

The University of Alabama in Huntsville

**Report on Federal Awards in Accordance
with OMB Circular A-133**

Year Ended September 30, 2009

EIN: 63-0520830

The University of Alabama in Huntsville
Report on Federal Awards in Accordance with OMB Circular A-133
Year Ended September 30, 2009

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

To The Board of Trustees of
The University of Alabama:

We have audited the financial statements of The University of Alabama in Huntsville (the "University") and its discretely presented component unit, which collectively comprise the financial statements of the University, a campus of the The University of Alabama System, which is a component unit of the State of Alabama, as of and for the year ended September 30, 2009, and have issued our report thereon dated January 28, 2010. Our report was modified to include an additional paragraph regarding the presentation of the financial statements as discussed in Note 1 to the financial statements. We conducted our audit of the financial statements 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. The financial statements of the University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of the University in a separate letter dated January 28, 2010.

This report is intended solely for the information and use of the Board of Trustees of the University of Alabama, the University's President, 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.



January 28, 2010

**Report of Independent Auditors on Compliance with Requirements
Applicable to each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133**

To the Board of Trustees of The University of Alabama System and
the President of The University of Alabama Huntsville:

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 *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

In our opinion, the University complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

Internal Control over Compliance

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the University and its discretely presented component unit as of and for the year ended September 30, 2009, and have issued our report thereon dated January 28, 2010. The financial statements of the University are intended to present the net assets, changes in financial position and 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 net assets of The University of Alabama System as of September 30, 2009 and its changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information of the Board of Trustees of the University of Alabama System, the University's President, 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

June 30, 2010

The University of Alabama in Huntsville

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2009

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.RD	29,690,887
Department of Navy		12.RD	67,400
Other		12.RD	309,702
			<u>30,067,989</u>
Pass-Through Funds:			
Watring Technologies/Phase I S	WTIF0740260156	12.RD	18
ERC/Insensitive Munitions Deve	PO #RS090601	12.RD	477
Aquila/SBIR Phase II/World Adv	AGR DTD 8/25/09	12.RD	894
OPT/Strategically Tuned Absolu	OPT2006001	12.RD	1,341
ORBITEC/Design Tools for Combu	OTC-GS-0244-1	12.RD	2,912
ATI/Anti-Counterfeiting & Conf	SUBCONTRACT NO. 2008-389	12.RD	2,923
Aquila/SBIR Phase I Option/Det	AGR DTD 9/5/08	12.RD	5,430
JHU/APL/Live-Virtual-Construct	959198	12.RD	6,138
Digital Fusion Solution, Inc./	SC-08-702	12.RD	(1,219)
LMI/Serialized Item Management	SUBCONTRACT0817	12.RD	(1,074)
Academy of Applied Science/Res	SUBGRANT 08-76	12.RD	(312)
PST, Invc./SBIR Phase II/Anal	PO 08-067	12.RD	6,256
Axsys/Certification Test for T	PO # 217391	12.RD	5,191
CAS/Design for an fiall reflex	CAS SC315-05	12.RD	9,323
Stevens Institute of Technolog	AGR DTD 9/19/08	12.RD	13,655
John Tiller/Research into Opti	UAH01FA955006C0024	12.RD	14,023
Belzon/Amcom Express/Security	W31P4Q030UAH	12.RD	18,422
CSU/Neutral Atmosphere Density	CU1544149	12.RD	10,995
HPI/Visualization Support	HPI-08-PO-0010	12.RD	22,862
Torch Technologies/Amcom Expre	TO8S019	12.RD	28,260
LMI/Serialized Item Management	SUBCONTRACT 0817	12.RD	31,104
Ogden Engineering/STTR/Enhanci	OGDEN-UAH-2	12.RD	34,497
Ogden Eng/SBIR Phase II/Gre	AUTHORIZATION TO PROCEED DTD 6	12.RD	36,099
WESTAR/AMCOM EXPRESS/Structure	POAMX07004	12.RD	40,755
EXPI/EXPI SWMS Integration Sup	C09.01.02	12.RD	40,897
ITT AES/NLO Testing and Projec	LTCD-017 PO 312942	12.RD	47,367
ARTS/AMCOM Express/LMP/SAP Int	MA121608	12.RD	98,038
ASI/AMCOM Express/UAH BRAC Dem	ASI-2006-C-0003	12.RD	61,268
AMS/Amcom Express/Tech Support	AMS-SC-06-079	12.RD	121,509
MRC/AMCOM Express/Advanced Sen	SK722-08-UAH-AMCOM-0019	12.RD	179,538
CAS/Programmatic Support for	CAS EXOC 1-05	12.RD	403,849
GSA/MSIC/Comparative Ealuation	GS-23F-0062P	12.RD	98,016
GSA/MISC/HPCS Network Simulati	GS23F0062P	12.RD	585,208
Colsa/ARC/THAAD	H07018000	12.RD	3,294
CSC/U.S. Army Logistics Modern	PO 662912 SED	12.RD	1,715,551
SAIC/AMCOM EXPRESS/UH-60 SIL S	4600006511	12.RD	1,363,389
AMS/AMCOM EXPRESS/Rocket Deplo	AMS-SC-06-079	12.RD	10,263
ASI/AMCOM Express/UAH BRAC Dem	ASI-2006-C-0003	12.RD	4,548
ASI/Amcom Express/AMRDEC Techn	ASI-2006-C-0003	12.RD	4,812
ASI/AMCOM EXPRESS/Follow-on Su	ASI-2006-C-0003	12.RD	30,752
CAS/Amcom Express/Travel for S	CAS EXOC 1-05	12.RD	3,425
CAS Inc./Amcom Express/Travel	CAS EXOC 1-05	12.RD	5,119
SETAC/CAS, Inc./CMDS SLIN 6BH	CAS EXOC 1-05	12.RD	5,268
SETAC/CAS, Inc./CMDS SLIN 10BB	CAS EXOC 1-05	12.RD	31,654
CAS, Inc./AMCOM EXPRESS/CMDS S	CAS EXOC 1-05	12.RD	168,616
CSU/Neutral Atmosphere Density	CU1544149	12.RD	20,234
GSA/MSIC/CFD Accuracy Studies	GS23F0062P	12.RD	9,260
GSA/Femtosecond Laser Threat t	GS23F0062P	12.RD	26,358
GSA/MSIC/Human Operator Model	GS23F0062P	12.RD	60,968
GSA/MSIC/Improving the Speed o	GS23F0062P	12.RD	90,261
GSA/MSIC/Network Simulation an	GS23F0062P	12.RD	257,798
Colsa/ARC/Targets and Counterterm	H07018000	12.RD	112,304
Axsys/Certification Test for T	PO # 217391	12.RD	1,743
			<u>5,850,277</u>
			<u>35,918,266</u>
Total U.S. Department of Defense			<u>35,918,266</u>

See accompanying notes to schedule of expenditures of federal awards.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Teledyne Brown Engineering/Spa	PO #955471	43.RD	34,461
SWRI/STEREO Guest Investigator	PO 886957E	43.RD	24,225
VCSI/Collaborative R&D Initia	AGR DTD 9/24/08	43.RD	169,858
VCSI/FASTSAT	AGR DTD 2/11/09	43.RD	320,278
VCSI/FASTSAT-HSV Initiative	AGR DTD 2/11/09	43.RD	54,484
Jacobs-Sverdrup/ESTS Group Con	SVT-0029 TASKNO 91-SEGVOH-45 M	43.RD	2,552
KU/GRB Models for GLAST	FY2008-112	43.RD	32,406
MIT/Signatures fo Incipient Tr	AGREEMENT 5710002233	43.RD	10,610
UC/Heliospheric Foregrounds in	SUBAWARD NO. 37102-2	43.RD	31,817
UCAR/Desicion Support for Thun	S0657992	43.RD	66,244
UCB/A Comprehensive Study of A	NNG06GG65G	43.RD	66,280
UNIV OF WISCONSIN/	G071982	43.RD	12,991
USRA/A Case Study in growth an	SUBGRANT 03222-01	43.RD	45,254
USRA/Advancement of Engineerin	03496-05	43.RD	9,085
USRA/Direct the Earth System S	345004	43.RD	11,253
Jacobs/Propulsion Research & T	SVT0023	43.RD	(2,590)
Jacobs-Sverdrup/NASA Ares Uppe	SVT0041	43.RD	6,306
Lockheed Martin/GOES-R Geostat	8100001543	43.RD	573,429
Luna Innovations/STTR Phase II	1979NAS2T/UAH	43.RD	54,299
SGT/ESDAWG Standards Support	633	43.RD	52,547
SGT/JWST Optics Support Task 8	SUBCONTRACT0759	43.RD	31,513
SSAI/Dual-Polarimetric Radar R	SUBCONTRACT UNDER NNG07EJ50C	43.RD	11,397
SSAI/NASA/Advanced Satellite Av	SUBK UNDER NNL07AA00C	43.RD	30,393
SWA/ICESat and CALIPSO data fo	SWA08UAH	43.RD	37,797
TB/Methane Boiling Instability St	PO # 00072059	43.RD	32,589
TBE/Fault Tree Analysis (FTA)	PO00056648	43.RD	14,025
SAO/X-Ray & Sunyaev-Zeldovich	AR89015A	43.RD	7,029
			<u>3,254,775</u>
Total National Aeronautics & Space Administration			<u>20,989,130</u>
Department of Transportation:		20.RD	<u>619,147</u>
Pass Through Funds:			
Department of Transportation:			
ALDOT/Pilot Project to Evaluat	RTPO100050472	20.RD	14,619
UA/UTCA/Modeling Damage in Con	TASK ORDER 48 (09-036)	20.RD	18,259
UA/UTCA/Preparing for Transit-	TASK ORDER NO. 52 (09-053)	20.RD	25,861
UA/UTCA/Road Embankment and SI	TASK ORDER 50 (09-040)	20.RD	20,122
UA/UTCA/Student Funding to Att	TASK ORDER 46 (08-042)	20.RD	10,852
UA/UTCA/Transportation Enginee	TASK ORDER 51 (09-042)	20.RD	23,169
UA/UTCA/UTCA Operating Budget	TASK ORDER 47 (09-035)	20.RD	1,864
UA/UTCA/Engineering Summer Ins	TASK ORDER 44 (08-017)	20.RD	4,175
UA/UTCA/Ninth year of Operatio	TASK ORDER NO 43 (08-014)	20.RD	14,291
UA/UTCA/Transit Modeling and M	TASK ORDER 45 (08-021)	20.RD	51,475
UAB/Bridge Weigh-in-Motion (B-	SUBAWARD NO. 001	20.RD	185
UTCA/Modeling Truck Traffic Vo	7304	20.RD	12,382
ALDOT/Pilot Project to Evaluat	RTPO100050472	20.RD	24,198
ALDOT/National Summer Transp	K-09-1028	20.RD	58,697
Performance Measures for Trans	3428	20.RD	4,637
			<u>284,786</u>
Total Department of Transportation			<u>903,933</u>

