,545 in 2012 and \$580,331 in 2011.

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, 2012 and 2011, 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:

	2012	2011
Category I:		
Time deposits	\$ 135,259	\$ 135,081
Not categorized:		
Mutual funds	41,151	36,319
System Short-term Fund	25,198,879	15,204,407
System Intermediate Fund	59,923,925	57,865,155
System Prime Investment Fund	40,200,788	35,293,979
Pooled Endowment Fund	25,386,159	18,612,825
Agency Funds	2,400,013	2,237,066
Total Investments	<u>\$ 153,286,174</u>	<u>\$ 129,384,832</u>

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

Endowment Fund: The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over a perpetual time frame. Accordingly, the primary investment objectives of the Endowment Funds are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support to the endowment beneficiaries. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocation targets are established to meet the return objectives while providing adequate diversification in order to minimize investment volatility. 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 \$3,084,069 and \$2,276,007 at September 30, 2012 and 2011, 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 \$522,000 and \$591,000 at September 30, 2012 and 2011, 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 Intermediate Fund investment managers must be a large mutual fund providing daily liquidity.

Short-Term Fund: The Short-Term Fund contains the short term operating reserves of the various System entities. Because of the different income and disbursement requirements of each entity, consolidation of these funds reduces daily cash fluctuations and minimizes the amount of short-term cash reserves needed. Assets held in the Short-Term Fund are invested with the primary 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 for the System Pools, at September 30, 2012 and 2011 is as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2012	2011	2012	2011	2012	2011	2012	2011
RECEIVABLES:								
ACCRUED INCOME RECEIVABLES	\$ 1,007,252	\$ 1,107,419	\$ 610,059	\$ 650,770	\$ 4,047,259	\$ 4,991,584	\$ -	\$ -
TOTAL RECEIVABLES	1,007,252	1,107,419	610,059	650,770	4,047,259	4,991,584	-	-
CASH EQUIVALENTS:								
CERTIFICATES OF DEPOSIT	-	-	-	-	6,095,374	9,083,787	-	-
COMMERCIAL PAPER	-	-	-	-	-	16,200,000	-	-
MONEY MARKET FUNDS	37,622,530	32,523,163	25,012,340	27,318,415	117,007,185	67,192,267	165,309,391	119,243,909
TOTAL CASH EQUIVALENTS	37,622,530	32,523,163	25,012,340	27,318,415	123,102,559	92,476,054	165,309,391	119,243,909
EQUITIES:								
U.S. COMMON STOCK	71,093,168	61,441,298	49,927,229	47,156,571	-	-	-	-
U.S. PREFERRED STOCK	1,031,250	-	937,500	-	-	-	-	-
NON-U.S. STOCK	9,012,235	3,693,290	7,038,544	2,813,145	-	-	-	-
TOTAL EQUITIES	81,136,653	65,134,588	57,903,273	49,969,716	-	-	-	-
FIXED INCOME SECURITIES:								
U.S. GOVERNMENT OBLIGATIONS	28,152,015	32,642,178	12,728,703	11,255,896	363,188,133	237,375,819	-	-
MUNICIPAL GOVERNMENT OBLIGATIONS	-	-	-	-	6,423,894	5,348,375	-	-
MORTGAGE BACKED SECURITIES	-	-	-	-	50,978,064	47,674,103	-	-
COLLATERALIZED MORTGAGE OBLIGATIONS	428,837	824,701	176,195	1,616,040	57,695,598	80,738,496	-	-
CORPORATE BONDS	48,420,651	45,242,909	25,691,441	20,786,125	324,568,847	349,240,996	-	-
NON-U.S. BONDS	-	-	-	-	8,953,326	20,105,488	-	-
TOTAL FIXED INCOME SECURITIES	77,001,503	78,709,788	38,596,339	33,658,061	811,807,862	740,483,277	-	-
COMMINGLED FUNDS:								
U.S. EQUITY FUNDS	102,545,643	97,341,436	99,826,894	95,624,301	-	-	-	-
NON-U.S. EQUITY FUNDS	250,230,913	204,708,799	220,690,653	190,506,910	-	-	-	-
U.S. BOND FUNDS	29,518,564	19,459,731	55,590,858	48,810,114	118,258,903	106,131,493	-	-
NON-U.S. BOND FUNDS	57,589,079	56,083,738	54,429,629	48,033,757	-	-	-	-
HEDGE FUNDS	148,184,664	141,883,144	115,874,279	109,604,285	-	-	-	-
PRIVATE EQUITY FUNDS	61,912,960	53,444,269	-	-	-	-	-	-
TIMBERLAND FUNDS	5,624,452	5,624,452	-	-	-	-	-	-
REAL ESTATE FUNDS	128,235,796	111,363,986	102,617,303	87,120,952	-	-	-	-
TOTAL COMMINGLED FUNDS	783,842,071	689,909,555	649,029,616	579,700,319	118,258,903	106,131,493	-	-
TOTAL FUND INVESTMENTS	979,602,757	866,277,094	770,541,568	690,646,511	1,053,169,324	939,090,824	165,309,391	119,243,909
TOTAL FUND ASSETS	980,610,009	867,384,513	771,151,627	691,297,281	1,057,216,583	944,082,408	165,309,391	119,243,909
TOTAL FUND LIABILITIES	(126,133)	(141,349)	(88,592)	(96,905)	(481,793)	(431,667)	-	-
AFFILIATED ENTITY INVESTMENTS IN FUNDS	(124,786,897)	(108,310,387)	(51,504,726)	(46,104,160)	(77,940,650)	(63,559,098)	-	-
TOTAL NET ASSET VALUE	\$ 855,696,979	\$ 758,932,777	\$ 719,558,309	\$ 645,096,216	\$ 978,794,140	\$ 880,091,643	165,309,391	\$ 119,243,909

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

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

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

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

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

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

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Government Credit Index for U.S. investments and the Citigroup WGBI Index for international investment benchmarks for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate, mortgage backed, asset backed and U.S. treasury and/or agency bonds with a minimum BBB- rating and an average duration of four years. In addition, approximately \$20,000 and \$1,600,000 in the Endowment and Prime Funds, at September 30, 2012 and 2011, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$259,800,000 and \$232,200,000, in the Endowment and Prime Funds, at September 30, 2012 and 2011, respectively.

The Intermediate Fund is benchmarked against the 1-3 year Barclays Government Credit Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For September 30, 2012 and 2011, respectively, approximately \$63,200,000 and \$59,200,000 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 \$235,200,000 and \$189,500,000 at September 30, 2012 and 2011, respectively. For September 30, 2012 and 2011, \$6,100,000 and \$9,100,000, respectively, was invested by the Intermediate Fund in certificates of deposit.

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

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2012 and 2011 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2012	2011	2012	2011	2012	2011	2012	2011
Fixed or Variable Income Securities								
U.S. Government Obligations	\$ 28,152,015	\$ 32,642,178	\$ 12,728,703	\$ 11,255,896	\$ 363,188,133	\$ 237,375,819	\$ -	\$ -
Municipal Government Obligations	-	-	-	-	6,423,894	5,348,375	-	-
Other U.S. and Non U.S.Denominated:								
AAA	1,586,686	601,838	749,786	259,069	30,554,363	82,551,910	-	-
AA	8,698,140	9,442,755	4,205,006	4,280,773	77,971,612	82,527,357	-	-
A	23,416,600	20,810,897	12,943,728	10,696,427	195,302,384	155,173,567	-	-
BBB	15,128,540	14,989,257	7,969,116	5,808,925	61,721,408	93,358,572	-	-
BB	-	-	-	-	9,130,213	19,361,524	-	-
B	-	-	-	-	1,351,313	1,357,676	-	-
C and < C	-	-	-	-	2,939,022	4,257,867	-	-
Unrated	19,522	222,863	-	1,356,971	63,225,520	59,170,610	-	-
Commingled Funds:								
Bank Common Trust Fund: Unrated	-	-	-	-	-	-	-	-
U.S. Bond Funds: Unrated	29,518,564	19,459,731	55,590,858	48,810,114	118,258,903	106,131,493	-	-
Non-U.S. Bond Funds: Unrated	57,589,079	56,083,738	54,429,629	48,033,757	-	-	-	-
Money Market Funds: Unrated	37,622,530	32,523,163	25,012,340	27,318,415	117,007,185	67,192,267	165,309,391	119,243,909
Commercial Paper: Unrated	-	-	-	-	-	16,200,000	-	-
Certificate of Deposits	-	-	-	-	6,095,374	9,083,787	-	-
TOTAL	\$ 201,731,676	\$ 186,776,420	\$ 173,629,166	\$ 157,820,347	\$ 1,053,169,324	\$ 939,090,824	\$ 165,309,391	\$ 119,243,909