See accompanying notes to schedule of expenditures of federal awards.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Department of Commerce:		11.RD	<u>3,281,026</u>
Pass-Through Funds:			
Optechnology/SBIR Phase I/Resi	OPTECH-09-001	11.RD	3,166
TREX/Constellation X Project	S20078	11.RD	(253)
ATN/MEP State Program Funds	AGR DTD 10/1/07	11.RD	11,609
ATN/MEP/NIST Program Funds	AGR DTD 10/1/08	11.RD	594,781
UCAR/Synthesizing Dual-Polarme	S0766806	11.RD	404
MSU/ Assessing the impact of L	SUBAWARD19100036355901	11.RD	587
SURA/The SURA COastal Ocean Ob	SUB AWARD 2008-02	11.RD	65,734
Univ. of Miami/Application of	P105910	11.RD	49,140
WJOI/QA/QC Standards Integrati	A100575	11.RD	100,468
			<u>825,636</u>
Total Department of Commerce			<u>4,106,662</u>
Department of Energy:		81.RD	<u>259,289</u>
Pass-Through Funds:			
DESE/Support for the North Ala	ATP DTD 11/5/08	81.RD	49,934
ANL/FUNCTIONAL GEN	4F-02201	81.RD	483
B&W Tech. Services Y-12, L. L.	43000067647	81.RD	52,124
Battelle MEMorial Institute/CO	NO. 75828	81.RD	59,607
Hyper Technologies/Modeling of	HYPERV 2009-001	81.RD	5,996
Battelle/SensorNet-Sensor Web	SUBCONTRACR4000061169	81.RD	17,695
UChicago Argonne, LLC/Assignme	8F00041	81.RD	55,284
JCDH/Operation and Maintenance	MOU DTD 3/5/01	81.RD	18,236
			<u>259,359</u>
Total Department of Energy			<u>518,648</u>
Department of Agriculture:		10.RD	<u>74,043</u>
Pass-Through Funds:			
FSU/JAH Research on Risk Reduc	R01043	10.RD	15,492
NFWF/Experimentally Quantifying	2008-0054-900	10.RD	6,449
			<u>21,941</u>
Total Department of Agriculture			<u>95,984</u>
Department of Justice:			
Pass-Through Funds:			
ACJIC/Umb. Agreement Task	AGR dated 8/21/07	16.RD	143,077
Total Department of Justice			<u>143,077</u>
Department of Interior:		15.RD	<u>(501)</u>
Tennessee Valley Authority:			
Pass-Through Funds:			
VCSI/TVA Rain Guage Initiative	VCSI20071	62.62016	<u>110,694</u>
Department of State:		19.9	<u>309,319</u>

See accompanying notes to schedule of expenditures of federal awards.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Department of State:			
Pass-Through Funds:			
Georgetown University/Near Eas	UAH-RX2050-887-08-N	19.430	75,108
IREX/Eurasia, South Asia Teach	FY08TEAUAH3	19.430	149,308
			<u>224,416</u>
Total Department of State			<u>533,735</u>
Total Research and Development Cluster			<u>65,628,816</u>
Student Financial Aid Cluster:			
U.S. Department of Education:			
SEOG		84.007	140,017
PELL Grants		84.063	5,205,261
Work Study		84.033	186,387
Federal SMART Grant		84.376	145,122
Federal Academic Competitiveness		84.375	35,650
Total U.S. Department of Education			<u>5,712,437</u>
Total Student Financial Aid Cluster			<u>5,712,437</u>
Total Major Programs			<u>71,341,253</u>

See accompanying notes to schedule of expenditures of federal awards.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
NON-MAJOR PROGRAMS:			
Construction Grants:			
Department of Transportation:			
DOT/FTA/UAH Intermodal Parking Facility		20.205	646,944
Total Construction Grant			646,944
Instruction and Training:			
Department of Education:			
Pass-Through Funds:			
Department of Education:			
ACHE/Teaching the Future: Mastery	AGR DTD 1/16/08- CE ACHE	84.RD	74,181
ACHE/The Success Through Acade	AGR DTD 1/23/08 OIP ACHE	84.RD	7,546
			81,727
ARRA Pass-Through:			
State of AL/Dept. of Finance/ARRA/SFSF-CGA	10-1330-A	84.394	98,925
Total Department of Education			180,652
National Science Foundation:			
Pass-Through Funds:			
National Science Foundation:			
UAB/Alabama Louis Stokes Alliance	AGR DTD 7/21/06	47.076	25,566
UAB/Alliances for Graduate Education	UABAGRDTD61399	47.076	42,688
			68,254
Total National Science Foundation			68,254
Department of State:			
Pass-Through Funds:			
AED/Study of the United States for Global Student Leaders 2009	4135-02-05	19.430	133,080
AED/Study of the United States Institutes for Student Leaders	39570205	19.430	71,833
			204,913
Total Department of State			204,913
Department of Defense:			
F/DOD/ARMY/AMCOM/Garrison Project:R	W9124P07C0030	12.RD	72,940
F/DOD/ARMY/AMCOM/Master of Science	LTR DTD 1/28/08	12.RD	40,659
			113,599
Pass-Through Funds:			
GSA/PROFESSIONAL	GS23F0062P	12.RD	8,329
			8,329
Total Department of Defense			121,928
Department of Labor			93,435
Total Instruction and Training			669,182
Total Other Federal Awards			1,316,126
Total Schedule of Expenditures of Federal Awards			72,657,379

See accompanying notes to schedule of expenditures of federal awards.

The University of Alabama in Huntsville

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2009

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, 2009. The amounts reported as federal expenditures were obtained from the University's general ledger. This Schedule presents only a selected portion of the operations of the University, and, accordingly, is not intended to and does not present the net assets, changes in net assets, and cash flows of the University.

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

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

Subrecipients

Certain funds are passed through to subgrantee organizations by the University. Expenditures incurred by the subrecipients and reimbursed by the University are presented in the Schedule. The University provided approximately \$1,628,430 of research and development cluster awards to subrecipients during the year ended September 30, 2009.

2. Summary of Significant Accounting Policies

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

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

The University operates under predetermined fixed F&A cost rates which are effective from October 1, 2004 through September 30, 2009. The predetermined fixed rates were based on 2003 financial information. For fiscal year ending September 30, 2009, the base rate for on-campus research is 46.5%. Base rates for other F&A cost recoveries range from 26% to 48%.

4. Federal Student Loan Programs

Federal Direct Student Loans (CFDA Number 84.268) - The Federal Direct Student Loan Program (FDSLPL) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLPL on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During 2009, the University disbursed approximately \$25,821,128 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

Year Ended September 30, 2009

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 in accordance with Circular A-133 (Section .510(a)) yes no

Identification of major programs:

CFDS Number(s)	Name of Federal Program or Cluster
Various	Research and Development Cluster
Various	Student Financial Aid Cluster

Threshold used to determine Type A and Type B Programs: \$ 2,179,721

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No findings to report

PART III
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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

08-01 Recording of Federally Titled Assets

During the internal controls testing around federally purchased and titled equipment, we noted that the temporarily tagged assets in BANNER were not being reconciled with FAS in a timely manner to ensure that federally titled assets were properly recorded in FAS.

STATUS

Issue resolved. The University has implemented a new control that ensures that a reconciliation of FAS and BANNER assets is being performed on a regular basis. All assets that remain in BANNER for a significant amount of time with a temporary tag that have not been assigned a permanent tag are researched and resolved in order to ensure that equipment that is federally titled is being properly recorded in FAS.

No similar findings found in the current year.

08-02 Period of Availability

PwC noted that 4 items out of 55, all related to one contract, were approved and purchased after the period of availability.