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

Concentration of Credit Risk: Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. As previously mentioned, credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2012 and 2011, there was no investment in a single issuer that represents 5% or more of total investments held by any single investment manager of the System Pools, except for investments issued by the U.S. government and money market fund investments held by the Short Term Fund.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time. The Board does not have a specific policy relative to interest rate risk. As such, there are no restrictions on weighted average maturity for each portfolio as they are managed relative to the investment objectives and liquidity demands of the investors. The effective durations for fixed or variable income securities, for the System Pools, at September 30, 2012 and 2011 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2012	2011	2012	2011	2012	2011
U.S. GOVERNMENT OBLIGATIONS	5.0	4.1	5.5	4.9	1.9	2.6
CORPORATE BONDS	5.4	5.8	5.2	5.8	1.7	2.3
COMMINGLED BOND FUNDS	0.6	4.2	1.5	3.8	2.3	2.2
MUNICIPAL GOVERNMENT OBLIGATIONS	-	-	-	-	1.8	4.8
NON-U.S. BONDS	-	-	-	-	1.7	1.8

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

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2012	2011	2012	2011	2012	2011
MORTGAGE BACKED SECURITIES	\$ -	\$ -	\$ -	\$ -	\$ 50,978,064	\$ 47,674,103
COLLATERALIZED MORTGAGE OBLIGATIONS	428,837	824,701	176,195	1,616,040	57,695,598	80,738,496
TOTAL FIXED	\$ 428,837	\$ 824,701	\$ 176,195	\$ 1,616,040	\$ 108,673,662	\$ 128,412,599

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

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

At September 30, 2012 and 2011 the effective durations for these securities are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2012	2011	2012	2011	2012	2011
MORTGAGE BACKED SECURITIES	-	-	-	-	1.7	2.7
COLLATERALIZED MORTGAGE OBLIGATIONS	2.6	2.4	2.7	1.2	1.1	0.9

Foreign Currency Risk: The strategic asset allocation policy for the Endowment Fund and the Prime Fund includes an allocation to non-United States equity securities. Each international equity manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager’s portfolio, measured at market value. Currency hedging of foreign bonds and stocks is allowed under System Policy. As of September 30, 2012 and 2011, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$8,900,000 and \$20,100,000 of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2012 and 2011, 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, 2012 and 2011, there were no securities on loan from the investment pools.

Note 4 – Accounts Receivable

The composition of accounts receivable at September 30, 2012 and 2011 is summarized as follows:

Tuition and fees (net of allowance for doubtful accounts of \$804,045 in 2012 and \$222,045 in 2011)	\$ 5,308,162	\$ 4,912,571
Auxiliary enterprises and other operating activities	590,704	172,126
Federal, state, and private grants and contracts (net of allowance for doubtful accounts of \$245,559 in 2012 and \$511,282 in 2011)	14,827,375	17,840,078
Legal settlement receivable, net present value	818,329	778,323
Other	1,098,827	1,314,016
Net accounts receivable	\$ 22,643,397	\$ 25,017,114

Note 5 – Capital Assets

Capital assets activity for the years ended September 30, 2012 and 2011 is summarized as follows:

	October 1, <u>2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2012</u>
Land	\$ 3,910,290	\$ 50,000	\$ -	\$ -	\$ 3,960,290
Land improvements and infrastructure	8,257,930	2,916,554	-	-	11,174,484
Buildings and building improvements	285,729,470	1,771,265	(169,835)	-	287,330,900
Construction in progress	720,876	1,503,282	-	-	2,224,158
Equipment	62,102,543	2,708,895	(1,066,627)	-	63,744,811
Library books	25,685,766	200,472	(7,804)	-	25,878,434
Computer software	2,939,750	-	-	-	2,939,750
Artwork	510,305	-	-	-	510,305
Total cost of capital assets	<u>389,856,930</u>	<u>9,150,468</u>	<u>(1,244,266)</u>	<u>-</u>	<u>397,763,132</u>
Less accumulated depreciation	183,185,521	12,171,441	(684,330)	-	194,672,632
Capital assets, net	<u>\$ 206,671,409</u>	<u>\$ (3,020,973)</u>	<u>\$ (559,936)</u>	<u>-</u>	<u>\$ 203,090,500</u>

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

Note 6 – Long-term Debt

Long-term debt activity for the years ended September 30, 2012 and 2011 is summarized as follows:

Type/Supported by	October 1, 2011	New Debt, net	Principal Repayment	September 30, 2012
Bonds:				
Student housing revenue	\$ 52,401,000	\$ -	\$ 8,955,000	\$ 43,446,000
General fee revenue	31,125,000	24,870,000	17,725,000	38,270,000
Note payable	125,000	-	125,000	-
Total debts	<u>83,651,000</u>	<u>\$ 24,870,000</u>	<u>\$ 26,805,000</u>	<u>81,716,000</u>
Less current portion	<u>(2,790,000)</u>			<u>(3,450,000)</u>
Total long-term debt	<u><u>\$ 80,861,000</u></u>			<u><u>\$ 78,266,000</u></u>

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

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

	Principal	Interest	Total
2013	\$ 3,450,000	\$ 2,910,633	\$ 6,360,633
2014	3,525,000	2,839,181	6,364,181
2015	3,615,000	2,755,602	6,370,602
2016	3,725,000	2,661,920	6,386,920
2017	3,040,000	2,559,259	5,599,259
2018-2022	16,696,000	11,359,783	28,055,783
2023-2027	19,730,000	8,085,339	27,815,339
2028-2032	11,660,000	4,716,412	16,376,412
2033-2037	7,820,000	2,570,761	10,390,761
2038-2042	8,455,000	1,049,655	9,504,655
	<u>\$ 81,716,000</u>	<u>\$ 41,508,545</u>	<u>\$ 123,224,545</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, 2012	Outstanding Indebtedness September 30, 2011
Bonds Payable:						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	\$ 2,180,000	\$ 680,000	\$ 755,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	866,000	951,000
Student Housing Revenue Bonds-Series 2001	12/27/2001	12/1/2031	3.0-5.30	9,370,000	-	7,860,000
Revenue Bonds-Series 2002-A	12/19/2002	9/30/2027	1.40 - 4.75	3,965,000	-	3,150,000
Revenue Bonds-Series 2003-A	2/3/2003	9/30/2027	1.45 - 4.70	17,890,000	-	13,910,000
Student Housing Revenue Bonds-Series 2004-A	9/30/2004	9/1/2034	3.00-4.625	13,130,000	11,010,000	11,305,000
Student Housing Revenue Bonds-Series 2004-B	9/30/2004	9/1/2016	3.00-3.625	7,515,000	2,900,000	3,540,000
Revenue Bonds-Series 2005-A	10/1/2005	6/1/2025	3.00-4.375	8,580,000	6,185,000	6,545,000
Revenue Bonds-Series 2009A	8/4/2009	7/1/2029	3.0-4.50	8,115,000	7,215,000	7,520,000
Student Housing Revenue Bonds-Series 2010-A	7/14/2010	6/1/2042	2.85-6.125	27,990,000	27,990,000	27,990,000
General Fee Revenue Bonds-Series 2012-A	4/3/2012	10/1/2031	0.73-4.28	11,170,000	11,170,000	-
General Fee Revenue Bonds-Series 2012-B	9/5/2012	12/1/2026	0.74-3.84	13,700,000	13,700,000	-
Total Bonds Payable				126,207,000	81,716,000	83,526,000
Note Payable:						
UAH Foundation	9/20/2010	7/31/2012		125,000	-	125,000
Total Note Payable				125,000	-	125,000
Total Debt				\$ 126,332,000	\$ 81,716,000	\$ 83,651,000

During 2012 the University refinanced the Student Housing Revenue Bond Series 2001 and Revenue Bonds Series 2002-A and 2003-A through the issuance of General Fee Revenue Refunding Bonds Series 2012-A and 2012-B. The 2012-A and 2012-B bonds were initially purchased by a bank affiliated with a member of the Board. Under GASB codification guidance, the Series 2001 bonds were defeased in full prior to September 30, 2012, and the Series 2002-A and 2003-A bonds qualified under the guidance as an insubstance defeasance as of September 30, 2012. The Series 2002-A and 2003-A bonds were redeemed in full by the bond trustee on December 1, 2012. In accordance with the guidance, the principal amounts of the old bonds were removed from the statement of net assets and replaced with the principal amounts of the new bonds.

The undiscounted cash flows required to service principal and interest under the old bonds as of September 30, 2012 would have been \$35.6 million compared to undiscounted cash flow requirements of \$32.8 million under the new bonds. The economic gain to the University of the bond refinancing was calculated to be approximately \$2 million using an effective interest rate of 3.26% applied to the old and new bond cash flow requirements.

A difference of \$705,000 between the reacquisition price and the net carrying amount of the 2002-A and 2003-A bonds has been deferred and recorded within other current assets on the statement of net assets at September 30, 2012. This deferred difference will be amortized as a component of interest costs over the remaining defeasance period to December 1, 2012 when the bonds were redeemed in full.

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, 2012.

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 \$283,776 and \$230,232 for general liability at September 30, 2012 and 2011, respectively.