STATUS

Issue resolved. This condition resulted from an unexpected delay in shipping in the prior year. The University attempted to cancel these items; however, the items had already been shipped. As a result, the University improved its monitoring procedure and implemented a cut off period to ensure that all expenditures coincide with, and are paid for within, the period of availability.

No similar findings found in the current year.

PART IV
FINANCIAL STATEMENTS

FINANCIAL REPORT 2008 – 2009



Dave Williams speaks to the UAHuntsville campus.

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**The University
of Alabama
in Huntsville**

A Space Grant College
An Affirmative Action/Equal Opportunity Institution

Report of Independent Auditors

To the Board of Trustees of The University of Alabama:

In our opinion, 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, 2009 and 2008, and the respective changes in financial position of the University and its discretely presented component unit, and cash flows of the University for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits of the financial statements of the University and its discretely presented component unit in accordance with auditing standards generally accepted in the United States of America, and we conducted our audit of the University in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As described in Note 16, the University's discretely presented component unit restated its 2008 financial statements to correct an error.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2010 on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, for the year ended September 30, 2009. 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, 2009 and 2008, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 13 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



January 28, 2010

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, 2009 and 2008. 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 62 degree-granting programs that meet the highest standards of excellence, including 31 bachelor's degree programs, 18 master's degree programs, and 13 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 \$84.2 million for externally funded projects during fiscal year 2009. 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 \$4.9 million, primarily due to an increase in tuition and fees.

Equivalent Full-time Student Enrollment (FTE)					
	2005	2006	2007	2008	2009
Undergraduate	4409	4456	4477	4654	4906
Graduate	729	709	773	773	784
Total	5138	5165	5250	5427	5690

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					
	2005*	2006*	2007*	2008*	2009*
Graduates	1394	1372	1513	1538	1562
Seniors	1727	1709	1761	1560	1640
Juniors	1264	1186	1116	1178	1339
Sophomores	1125	1052	1087	1211	1257
Freshmen	1545	1701	1612	1753	1638
Others	29	71	175	191	245
Total	7084	7091	7264	7431	7681

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

- The total of full-time equivalent students increased 4.8% in 2009, compared to the 3.4% increase in 2008. UAH also had a 3.4% increase in the total number of students attending in the fall semester in 2009, compared to the 2.3% increase in 2008.

Degrees Conferred					
	2005	2006	2007	2008	2009
Bachelor's	798	816	840	889	900
Master's	374	343	299	322	384
Doctorate	39	31	30	37	32
Certificate	31	39	21	31	29
Total	1242	1229	1190	1279	1345

- Approximately \$45.9 million in appropriations for operations were received from the State of Alabama for fiscal year 2009. In comparison to the prior year, appropriations decreased 21.1% or \$12.2 million.

Statement of Net Assets

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

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

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

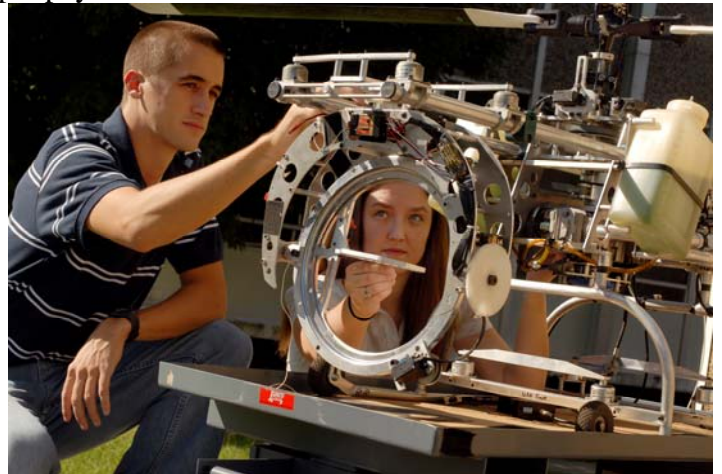
A summarized comparison of the University’s assets, liabilities, and net assets as of September 30 is as follows:

Summary of Statements of Net Assets			
	2009	2008	2007
Current assets	\$ 98,599,124	\$ 80,489,781	\$ 77,949,197
Noncurrent assets:			
Endowment, life income and other investments	51,153,427	53,275,982	53,066,122
Capital assets, net	193,327,170	191,234,402	184,559,344
Legal settlement receivable	4,910,379	5,478,770	5,813,776
Other	2,147,925	2,155,424	2,287,858
Total assets	350,138,025	332,634,359	323,676,297
Current liabilities	46,582,274	39,572,189	35,251,760
Noncurrent liabilities	58,111,000	52,486,000	54,611,000
Total liabilities	104,693,274	92,058,189	89,862,760
Net assets			
Invested in capital assets, net of related debt	135,705,109	139,604,839	130,845,956
Restricted	9,619,562	9,572,427	8,712,766
Unrestricted	100,120,080	91,398,904	94,254,815
Total net assets	\$ 245,444,751	\$ 240,576,170	\$ 233,813,537

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

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

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



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

Capital Assets

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

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

Capital Assets, Net			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Land	\$ 3,871,290	\$ 3,846,290	\$ 3,834,249
Land improvements and infrastructure, net	2,300,240	2,441,533	1,411,686
Buildings and building improvements, net	171,233,440	168,024,517	160,494,350
Equipment, net	8,318,826	9,524,769	11,557,690
Library books, net	5,530,447	5,382,108	4,969,702
Computer software, net	1,913,627	2,015,185	2,291,667
Artwork	159,300	-	-
Total capital assets, net	<u>\$ 193,327,170</u>	<u>\$ 191,234,402</u>	<u>\$ 184,559,344</u>

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

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

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

Debt

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

Debt			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Bonds - Current	\$ 2,490,000	\$ 2,125,000	\$ 2,060,000
Bonds - Long Term	58,111,000	52,486,000	54,611,000
Total debt outstanding	<u>\$ 60,601,000</u>	<u>\$ 54,611,000</u>	<u>\$ 56,671,000</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>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues:			
Tuition and fees	\$ 49,171,895	\$ 41,856,861	\$ 37,731,828
Less: scholarship allowances	(11,842,131)	(9,789,836)	(8,960,358)
Tuition and fees, net	37,329,764	32,067,025	28,771,470
Federal, state and private grants and contracts	75,329,913	67,621,950	64,407,413
Sales and services of educational departments	3,267,819	2,236,694	2,056,537
Auxiliary, net of \$544,732 in 2009 and \$424,014 in 2008 of scholarship allowances	5,860,094	5,596,733	6,455,635
Total operating revenue	121,787,590	107,522,402	101,691,055
Operating expenses			
Operating loss	(47,564,631)	(59,275,649)	(53,091,257)
Nonoperating revenues (expenses):			
State appropriations	45,861,449	58,100,801	50,675,495
Private gifts	3,017,524	3,128,625	1,887,348
Net investment income (loss)	865,840	(8,114,771)	9,277,360
Loss on disposal of capital assets	(1,045,093)	(471,496)	(340,407)
Interest expense	(2,323,481)	(2,384,569)	(2,450,033)
Capital gifts and grants	640,330	11,473,364	28,073,275
Pell grants revenue	5,205,261	4,306,328	3,839,774
ARRA-federal and state	211,382	-	-
Legal settlement	-	-	4,654
Net nonoperating revenues	52,433,212	66,038,282	90,967,466
Increase in net assets	4,868,581	6,762,633	37,876,209
Net assets, beginning of year	240,576,170	233,813,537	195,937,328
Net assets, end of year	\$ 245,444,751	\$ 240,576,170	\$ 233,813,537

Tuition and fees increased \$7.3 million in fiscal year ended September 30, 2009 due to a 14.1% increase in tuition. The \$4.1 million increase in 2008 also came from a tuition increase. 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						
	2009		2008		2007	
State appropriations	\$45,861,449	25.8%	\$58,100,801	32.9%	\$50,675,495	25.9%
Net investment income (loss)	865,840	0.5%	(8,114,771)	-4.6%	9,277,360	4.7%
Grants and contracts	75,329,913	42.4%	67,621,950	38.3%	64,407,413	33.0%
Gifts	3,017,524	1.7%	3,128,625	1.8%	1,887,348	1.0%
Auxiliary	5,860,094	3.3%	5,596,733	3.2%	6,455,635	3.3%
Net tuition and fees	37,329,764	21.0%	32,067,025	18.2%	28,771,470	14.7%
Sales and services	3,267,819	1.8%	2,236,694	1.3%	2,056,537	1.1%
Capital gifts and grants	640,330	0.4%	11,473,364	6.5%	28,073,275	14.4%
Legal settlement	-	0.0%	-	0.0%	4,654	0.0%
Pell grants	5,205,261	2.9%	4,306,328	2.4%	3,839,774	2.0%
ARRA-federal and state	211,382	0.1%	-	0.0%	-	0.0%
Total revenues	\$177,589,376		\$176,416,749		\$195,448,961	

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

Grants and contracts increased \$7.7 million in fiscal year ended September 30, 2009 primarily due to an increase in federal grants and contracts. The \$3.2 million increase in 2008 also came from federal grants and contracts. Capital gifts and grants decreased \$10.8 million during fiscal year 2009, the result of the completion of a construction grant for the Intermodal Facility. The \$16.6 million decrease during fiscal year 2008 was due to the completion of a construction grant for the Shelby Center.