The University also maintains a self-insurance health plan. For the year ended September 30, 2012, the University paid \$20.00 and \$4.65 per month per health insurance contract for administrative charges and stop loss coverage, respectively. The accompanying statements of net assets include a self-insurance reserve of \$1,114,627 and \$2,788,987 for health insurance at September 30, 2012 and 2011, 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>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 3,019,219	\$ 1,975,174
Claims paid	(8,531,979)	(7,299,238)
Contributions and adjustments	6,911,163	8,343,283
Balance, end of year	<u>\$ 1,398,403</u>	<u>\$ 3,019,219</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>2012</u>	<u>2011</u>
University contributions	\$ 9,406,114	\$ 11,109,253
Employee contributions	6,825,737	4,448,201
Total contributions	<u>\$ 16,231,851</u>	<u>\$ 15,557,454</u>
University contribution regular rate	10.00%	12.51%
Employee contribution rate	7.25%	5.00%
Employee contribution law enforcement rate	8.25%	6.00%

The 10-year historical trend information shows TRS's progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases, and postretirement benefit increases presented in the September 30, 2011 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. Recently enacted state legislation requires employee contribution rates for Teachers' Retirement to increase to 7.25% and 8.25%. The new rates took effect October 1, 2011.

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, 2011 (the most recent valuation date) and September 30, 2010 for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately as follows:

	<u>2011</u>	<u>2010</u>
Actuarial accrued liability (AAL)	\$ 28,776,316,000	\$ 28,299,523,000
Actuarial valuations of assets	19,430,135,000	20,132,779,000
Overfunded (underfunded) AAL	\$ (9,346,181,000)	\$ (8,166,744,000)

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 2012 and 2011, excluding amounts from employees who are not eligible for matching, are summarized as follows:

	<u>2012</u>	<u>2011</u>
University contributions	\$ 2,802,757	\$ 2,742,869
Employee contributions	4,979,596	4,524,094
Total contributions	<u>\$ 7,782,353</u>	<u>\$ 7,266,963</u>

The University’s total salaries and wages for fiscal years 2012 and 2011 are summarized in the table below:

	<u>2012</u>	<u>2011</u>
Total Salaries and Wages	\$ 106,531,600	\$ 102,338,508
Salaries and Wages of employees participating in:		
TRS	\$ 94,337,504	\$ 92,496,080
TIAA - CREF	\$ 58,594,950	\$ 57,385,980

Note 9 – Other Post-Employment Benefits

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

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

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (“GASB 45”), requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. GASB 45 does not have a material impact on the University's financial statements 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, 2012:

Retired Member Rates:

- Individual Coverage/Non-Medicare Eligible - \$151.00
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents - \$391.00
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$250.00
- Individual Coverage/Medicare Eligible Retired Member - \$10.00
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$250.00
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109.00
- Members who retired on or after October 1, 2005, and before January 1, 2012, pay two percent of the employer premium for each year under 25 years of service, and for each year over 25 years of service, the retiree premium is reduced by two percent
- Employees who retire on or after January 1, 2012, with less than 25 years of service, are required to pay 4% for each year under 25 years of service. Additionally, non-Medicare eligible employees who retire on or after January 1, 2012 are required to pay 1% more for each year less than age 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible retiree subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium will no longer apply. However, the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a five year period.
- Tobacco surcharge - \$28.00 per month
- PEEHIP Supplemental Plan - \$0

The required contribution rate of the employer was \$370 per employee per month in the year ended September 30, 2012. The University paid \$1,525,140 and \$1,691,340 for 345 and 338 retirees for the year ended September 30, 2012 and 2011, 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 Financials tab.

Note 10 – Compensated Absences

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. The statement of net assets includes accruals of \$4,570,813 and \$4,339,074 as of September 30, 2012 and 2011, 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 (“FDSLP”) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. For fiscal years ended September 30, 2012 and 2011, the University disbursed \$29,954,101 and \$30,049,987 respectively, under the FDSLP.

Note 12 – Contracts and Grants

At September 30, 2012, the University has been awarded approximately \$72.0 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 2012 and 2011, the University received and expended federal funding under the American Recovery and Reinvestment Act (“ARRA”). In 2012, those funds were primarily in the form of sponsored research grants in the amount of \$719,410, and during 2011, those funds consisted primarily of sponsored research grants and State Fiscal Stabilization Funds in the amount of \$6,081,178. In accordance with the construct of the law, ARRA funding ceased during fiscal year 2012.

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 in federal court cases arising under the federal constitution or federal statutes. The University is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of those actions will have a material adverse effect on the financial statements. However, the settlement of legal actions is subject to inherent uncertainties and it is possible that such outcomes could differ materially from management’s current expectations.