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

Detail of Federal Grants & Contracts Revenue			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
National Aeronautics and Space Administration	\$ 20,886,686	\$ 19,186,398	\$ 20,400,392
Department of Defense	35,590,965	29,105,733	21,936,611
National Science Foundation	1,715,550	2,094,877	2,301,872
Department of Education	532,789	933,809	384,314
Other	7,867,802	7,891,493	4,990,189
Total	\$ 66,593,792	\$ 59,212,310	\$ 50,013,378

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

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

Operating expenses (by functional classification)			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Instruction	\$ 46,572,499	\$ 43,779,703	\$ 43,432,555
Research	65,218,878	64,417,660	56,019,612
Public service	267,414	462,367	1,228,713
Academic support	7,093,760	7,483,125	6,606,014
Student services	9,494,792	10,740,295	10,236,140
Institutional support	15,673,674	15,250,766	14,705,918
Operations and maintenance of plant	9,434,866	9,952,047	8,150,195
Scholarships and fellowships	928,253	510,664	211,885
Auxiliary enterprises	3,329,830	2,516,492	4,333,935
Depreciation	11,338,255	11,684,932	9,857,345
Total operating expenses	\$ 169,352,221	\$ 166,798,051	\$ 154,782,312
Operating expenses (by natural classification)			
	<u>2009</u>	<u>2008</u>	<u>2007</u>
Compensation and benefits	\$ 122,500,135	\$ 119,696,443	\$ 109,443,715
Supplies and services	34,585,578	34,906,012	35,269,367
Depreciation	11,338,255	11,684,932	9,857,345
Scholarships and fellowships	928,253	510,664	211,885
Total operating expenses	\$ 169,352,221	\$ 166,798,051	\$ 154,782,312

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

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

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

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

Statement of Cash Flows

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

Condensed Statements of Cash Flows		
	<u>2009</u>	<u>2008</u>
Cash received from operations	\$ 119,932,137	\$ 116,760,959
Cash payments for operations	(159,372,397)	(152,270,428)
Net cash used in operating activities	<u>(39,440,260)</u>	<u>(35,509,469)</u>
Net cash used in capital and related financing activities	(5,342,746)	(8,357,156)
Net cash provided by (used in) investing activities	9,566,390	(10,527,989)
Net cash provided by noncapital financing activities	<u>54,970,091</u>	<u>66,021,271</u>
Net increase in cash and cash equivalents	59,193,735	47,136,126
Cash, beginning of year	19,145,477	7,518,820
Cash, end of year	<u>\$ 38,898,952</u>	<u>\$ 19,145,477</u>

The University used \$39.4 million of cash for operating activities in 2009, offset by approximately \$55.0 million of cash provided by noncapital financing activities. Similarly, in 2008, \$35.5 million of cash used for operating activities was offset by \$66.0 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses. The decrease in cash provided by noncapital financing activities was due to a decrease in state appropriations.

Cash of \$5.3 million and \$8.4 million in 2009 and 2008, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and

principal and interest payments, partially offset by sources that included gifts, grants and contracts for capital purposes.

Cash provided by investing activities totaled \$9.6 million in 2009. Cash used in investing activities totaled \$10.5 million in 2008. The differences are primarily a result of liquidation of the Commonfund.



Economic Factors That Will Affect the Future

The University's state appropriations have not kept pace with the amounts recommended by the Alabama Commission on Higher Education (ACHE). For fiscal year 2009, the University was funded at approximately 69.2% of the ACHE funding recommendation.

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

The University continues to attract federal grant and contract revenue. Over 78% of the University's federal operating revenue comes from two agencies: the National Aeronautical and Space Administration and the Department of Defense. The outcome of the federal budget process has important ramifications for the University's research budget.



The University's achievement in recent years in obtaining private and federal support is a testament to the high regard in which the University is held. The level of support

underscores the continued confidence among donors and grantors in the quality of the University's programs and the importance of its mission.

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

Requests for Information

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



FINANCIAL STATEMENTS



THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF NET ASSETS
September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 38,316,550	\$ 18,563,850
Operating investments	26,970,506	33,599,506
Accounts receivable, net	27,175,965	23,510,508
Other current assets	6,136,103	4,815,917
Total current assets	<u>98,599,124</u>	<u>80,489,781</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	582,402	581,627
Endowment investments	17,034,128	16,919,028
Investments for capital activities	33,536,897	35,775,327
Capital assets, net	193,327,170	191,234,402
Legal settlement receivable	4,910,379	5,478,770
Other noncurrent assets	2,147,925	2,155,424
Total noncurrent assets	<u>251,538,901</u>	<u>252,144,578</u>
Total Assets	<u>\$ 350,138,025</u>	<u>\$ 332,634,359</u>
 Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 19,726,102	\$ 17,490,139
Deferred revenues	21,052,323	16,648,756
Current portion of long-term debt	2,490,000	2,125,000
Deposits held for others	3,313,849	3,308,294
Total current liabilities	<u>46,582,274</u>	<u>39,572,189</u>
Noncurrent Liabilities:		
Long-term debt	58,111,000	52,486,000
Total noncurrent liabilities	<u>58,111,000</u>	<u>52,486,000</u>
Total Liabilities	<u>104,693,274</u>	<u>92,058,189</u>
Net Assets:		
Invested in capital assets, net of related debt	135,705,109	139,604,839
Restricted:		
Nonexpendable	2,906,024	2,537,233
Expendable	6,713,538	7,035,194
Unrestricted	100,120,080	91,398,904
Total Net Assets	<u>245,444,751</u>	<u>240,576,170</u>
Total Liabilities and Net Assets	<u>\$ 350,138,025</u>	<u>\$ 332,634,359</u>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION
September 30, 2009 and 2008**

	2009	2008 (Restated)
Cash and cash equivalents	\$ 3,326,017	\$ 3,288,342
Investments	33,233,406	35,103,629
Investment real estate	2,813,938	2,928,511
Accrued interest	394,806	328,495
Pledges receivable, net	336,868	452,048
Other assets	96,040	72,604
Investment in unconsolidated entities	5,111,552	4,703,062
Trust receivable	484,959	484,959
Collections	60,390	219,690
Total Assets	\$ 45,857,976	\$ 47,581,340
Accounts payable	\$ 16,841	297,465
Annuity payable	141,913	373,657
Income tax payable	-	91,032
Total Liabilities	158,754	762,154
Unrestricted net assets	21,256,947	21,505,209
Temporarily restricted net assets	7,380,825	8,461,307
Permanently restricted net assets	17,061,450	16,852,670
Total Net Assets	45,699,222	46,819,186
Total Liabilities and Net Assets	\$ 45,857,976	\$ 47,581,340

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Tuition and fees	\$ 49,171,895	\$ 41,856,861
Less: scholarship allowances	(11,842,131)	(9,789,836)
Tuition and fees, net	<u>37,329,764</u>	<u>32,067,025</u>
Grants and contracts		
Federal	66,593,792	59,212,310
State	5,284,366	5,408,206
Private	3,451,755	3,001,434
Sales and services of educational departments	3,267,819	2,236,694
Auxiliary, net of \$544,732 in 2009 and \$424,014 in 2008 of scholarship allowances	<u>5,860,094</u>	<u>5,596,733</u>
Total Operating Revenues	<u>121,787,590</u>	<u>107,522,402</u>
Operating Expenses		
Compensation and benefits	122,500,135	119,696,443
Supplies and services	34,585,578	34,906,012
Depreciation	11,338,255	11,684,932
Scholarships and fellowships	<u>928,253</u>	<u>510,664</u>
Total Operating Expenses	<u>169,352,221</u>	<u>166,798,051</u>
Operating loss	(47,564,631)	(59,275,649)
Nonoperating Revenues (Expenses)		
State appropriations	45,861,449	58,100,801
Private gifts	3,017,524	3,128,625
Net investment income (loss)	865,840	(8,114,771)
Pell grant revenue	5,205,261	4,306,328
ARRA Federal	112,457	-
ARRA State	98,925	-
Loss on disposal of capital assets	(1,045,093)	(471,496)
Interest expense	<u>(2,323,481)</u>	<u>(2,384,569)</u>
Net Nonoperating Revenues	51,792,882	54,564,918
Capital gifts	159,300	30,900
Capital grants	<u>481,030</u>	<u>11,442,464</u>
	<u>52,433,212</u>	<u>66,038,282</u>
Increase in net assets	4,868,581	6,762,633
Net Assets, Beginning of Year	<u>240,576,170</u>	<u>233,813,537</u>
Net Assets, End of Year	<u>\$ 245,444,751</u>	<u>\$ 240,576,170</u>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF ACTIVITIES
Years Ended September 30, 2009 and 2008**

	2009	2008 (Restated)
	<u> </u>	<u> </u>
Changes in net assets		
Revenue, gains, and other support:		
Contributions	\$ 376,225	\$ 2,399,558
Contributions of interest in unconsolidated entities	-	4,375,835
Rent income	22,810	20,020
Investment income	1,891,748	1,713,458
Unrealized gain on investments	2,444,783	225,388
Equity in earnings of unconsolidated entities	813,310	316,825
Other income	270,736	508,713
Change in value of split-interest agreement	104,328	126,359
Total Revenues	<u>5,923,940</u>	<u>9,686,156</u>
Expenses:		
Realized loss on sale of investments	\$ 3,999,086	\$ 8,371,930
Contributions to UAH	1,401,574	2,081,423
Scholarships to UAH	1,172,080	1,040,282
Professional services	237,902	326,187
Bad debt expense	18,244	28,945
Income tax expense	157,903	91,032
Other expenses	57,115	94,216
Total Expenses	<u>7,043,904</u>	<u>12,034,015</u>
Change in net assets	(1,119,964)	(2,347,859)
Net Assets, Beginning of Year	46,819,186	49,167,045
Net Assets, End of Year	<u><u>\$ 45,699,222</u></u>	<u><u>\$ 46,819,186</u></u>

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENT OF CASH FLOWS
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows from Operating Activities		
Student tuition and fees	\$ 39,050,410	\$ 34,256,559
Federal grants and contracts	62,714,676	64,859,545
State grants and contracts	4,867,843	6,018,518
Private grants and contracts	3,179,681	3,340,144
Sales and services of educational and other departmental activities	3,438,261	2,154,652
Auxiliary enterprises	6,681,266	6,131,541
Payments to suppliers	(34,201,872)	(36,660,374)
Payments to employees and related fringes	(123,083,337)	(114,549,029)
Payments for scholarships and fellowships	(2,087,188)	(1,061,025)
Net Cash Used in Operating Activities	<u>(39,440,260)</u>	<u>(35,509,469)</u>
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of bonds	8,115,000	-
Bond issuance cost	(124,935)	-
Capital gifts, grants and contracts	3,185,144	14,401,740
Purchase of capital assets	(12,157,119)	(19,219,284)
Proceeds from sale of capital assets	-	387,798
Principal payments on capital debt	(2,125,000)	(2,060,000)
Interest payments on capital debt	(2,235,836)	(1,867,410)
Net Cash Used in Capital and Related Financing Activities	<u>(5,342,746)</u>	<u>(8,357,156)</u>
Cash Flows from Investing Activities		
Gain (loss) from investments, net	814,060	(14,527)
Proceeds from sales and maturities of investments	71,239	3,710
Purchase of investments	8,681,091	(10,517,172)
Net Cash Provided by (Used in) Investing Activities	<u>9,566,390</u>	<u>(10,527,989)</u>
Cash Flows from Noncapital Financing Activities		
State educational appropriations	45,861,449	58,100,801
Private gifts	3,017,524	3,128,625
Student direct lending receipts	25,949,444	20,450,156
Student direct lending disbursements	(25,821,128)	(20,361,440)
Amounts received from affiliates	183,294	-
Amounts paid to affiliates	(177,739)	(403,329)
Legal settlement	540,604	800,130
Pell grant revenue	5,205,261	4,306,328
ARRA Federal	112,457	-
ARRA State	98,925	-
Net Cash Provided by Noncapital Financing Activities	<u>54,970,091</u>	<u>66,021,271</u>
Net increase in cash and cash equivalents	19,753,475	11,626,657
Cash and Cash Equivalents, Beginning of Year	19,145,477	7,518,820
Cash and Cash Equivalents, End of Year	<u>\$ 38,898,952</u>	<u>\$ 19,145,477</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents in current assets	38,316,550	18,563,850
Restricted cash and cash equivalents	582,402	581,627
Total Cash and Cash Equivalents	<u>\$ 38,898,952</u>	<u>\$ 19,145,477</u>

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENT OF CASH FLOWS -- Continued
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (47,564,631)	\$ (59,275,649)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	11,338,255	11,684,932
Changes in allowance for doubtful accounts	306,584	(54,010)
Changes in assets and liabilities:		
Accounts receivable, net	(6,565,604)	7,556,452
Other current assets	(1,320,186)	(523,744)
Accounts payable and accrued liabilities	(35,970)	3,345,735
Deferred revenues	4,403,567	1,736,115
Deposits (owed to) held for others	(2,275)	20,700
Net Cash Used in Operating Activities	<u><u>\$ (39,440,260)</u></u>	<u><u>\$ (35,509,469)</u></u>
Supplemental Noncash Activities Information		
Loss on disposal of capital assets	\$ 1,045,093	\$ 471,496
Gift of capital assets	159,300	30,900
Capital assets acquired with a liability at year end	2,365,289	389,462

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
Notes to Financial Statements
Years Ended September 30, 2009 and 2008

Note 1 – Organization and Summary of Significant Accounting Policies

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

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

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

UAHF is a legally separate, tax-exempt component unit of the University. UAHF is organized exclusively for charitable, scientific, and educational purposes in order to benefit the University. UAHF is governed by a 32-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, 2009 and 2008, UAHF distributed \$2,573,654 and \$3,121,705, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF can be obtained by calling 1-256-824-6503.

The University is also affiliated with the Eminent Scholars Foundation, Alabama Engineering Foundation, UAH Alumni Association and UAH Athletic Association. 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. Fair value for investments held 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 include consulting expenses and allocation of internal salaries and fringes for the core implementation team, and are capitalized. Training costs are expensed as incurred.

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

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

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

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

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

Auxiliary enterprise revenues are primarily generated by University Housing.

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

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

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

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

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

Endowment Spending: For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Alabama, permits The Board of Trustees of the University of Alabama (the Board) to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. The University's policy is to retain the endowment realized and unrealized appreciation within the endowment after the spending rate distributions. The Board approved a spending rate for the fiscal years ended September 30, 2009 and 2008 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.

Reclassifications: Certain amounts in the financial statements for the prior period have been reclassified to conform to the current year presentation. The University reclassified \$4,306,328 in 2008 of pell grant revenue from operating revenues to nonoperating revenues within the accompanying statements of revenues, expenses, and changes in net assets and from net cash used in operating activities to net cash provided by noncapital financing activities within the statement of cash flows. The impact of this reclassification was not considered material to the University's 2008 financial statements.

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. The enactment of the SAFE program changed the way all Alabama public deposits are collateralized. In the past, the bank pledged collateral directly to each individual public entity. 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 money market fund held with Federated and a bank common trust fund held with Law Debenture. As of September 30, 2009, the University had approximately \$13.4 million in the Short-Term Fund of which approximately \$12.5 million was invested in the money market fund and approximately \$0.9 million in the bank common trust fund. The assets held in the money market fund are presented in cash and cash equivalents and restricted cash and cash equivalents. The assets held in the bank common trust fund, formerly held within the Commonfund, are frozen in regards to withdrawals due to the decision made by the Commonfund's trustee in September 2008 to terminate the Commonfund and distribute assets based on the investors' proportional interest as assets of the bank common trust fund mature or are sold. Given the aforementioned event, the liquidity of the bank common trust fund no longer meets the University's criteria to be considered a cash equivalent as of September 30, 2008, the Short-Term Fund was invested exclusively in the Commonfund. As of September 30, 2009, the University had approximately \$0.9 million of holdings in the Short-Term Fund classified as short-term investments. As of September 30, 2008, the University had approximately \$7.9 million as short-term investments and approximately \$2.2 million as other long-term investments. See Note 3 for further disclosure regarding the Short-Term Fund.

As of September 30, 2009 and 2008, the University had cash and cash equivalents totaling \$38,898,952 and \$19,145,477, respectively. Included in the amounts are deposits with trustees held for reserves, which totaled \$582,402 in 2009 and \$581,627 in 2008.

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, 2009 and 2008, 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:

	2009	2008
Category I:		
Time deposits	\$ 133,938	\$ 132,270
Not categorized:		
Mutual funds	38,561	41,676
System Short-term Fund	13,409,005	10,128,644
System Intermediate Fund	23,484,133	22,328,573
System Prime Investment Fund	33,569,317	34,114,115
Pooled Endowment Fund	17,034,128	16,919,028
Agency Funds	2,383,322	2,629,555
Total Investments	\$ 90,052,404	\$ 86,293,861

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

Endowment Fund: The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over an indefinite time frame. Accordingly, the primary investment objectives of the Endowment Fund are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support. To satisfy the

long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocations are established to meet targeted returns while providing adequate diversification in order to minimize investment volatility. Of the \$17,034,128 invested by the University in 2009, \$4,456,960 is donor restricted. Of the \$16,919,028 invested by the University in 2008, \$4,347,201 is donor restricted. These donor restricted amounts also include unrealized gains. As discussed in Note 1, the Endowment Fund invests in securities with non-readily determinable market values which are valued at cost. The portion of the University's investment in the Endowment Fund, which is reported at cost, is approximately \$1,650,000 and \$1,400,000 at September 30, 2009 and 2008, respectively. The remainder of the investment is reported at fair value.

Prime Fund: The Prime Fund is a longer-term fund used as a source of funds to meet projected cash reserve needs over a period 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. The University's portion of investments in the Prime fund which are measured at cost totaled approximately \$617,000 and \$1,071,000 at September 30, 2009 and 2008, respectively. The remainder of the investment is reported at fair value.

Intermediate Fund: The Intermediate Fund serves as a source of funds to meet projected cash reserve needs over a two to six year period. This fund is also used to balance the other funds when looking at the System's entire asset allocation of cash reserves relative to its investment objectives. The Intermediate Fund has an investment objective of income with preservation of capital and is invested in intermediate-term fixed income securities. System policy states that at least one of the investment managers must be a large mutual fund providing daily liquidity.