Note 14 – Operating Expenses by Function

Operating expenses by functional classification for the years ended September 30, 2012 and 2011 are summarized as follows:

	Year Ended September 30, 2012					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 34,072,855	\$ 11,016,319	\$ 5,140,925	\$ -	\$ -	\$ 50,230,099
Research	46,916,513	13,373,299	16,083,711	-	-	76,373,523
Public service	1,014,439	275,963	1,479,162	-	-	2,769,564
Academic support	5,353,644	1,506,099	2,343,789	-	-	9,203,532
Student services	5,637,651	1,659,419	5,666,793	-	-	12,963,863
Institutional support	8,636,067	781,270	6,316,839	-	-	15,734,176
Operations and maintenance of plant	3,801,292	1,382,870	6,490,876	-	-	11,675,038
Scholarships and fellowships	-	-	-	-	606,364	606,364
Auxiliary enterprises	1,099,139	264,811	2,655,014	-	-	4,018,964
Depreciation	-	-	-	12,171,441	-	12,171,441
Total Operating Expenses	\$ 106,531,600	\$ 30,260,050	\$ 46,177,109	\$ 12,171,441	\$ 606,364	\$ 195,746,564

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

Note 15 – Recently Issued Accounting Standards

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

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34* (“GASB 61”), in November 2010. The objective of this Statement is to improve financial reporting 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 Management 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. The Statement also clarifies the reporting of equity interests in legally separate organizations. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The University is currently evaluating the impact of this Statement on the University's financial statements.

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

periods beginning after December 15, 2011. The University is currently evaluating the impact, if any, that this Statement will have on its financial statements.

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

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

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB 65”), in March 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The University is currently evaluating the impact, if any, that GASB 65 will have on its financial statements.

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

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

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

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

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

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

- **Unrestricted-** Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted-** Net assets subject to donor-imposed stipulations that may or will be met either by actions of UAHF and/or the passage of time.
- **Permanently Restricted-** Net assets subject to donor-imposed stipulations to be maintained permanently by UAHF. Generally, the donors of these assets restrict UAHF to use all or a part of the income earned on the related investments for specific purposes.

Unrealized and realized gains and losses and dividends and interest from investing in income-producing assets may be included in any of these net asset classifications depending on donor-imposed stipulations.

In accordance with ASC 958-320, *Not-for-Profit Entities*, investments in debt securities and investments in equity securities with readily determinable fair values are reported at their fair values based on published market prices. Other investments, including real estate, are stated at cost or fair value at date of donation in the case of gifts. Changes in fair values are reported as unrealized gains or losses in the statement of activities and changes in net assets. All interest income and realized gains and losses are reported in the statement of activities and changes in net assets.

Investments – The cost and reported value of investments at September 30, 2012 and 2011 are presented below:

	<u>2012</u>		<u>2011</u>	
	<u>Reported Value</u>	<u>Cost</u>	<u>Reported Value</u>	<u>Cost</u>
Certificates of deposit	\$ 592,286	\$ 592,286	\$ 92,286	\$ 92,286
Pooled Endowment Fund	34,001,718	33,686,503	31,229,872	33,576,260
Marketable debt securities	780,301	777,486	318,949	314,203
Marketable equity securities	1,328,378	1,174,906	1,167,723	1,220,848
Mutual funds	1,549,387	1,477,929	752,579	806,252
Total	<u>\$ 38,252,070</u>	<u>\$ 37,709,110</u>	<u>\$ 33,561,409</u>	<u>\$ 36,009,849</u>

UAHF invests certain amounts in a commingled investment pool (“Pooled Endowment Fund”) sponsored by The University of Alabama System (the “System”). The value recognized for the investment pool is determined by the System and is based on UAHF’s proportionate share of the net asset value of the investment pool. The System has no variance power over the funds. Instead, the funds are distributed by the System to the Foundation upon its request. The investment pool invests in various investment securities, including both marketable and non-marketable securities. Since UAHF reports under FASB, all investments are reported at fair value and the GASB guidance for carrying certain non-readily marketable securities at cost (as described in Note 1) does not apply to UAHF.