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

Although the investment philosophy of the Board is to minimize the direct ownership of investment vehicles, preferring ownership in appropriate investment fund groups, there are certain direct investments that are held in the name of the Board. All other investments in the System Pools are classified as commingled funds. The composition of the System's investments, by investment type, at September 30, 2009 and 2008 is as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2009	2008	2009	2008	2009	2008	2009	2008
RECEIVABLES:								
ACCRUED INCOME RECEIVABLES	\$ 795,831	\$ 999,238	\$ 675,968	\$ 750,868	\$ 2,165,834	\$ 2,665,378	\$ -	\$ -
TOTAL RECEIVABLES	795,831	999,238	675,968	750,868	2,165,834	2,665,378	-	-
CASH EQUIVALENTS:								
CERTIFICATES OF DEPOSIT	-	-	-	-	-	329,820	-	-
COMMERCIAL PAPER	-	-	-	-	3,660,924	1,119,712	-	-
MONEY MARKET FUNDS	42,002,374	5,615,914	23,706,508	10,060,065	8,444,513	71,165,106	130,246,378	-
TOTAL CASH EQUIVALENTS	42,002,374	5,615,914	23,706,508	10,060,065	12,105,437	72,614,638	130,246,378	-
EQUITIES:								
U.S. COMMON STOCK	26,954,210	55,668,249	21,302,169	41,908,374	-	-	-	-
FOREIGN STOCK	3,679,003	5,684,166	2,553,924	4,175,631	-	-	-	-
TOTAL EQUITIES	30,633,213	61,352,415	23,856,093	46,084,005	-	-	-	-
FIXED INCOME SECURITIES:								
U.S. GOVERNMENT OBLIGATIONS	11,842,720	11,602,531	11,091,835	8,106,008	82,914,102	70,477,571	-	-
MUNICIPAL GOVERNMENT OBLIGATIONS	-	-	-	-	1,232,148	-	-	-
MORTGAGE BACKED SECURITIES	20,187,898	27,790,776	18,945,890	21,397,318	27,260,836	37,701,180	-	-
COLLATERALIZED MORTGAGE OBLIGATIONS	4,507,042	3,755,744	3,312,760	3,382,381	64,674,578	128,683,240	-	-
CORPORATE BONDS	20,624,945	17,049,235	17,440,382	12,611,963	145,023,991	77,691,890	-	-
NON-U.S. BONDS	-	-	-	-	2,430,817	2,073,278	-	-
TOTAL FIXED INCOME SECURITIES	57,162,605	60,198,286	50,790,867	45,497,670	323,536,472	316,627,159	-	-
COMMINGLED FUNDS:								
BANK COMMON TRUST FUND	-	-	-	-	-	-	16,004,639	169,596,433
U.S. EQUITY FUNDS	155,436,175	159,917,048	116,269,956	115,921,624	-	-	-	-
NON-U.S. EQUITY FUNDS	219,549,152	199,693,579	157,123,290	152,668,048	-	-	-	-
U.S. BOND FUNDS	56,912,057	57,529,479	79,196,422	77,708,466	55,722,603	-	-	-
NON-U.S. BOND FUNDS	49,688,842	53,291,125	40,741,576	40,219,402	-	-	-	-
HEDGE FUNDS	122,211,021	128,532,775	94,900,567	99,689,372	-	-	-	-
PRIVATE EQUITY FUNDS	48,589,401	42,024,540	-	-	-	-	-	-
TIMBERLAND FUNDS	8,527,039	8,527,229	-	-	-	-	-	-
REAL ESTATE FUNDS	50,834,637	70,317,580	32,673,281	57,320,225	-	-	-	-
TOTAL COMMINGLED FUNDS	711,748,324	719,833,355	520,905,092	543,527,137	55,722,603	-	16,004,639	169,596,433
TOTAL FUND INVESTMENTS	841,546,516	846,999,970	619,258,560	645,168,877	391,364,512	389,241,797	146,251,017	169,596,433
TOTAL FUND ASSETS	842,342,347	847,999,208	619,934,528	645,919,745	393,530,346	391,907,175	146,251,017	169,596,433
TOTAL FUND LIABILITIES	(153,016)	(183,225)	(107,821)	(141,142)	(198,701)	(229,248)	-	-
AFFILIATED ENTITY INVESTMENTS IN FUNDS	(104,078,093)	(103,271,212)	-	-	(4,048,791)	-	-	-
TOTAL NET ASSET VALUE	\$ 738,111,238	\$ 744,544,771	\$ 619,826,707	\$ 645,778,603	\$ 389,282,854	\$ 391,677,927	\$ 146,251,017	\$ 169,596,433

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

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

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

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

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

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Aggregate Bond Index benchmark for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate, mortgage backed, asset backed and U.S. treasury and/or agency bonds with a minimum BBB-rating and an average duration of four years. In addition, approximately \$47,000,000 and \$52,000,000 in the Endowment and Prime Funds, at September 30, 2009 and 2008, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$292,000,000 and \$244,000,000, in the Endowment and Prime Funds, at September 30, 2009 and 2008, respectively.

The Intermediate Fund is benchmarked against the Barclays 1-3 Government Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For September 30, 2009 and 2008, approximately \$36,000,000 each year 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 \$68,000,000 and \$72,000,000 at September 30, 2009 and 2008, respectively.

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

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2009 and 2008 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2009	2008	2009	2008	2009	2008	2009	2008
Fixed or Variable Income Securities								
U.S. Government Obligations	\$ 11,842,720	\$ 11,602,531	\$ 11,091,835	\$ 8,106,008	\$ 82,914,102	\$ 70,477,571	\$ -	\$ -
Municipal Government Obligations	-	-	-	-	1,232,148	-	-	-
Other U.S. Denominated:								
AAA	1,146,081	1,991,776	1,039,859	2,937,280	87,267,735	124,766,118	-	-
AA	3,100,959	2,515,965	2,614,022	1,549,234	23,482,064	29,334,331	-	-
A	11,437,198	11,662,185	9,890,797	8,916,570	66,550,612	38,431,441	-	-
BBB	4,940,707	2,341,498	3,895,704	1,750,120	4,915,130	17,705,467	-	-
B	-	-	-	-	16,308,295	278,409	-	-
C and < C	-	-	-	-	5,056,801	62,500	-	-
Unrated	24,694,940	30,084,331	22,258,650	22,238,458	35,809,585	35,571,322	-	-
Commingled Funds:								
Bank Common Trust Fund: Unrated	-	-	-	-	-	-	16,004,639	169,596,433
U.S. Bond Funds: Unrated	56,912,057	57,529,479	79,196,422	77,708,466	55,722,603	-	-	-
Non-U.S. Bond Funds: Unrated	49,688,842	53,291,125	40,741,576	40,219,402	-	-	-	-
Money Market Funds: Unrated	42,002,374	5,615,914	23,706,508	10,060,065	8,444,513	71,165,106	130,246,378	-
Commercial Paper: Unrated	-	-	-	-	3,660,924	1,119,712	-	-
TOTAL	\$ 205,765,878	\$ 176,634,804	\$ 194,435,373	\$ 173,485,603	\$ 391,364,512	\$ 388,911,977	\$ 146,251,017	\$ 169,596,433

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

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

As previously mentioned, credit risk in each investment pool and the University's separately held investment portfolio is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2009 and 2008, there was no investment in a single issuer that represents 5% or more of total investments in the System Pools.

Interest Rate Risk: Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis point (1 percentage point) change in the level of interest rates. It is not a measure of time. The Board does not have a specific policy relative to interest rate risk. As such, there are no restrictions on weighted average maturity for each portfolio as they are managed relative to the investment objectives and liquidity demands of the investors. The effective durations for fixed or variable income securities, for the System Pools, at September 30, 2009 and 2008 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2009	2008	2009	2008	2009	2008
U.S. GOVERNMENT OBLIGATIONS	4.8	3.4	4.4	3.5	1.4	2.0
CORPORATE BONDS	5.4	4.9	5.6	5.3	1.2	1.9
COMMINGLED BOND FUNDS	5.0	4.2	4.5	4.5	1.9	-

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

Investments may also include mortgage pass through securities and collateralized mortgage obligations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. At September 30, 2009 and 2008, the fair market value of these investments for the System Pools, are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2009	2008	2009	2008	2009	2008
MORTGAGE BACKED SECURITIES	\$ 20,187,898	\$ 27,790,776	\$ 18,945,890	\$ 21,397,318	\$ 27,260,836	\$ 37,701,180
COLLATERALIZED MORTGAGE OBLIGATIONS	4,507,042	3,755,744	3,312,760	3,382,381	64,674,578	128,683,240
TOTAL FIXED	\$ 24,694,940	\$ 31,546,520	\$ 22,258,650	\$ 24,779,699	\$ 91,935,414	\$ 166,384,420

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, 2009 and 2008 the effective durations for these securities are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2009	2008	2009	2008	2009	2008
MORTGAGE BACKED SECURITIES	2.7	3.5	2.7	3.6	1.3	2.0
COLLATERALIZED MORTGAGE OBLIGATIONS	1.5	3.4	0.3	2.8	1.0	2.0

Foreign Currency Risk: The strategic asset allocation policy for the Endowment Fund and the Prime Fund includes an allocation to non-United States equity securities. Under Board policy, foreign equity holdings in a single industry should not exceed 25% of the investment manager’s portfolio measured at market value, with 50% of the portfolio’s holdings representing Europe, Australia, and the Far East Index firms. Each investment manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager’s portfolio, measured at market value. Hedging of foreign currency risks is allowed at the investment manager’s discretion. In addition, investments in foreign bonds are allowed under Board policy. Foreign bonds denominated in U.S. dollars are limited to 10% of the investment manager’s portfolio, and bonds denominated in currencies other than U.S. dollars are generally limited to 20% of the investment manager’s portfolio, measured at market value. As of September 30, 2009 and 2008, all foreign investments are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$2,400,000 and \$2,100,000 of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2009 and 2008, 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, 2009 and 2008, there were no securities on loan from the investment pools.