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

During 2008, one of the income interests terminated, and a pro-rata distribution of the ownership interests held by the trust were transferred to UAHF. As a result of the satisfaction of a pro-rata share of the pledge, UAHF recognized a gain of \$4,375,835 representing the increase in fair value of the noncash assets between the date the assets were promised in 1974 and their values upon actual receipt in 2008. As a result of the receipt of these equity interests, UAHF currently holds approximately 21% and 19.5% of Big Springs and Chambers, respectively. These equity interests allow UAHF to exercise significant influence over Big Springs and Chambers, and accordingly, UAHF accounts for these interests in under the equity method of accounting. During the years ended September 30, 2012 and 2011, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of \$747,611 and \$690,802, respectively. In addition, UAHF received distributions from Chambers of \$653,250 and \$600,210 in 2012 and 2011, respectively. Big Springs did not make any distributions in either 2012 or 2011.

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 the period after the termination of the second lead interest.

The following summarizes the combined financial position and results of operations of Big Springs and Chambers (on a consolidated basis) for the years ended September 30, 2012 and 2011:

	2012	2011
Current Assets	\$ 18,262,557	\$ 19,983,398
Noncurrent Assets	12,785,897	15,871,474
Current Liabilities	(4,364,272)	(6,849,141)
Noncurrent Liabilities	(786,854)	(3,593,742)
Equity	<u>\$ 25,897,328</u>	<u>\$ 25,411,989</u>
Net Sales	\$ 67,571,005	\$ 70,015,916
Operating Income	\$ 1,227,295	\$ 2,491,512
Net Income	\$ 3,661,124	\$ 3,498,252

Income Taxes-The Foundation is a nonprofit corporation that is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue code for activities related to its exempt purpose. Certain of the Foundation’s activities are considered by the Internal Revenue Service to provide unrelated business income and, accordingly, income from these activities is subject to federal income tax. The Foundation’s income tax expense totaled \$173,459 and \$215,173 for the years ended September 30, 2012 and 2011, respectively.

Endowments-The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the State Legislature and signed into law effective January 1, 2009. UPMIFA prescribes new guidelines for the expenditure of a donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. Its predecessor, UMIFA, focused on the prudent spending of the net appreciation of the fund. UPMIFA instead focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA eliminates UMIFA's historic-dollar-value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. UAHF adopted guidance provided by the FASB relevant to endowments of not-for-profit organization and the related net asset classification of endowment funds subject to an enacted version of UPMIFA and enhanced disclosures for all endowment funds. The impact of this guidance on the classification of net assets for UAHF was not material to UAHF and is disclosed in UAHF’s financial statements. The earnings distributions are appropriated for expenditure by the governing Boards of Trustees of UAHF in a manner consistent with the standard of prudence prescribed by UPMIFA. In order to conform to the standards for prudent fiduciary management of

investments, UAHF's Board of Trustees has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets.

Restricted Net Assets – Restricted net assets are classified as either temporarily restricted net assets and available for the following purposes, or permanently restricted net assets, which are restricted to investment in perpetuity, the income from which is expendable for the following purposes at September 30, 2012 and 2011:

	Temporarily Restricted		Permanently Restricted	
	2012	2011	2012	2011
Student support	\$ 3,718,363	\$ 3,132,388	\$ 10,272,424	\$ 9,966,741
Faculty support	2,097,051	1,594,739	5,932,992	5,932,992
Academic support	2,448,974	1,504,092	3,311,293	3,311,293
Facilities renovation	100,164	118,948	-	-
Research	81,068	87,338	-	-
Library	51,232	45,768	50,428	50,428
Total	<u>\$ 8,496,852</u>	<u>\$ 6,483,273</u>	<u>\$ 19,567,137</u>	<u>\$ 19,261,454</u>

Note 17 - Segment Information

The University constructed Southeast Housing and issued bonds in 1980 and 1982. The bonds were payable from revenues received by the University for the use and occupancy of the facility. Condensed financial information of the University's segment for the years ended September 30, 2012 and 2011, is as follows:

Condensed Balance Sheets				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets				
Current assets	\$ 271,843	\$ 403,374	\$ 154,891	\$ 154,891
Capital assets, net of accumulated depreciation	<u>1,103,813</u>	<u>925,782</u>	<u>1,107,067</u>	<u>1,237,196</u>
Total assets	<u>\$ 1,375,656</u>	<u>\$ 1,329,156</u>	<u>\$ 1,261,958</u>	<u>\$ 1,392,087</u>
Liabilities				
Current liabilities	\$ 85,071	\$ 86,009	\$ 661,749	\$ 358,749
Noncurrent liabilities	605,000	680,000	811,397	1,043,344
Total liabilities	<u>\$ 690,071</u>	<u>\$ 766,009</u>	<u>\$ 1,473,146</u>	<u>\$ 1,402,093</u>
Net assets				
Invested in capital assets, net of related debt	\$ 423,813	\$ 170,782	\$ 241,067	\$ 286,196
Restricted				
Expendable	132,000	112,000	280,000	280,000
Unrestricted	<u>129,772</u>	<u>280,365</u>	<u>(732,255)</u>	<u>(576,202)</u>
Total net assets	<u>685,585</u>	<u>563,147</u>	<u>(211,188)</u>	<u>(10,006)</u>
Total liabilities and net assets	<u>\$ 1,375,656</u>	<u>\$ 1,329,156</u>	<u>\$ 1,261,958</u>	<u>\$ 1,392,087</u>
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 707,306	\$ 606,549	\$ 783,912	\$ 483,515
Operating expenses	(759,334)	(440,572)	(826,172)	(739,870)
Depreciation expense	<u>(123,665)</u>	<u>(108,580)</u>	<u>(130,129)</u>	<u>(130,129)</u>
Operating income (loss)	(175,693)	57,397	(172,389)	(386,484)
Nonoperating expenses	(3,566)	(5,729)	(28,793)	(31,342)
Transfers from general fund	<u>301,697</u>	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	122,438	51,668	(201,182)	(417,826)
Net assets, beginning of year	<u>563,147</u>	<u>511,479</u>	<u>(10,006)</u>	<u>407,820</u>
Net assets, end of year	<u>\$ 685,585</u>	<u>\$ 563,147</u>	<u>\$ (211,188)</u>	<u>\$ (10,006)</u>
Condensed Statements of Cash Flows				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Cash flows from				
Operating activities	\$ (32,965)	\$ 185,101	\$ (445,855)	\$ 19,392
Capital and related financing activities	(98,566)	(95,728)	445,850	(116,359)
Investing activities	<u>-</u>	<u>-</u>	<u>5</u>	<u>16</u>
Net increase (decrease) in cash	(131,531)	89,373	-	(96,951)
Cash, beginning of year	<u>224,181</u>	<u>134,808</u>	<u>-</u>	<u>96,951</u>
Cash, end of year	<u>\$ 92,650</u>	<u>\$ 224,181</u>	<u>\$ -</u>	<u>\$ -</u>

Note 18 - Legal Settlement Receivable

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 \$3,534,449 and \$4,312,772 as of September 30, 2012 and 2011, respectively.

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

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

Thomas R. Bice
State Superintendent of Education
ex officio

Trustees by Congressional District:

Trustees Emeriti:

First District
Marietta M. Urquhart

Frank H. Bromberg, Jr.

Angus R. Cooper II

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

Oliver H. Delchamps, Jr.

Garry Neil Drummond

Third District
James W. Wilson, III
Kenneth L. Vandervoort, M.D.

Jack Edwards

Joseph L. Fine

Fourth District
Finis E. St. John, IV
Paul W. Bryant, Jr., President pro
tempore

Dr. Sandral Hullett

Peter L. Lowe

Fifth District
Ronald W. Gray
William Britt Sexton

Sidney L. McDonald

John T. Oliver, Jr.

Sixth District
Vanessa Leonard
John J. McMahon, Jr.

Joe H. Ritch

Yetta G. Samford, Jr.

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

Cleophus Thomas, Jr.

John Russell Thomas

Dr. Robert E. Witt
Chancellor

ADMINISTRATION

Robert A. Altenkirch
President

Dean Smith
Interim Vice President for Research

Vistasp Karbhari
Provost, Executive Vice President for
Academic Affairs

Ray M. Pinner
Vice President for Finance & Administration

Robert E. Lyon
Vice President for University Advancement

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

Glenn T. Dasher
Dean, College of Liberal Arts

Shankar Mahalingam
Dean, College of Engineering

John D. Fix
Dean, College of Science

David Moore
Interim Dean, M. Louis Salmon Library

Rhonda Gaede
Interim Dean, Graduate Studies

C. Fay Raines
Dean, College of Nursing

Caron St. John
Dean, College of Business Administration

FINANCIAL STAFF

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

Debbie S. Allen
Senior Staff Assistant

Melanie C. Newby
Director, Accounting & Financial Reporting

Tanya K. Smith
Associate Director, Accounting & Financial
Reporting

Charles A. Burns
Assistant Director, Accounting & Financial
Reporting

Betty M. Eley
Senior Accountant

Brandy L. Nicholson
Senior Accountant

Alicia B. Glenn
Senior Accountant

Jeremy D. Holden
Accountant II

Laticia Gideon
Accounting Clerk

Patricia D. Ewert
Manager, Accounts Payable

Valarie L. King
Director, Contracts & Grants Accounting

Winnet H. Leonard
Bursar

Photographs courtesy of University Relations
and University Athletics