Note 4 – Accounts Receivable

The composition of accounts receivable at September 30, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Tuition and fees (net of allowance for doubtful accounts of \$177,140 in 2009 and \$64,415 in 2008)	\$ 4,217,542	\$ 3,603,649
Auxiliary enterprises and other operating activities	195,016	317,089
Federal, state, and private grants and contracts (net of allowance for doubtful accounts of \$312,126 in 2009 and \$118,267 in 2008)	21,696,723	18,380,431
Legal settlement receivable, net present value	568,391	540,604
Other	498,293	668,735
Net accounts receivable	\$ 27,175,965	\$ 23,510,508

Note 5 – Capital Assets

Capital assets activity for the years ended September 30, 2009 and 2008 is summarized as follows:

	October 1, <u>2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2009</u>
Land	\$ 3,846,290	\$ 25,000	\$ -	\$ -	\$ 3,871,290
Land improvements and infrastructure	7,502,133	281,393	-	-	7,783,526
Buildings and building improvements	240,929,426	2,828,094	(2,185,999)	7,749,400	249,320,921
Construction in progress	7,749,400	8,448,111	-	(7,749,400)	8,448,111
Equipment	55,933,946	1,527,825	(850,174)	-	56,611,597
Library books	26,295,990	1,277,626	-	-	27,573,616
Computer software	2,764,825	174,925	-	-	2,939,750
Artwork	-	159,300	-	-	159,300
Total cost of capital assets	<u>345,022,010</u>	<u>14,722,274</u>	<u>(3,036,173)</u>	<u>-</u>	<u>356,708,111</u>
Less accumulated depreciation	153,787,608	11,338,255	(1,744,922)	-	163,380,941
Capital assets, net	<u>\$ 191,234,402</u>	<u>\$ 3,384,019</u>	<u>\$ (1,291,251)</u>	<u>\$ -</u>	<u>\$ 193,327,170</u>

	October 1, <u>2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2008</u>
Land	\$ 3,834,249	\$ 168,300	\$ (156,259)	\$ -	\$ 3,846,290
Land improvements and infrastructure	6,077,738	1,424,395	-	-	7,502,133
Buildings and building improvements	185,116,914	7,007,322	-	48,805,190	240,929,426
Construction in progress	49,202,375	7,352,215	-	(48,805,190)	7,749,400
Equipment	55,544,754	1,758,600	(1,369,408)	-	55,933,946
Library books	24,787,538	1,508,452	-	-	26,295,990
Computer software	2,764,825	-	-	-	2,764,825
Total cost of capital assets	<u>327,328,393</u>	<u>19,219,284</u>	<u>(1,525,667)</u>	<u>-</u>	<u>345,022,010</u>
Less accumulated depreciation	142,769,049	11,684,932	(666,373)	-	153,787,608
Capital assets, net	<u>\$ 184,559,344</u>	<u>\$ 7,534,352</u>	<u>\$ (859,294)</u>	<u>\$ -</u>	<u>\$ 191,234,402</u>

Note 6 – Long-term Debt

Long-term debt activity for the years ended September 30, 2009 and 2008 is summarized as follows:

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

Type/Supported by	October 1, 2007	New Debt, net	Principal Repayment	September 30, 2008
Bonds:				
Student housing revenue	\$ 29,206,000	\$ -	\$ 1,140,000	\$ 28,066,000
General fee revenue	27,465,000	-	920,000	26,545,000
Total debts	<u>56,671,000</u>	<u>\$ -</u>	<u>\$ 2,060,000</u>	<u>54,611,000</u>
Less current portion	<u>2,060,000</u>			<u>2,125,000</u>
Total long-term debt	<u><u>\$ 54,611,000</u></u>			<u><u>\$ 52,486,000</u></u>

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

	Principal	Interest	Total
2010	\$ 2,490,000	\$ 2,531,894	\$ 5,021,894
2011	2,575,000	2,477,150	5,052,150
2012	2,665,000	2,389,644	5,054,644
2013	2,780,000	2,296,565	5,076,565
2014	2,890,000	2,195,041	5,085,041
2015-2019	13,775,000	9,297,344	23,072,344
2020-2024	14,441,000	6,371,003	20,812,003
2025-2029	13,705,000	2,810,436	16,515,436
2030-2034	5,280,000	650,075	5,930,075
	<u>\$ 60,601,000</u>	<u>\$ 31,019,152</u>	<u>\$ 91,620,152</u>

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

<u>Description and Purpose</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate - %</u>	<u>Original Indebtedness</u>	<u>Outstanding Indebtedness September 30, 2009</u>	<u>Outstanding Indebtedness September 30, 2008</u>
Bonds Payable:						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	\$ 2,180,000	\$ 895,000	\$ 965,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	1,116,000	1,196,000
Student Housing Revenue Bonds-Series 2001	12/27/2001	12/1/2031	3.00 - 5.30	9,370,000	8,260,000	8,445,000
Revenue Bonds-Series 2002-A	12/19/2002	9/30/2027	1.40 - 4.75	3,965,000	3,350,000	3,455,000
Revenue Bonds-Series 2003-A	2/3/2003	9/30/2027	1.45 - 4.70	17,890,000	15,020,000	15,535,000
Student Housing Revenue Bonds-Series 2004-A	9/30/2004	9/1/2034	3.00 - 4.63	13,130,000	11,865,000	12,130,000
Student Housing Revenue Bonds-Series 2004-B	9/30/2004	9/1/2016	3.00 - 3.63	7,515,000	4,750,000	5,330,000
Revenue Bonds-Series 2005-A	10/1/2005	6/1/2025	3.00 - 4.38	8,580,000	7,230,000	7,555,000
Revenue Bonds-Series 2009A	8/4/2009	7/1/2029	3.0-4.50	8,115,000	8,115,000	-
Total Bonds Payable				<u>73,347,000</u>	<u>60,601,000</u>	<u>54,611,000</u>
Total Debt				<u>\$ 73,347,000</u>	<u>\$ 60,601,000</u>	<u>\$ 54,611,000</u>

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, 2009.

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 \$203,915 and \$204,322 for general liability at September 30, 2009 and 2008, respectively.

The University also maintains a self-insurance health plan. For the year ended September 30, 2009, the University paid \$19.00 and \$4.58 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 \$1,972,149 and \$2,569,548 for health insurance at September 30, 2009 and 2008, 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>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 2,773,870	\$ 1,919,635
Claims paid	(6,483,952)	(5,920,882)
Contributions	5,886,146	6,775,117
Balance, end of year	<u>\$ 2,176,064</u>	<u>\$ 2,773,870</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>2009</u>	<u>2008</u>	<u>2007</u>
University contributions	\$10,004,282	\$9,341,083	\$6,872,210
Employee contributions	4,151,992	4,009,623	3,675,780
Total contributions	<u>\$14,156,274</u>	<u>\$13,350,706</u>	<u>\$10,547,990</u>
University contribution rate	12.07%	11.75%	9.36%
Employee contribution rate	5.00%	5.00%	5.00%

The 10-year historical trend information shows TRS's progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases, and postretirement benefit increases presented in the September 30, 2008 annual financial report of the TRS. That report is publicly available and may be obtained by contacting the TRS Communication Department at 1-877-517-7000.

The actuarial accrued liability (AAL), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL at September 30, 2008 (the most recent valuation date) and September 30, 2007 for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately as follows:

	<u>2008</u>	<u>2007</u>
Actuarial accrued liability (AAL)	\$ 26,804,117,000	\$ 25,971,534,000
Actuarial valuations of assets	20,812,477,000	20,650,916,000
Overfunded (underfunded) AAL	\$ (5,991,640,000)	\$ (5,320,618,000)

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 2009 and 2008, excluding amounts from employees who are not eligible for matching, are summarized as follows:

	<u>2009</u>	<u>2008</u>
University contributions	\$ 2,695,433	\$ 2,531,385
Employee contributions	4,156,172	4,075,016
Total contributions	<u>\$ 6,851,605</u>	<u>\$ 6,606,401</u>

The University's total salaries and wages for fiscal years 2009 and 2008 are summarized in the table below:

	<u>2009</u>	<u>2008</u>
Total Salaries and Wages	\$ 94,341,400	\$ 92,203,404
Salaries and Wages of employees participating in:		
TRS	\$ 83,182,748	\$ 80,319,141
TIAA - CREF	\$ 57,416,593	\$ 53,169,063

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

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

The University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), as of October 1, 2006. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The adoption of GASB 45 did not have a material impact on the University's financial statements 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, 2009:

Retired Member Rates:

- Individual Coverage/Non-Medicare Eligible - \$97.54
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents - \$284.94
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$188.54
- Individual Coverage/Medicare Eligible Retired Member - \$1.14
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$188.54
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$92.14
- For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium, and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium
- Tobacco surcharge - \$23.00 per month

The required contribution rate of the employer was \$382 per employee per month in the year ended September 30, 2009. The University paid \$1,378,256 and \$1,237,157 for 301 and 292 retirees for the year ended September 30, 2009 and 2008, respectively. The required contribution rate is determined by PEEHIP in accordance with State statute. The complete financial report for PEEHIP can be obtained at the Public Education Employees' Health Insurance Plan website <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Statements tab.

Note 10 – Compensated Absences

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. The statement of net assets includes accruals of \$3,625,446 and \$3,557,425 as of September 30, 2009 and 2008, respectively, for accrued vacation pay and salary-related payments associated with vacation pay. There is no such accrual recognized for sick leave benefits because no terminal cash benefit is available to employees for accumulated sick leave.

Note 11 – Federal Direct Lending Program

The Federal Direct Student Loan Program (“FDSLPL”) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLPL on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. For fiscal years ended September 30, 2009 and 2008, the University disbursed approximately \$25,821,100 and \$20,361,400 respectively, under the FDSLPL.

Note 12 – Contracts and Grants

At September 30, 2009, the University has been awarded approximately \$61.3 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 2009, the University began receiving and expending federal funding under the American Recovery and Reinvestment Act (“ARRA”), primarily in the form of sponsored research grants and State Fiscal Stabilization Funds. Significant ARRA funds were not expended during fiscal year 2009 and, therefore, have no material impact on the fiscal year 2009 financial statements. Based on awards received during fiscal year 2009 and at the beginning of fiscal year 2010, ARRA expenditures are expected to be significant in fiscal year 2010 and fiscal year 2011.

Note 13 – Contingencies and Commitments

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

The University has contracted for the construction of a new Residence Hall and the renovation of Wilson Hall. At September 30, 2009, the estimated remaining cost to complete the construction of these facilities was \$25.8 million and \$1.6 million, respectively, which is expected to be paid from bond proceeds.

Note 14 – Operating Expenses by Function

Operating expenses by functional classification for the years ended September 30, 2009 and 2008 are summarized as follows:

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

	Year Ended September 30, 2008					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 30,422,558	\$ 9,149,211	\$ 4,207,934	\$ -	\$ -	43,779,703
Research	39,074,619	10,584,175	14,758,866	-	-	64,417,660
Public service	179,517	69,615	213,235	-	-	462,367
Academic support	4,568,498	1,309,957	1,604,670	-	-	7,483,125
Student services	4,801,206	1,348,189	4,590,900	-	-	10,740,295
Institutional support	8,940,629	3,626,099	2,684,038	-	-	15,250,766
Operations and maintenance of plant	3,448,002	1,210,066	5,293,979	-	-	9,952,047
Scholarships and fellowships	-	-	-	-	510,664	510,664
Auxiliary enterprises	768,375	195,727	1,552,390	-	-	2,516,492
Depreciation	-	-	-	11,684,932	-	11,684,932
Total Operating Expenses	\$ 92,203,404	\$ 27,493,039	\$ 34,906,012	\$ 11,684,932	\$ 510,664	\$ 166,798,051

Note 15 – Recently Issued Accounting Standards

The GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), in December 2006. This statement requires that governments provide more detailed information regarding the effect of environmental cleanups and will be effective for financial periods beginning after December 15, 2007. GASB 49 establishes criteria to ascertain whether certain events result in a requirement for the University to estimate the components of any expected pollution remediation costs and determine whether these costs should be accrued as a liability or, if appropriate, capitalized. The University implemented this statement as of October 1, 2009. GASB Statement No. 49 had no material impact on its financial statements.

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), in June 2007. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Statement is effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. The University is currently evaluating the impact, if any, that GASB 51 will have on its financial statements.

The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* (GASB 52), in November 2007. Accounting standards have historically required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes—pension and other postemployment benefit plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans—however, report land and other real estate held as investments at their fair value. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The Statement is effective for financial statements for periods beginning after June 15, 2008. GASB 52 had no material impact on its financial statements.

The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), in June 2008. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. Earlier application is encouraged. The University is currently evaluating the impact, if any, that GASB 53 will have on its financial statements.

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

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

The GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards* (GASB 56), in March 2009. This statement was effective upon issuance. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' *Statement on Auditing Standards*. This statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. There was no material impact on the University's financial statements as a result of this pronouncement.

Note 16 – Component Unit

Basis of Accounting – University of Alabama Huntsville Foundation

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

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

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

- **Temporarily Restricted-** Net assets subject to donor-imposed restrictions that may or will be met either by actions of UAHF or the passage of time. Items that affect this net asset category include restricted gifts and earnings on endowment funds expendable for purposes stipulated by the donor. These amounts are reclassified to unrestricted net assets when such purpose or time restrictions are met.
- **Permanently Restricted-** Net assets subject to donor-imposed restrictions to be maintained permanently by UAHF. Items that affect this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and only the income be made available for expenditure

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

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

Investment real estate is stated at cost at the date of acquisition or appraised value at the date of donation in the case of gifts.

Investments – The cost and reported value of investments at September 30, 2009 and 2008 are presented below:

	<u>2009</u>		<u>2008</u>	
	<u>Reported Value</u>	<u>Cost</u>	<u>Reprted Value</u>	<u>Cost</u>
Certificates of deposit	\$ 92,286	\$ 92,286	\$ 143,109	\$ 143,109
Pooled Endowment Fund	30,890,249	33,058,763	32,536,773	36,776,856
Marketable debt securities	302,187	288,886	384,341	383,971
Marketable equity securities	1,211,969	1,148,737	1,117,268	1,309,769
Mutual funds	736,715	869,908	922,138	1,159,880
Total	<u>\$ 33,233,406</u>	<u>\$ 35,458,580</u>	<u>\$ 35,103,629</u>	<u>\$ 39,773,585</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 the UAHF’s proportionate share of the nest asset value of the investment pool. The investment pool invests in various investment securities, including both marketable and non-marketable securities. Marketable investment securities held by the investment pool are carried at reported value. The investment pool reports certain investments which do

not have readily determinable fair values at cost. The portion of UAHF's investment in the Pooled Endowment Fund, presented above, which is reported at cost sis \$2,992,492 and \$2,799,184 at September 30, 2009 and 2008, respectively. The remainder of the investment is reported at fair value.

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

During 2008, one of the 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, 2009 and 2008, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of \$813,310 and \$316,825, respectively. In addition, UAHF received distributions from Chambers of \$404,820 and \$232,076 in 2009 and 2008, respectively. Big Springs did not make any distributions in either 2009 or 2008.

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

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

	<u>2009</u>	<u>2008</u>
Net sales	\$79,532,755	\$82,105,198
Operating expenses	13,303,000	15,071,236
Net income	4,037,202	1,623,708

Endowments - Discretely Presented Component Units

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

Restricted Net Assets – Restricted net assets are classified as either temporarily restricted net assets and available for the following purposes, or permanently restricted net assets, which are restricted to investment in perpetuity, the income from which is expendable for the following purposes at September 30, 2009 and 2008:

	Temporarily Restricted		Permanently Restricted	
	2009	2008	2009	2008
Student support	\$ 3,610,798	\$ 4,160,329	\$ 9,613,907	\$ 9,425,793
Faculty support	1,799,876	2,202,235	3,863,455	3,863,455
Academic support	1,720,642	1,853,773	3,533,660	3,512,994
Facilities renovation	158,732	158,395	-	-
Research	48,918	43,856	-	-
Library	41,859	42,719	50,428	50,428
Total	\$ 7,380,825	\$ 8,461,307	\$ 17,061,450	\$ 16,852,670

During August 2008, UAHF transferred ownership of the Lowe House valued at approximately \$1.8 million to the University.

Restatement of Previously Issued Financial Statements - As discussed above, UAHF is one of several beneficiaries of a trust established upon the death in 1974 of one of the University's benefactors. As a result of the death of one of the trust's lead income beneficiaries in October 2007 (UAHF fiscal year end 2008), UAHF became an owner of 21% of the stock of Big Springs, Inc. and a 19.5% member of Chambers Bottling Company, LLC. UAHF also received distributions from Chambers of \$232,076 and paid income taxes of \$91,032; during 2008, which it recorded as temporarily restricted other income and net assets released from restrictions, respectively, in the 2008 statement of activities and changes in net assets.

During 2009, UAHF recognized it had not properly accounted for this arrangement. Beginning in 1974 with the establishment of the right to the trust's assets, UAHF should have recorded a receivable of \$727,438 for the estimated fair value of residual interest in the trust's assets at the date of the grant. In fiscal 2008, upon receipt of the aforementioned interests in Chambers and Big Springs, UAHF should have relieved a portion of the receivable in the amount of \$242,479 and recorded the equity interests at their current fair value of \$4,618,314 as contribution revenue, and then subsequently accounted for these interests under the equity method of accounting. As such, recording the distributions received in 2008 as other income was incorrect as they should have been reflected as reductions in the equity method investment balances. The investments, equity in earnings, and the unconditional right to receive the remaining investments in the trust were not recorded in the UAHF's previously issued 2008 financial statements, and therefore the 2008 financial statements have been restated to include these amounts and to correct the errors.

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, 2009 and 2008, is as follows:

Condensed Balance Sheets				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Assets				
Current assets	\$ 249,829	\$ 253,678	\$ 387,954	\$ 517,507
Capital assets, net of accumulated depreciation	<u>1,142,942</u>	<u>1,251,522</u>	<u>1,497,454</u>	<u>1,627,583</u>
Total assets	<u><u>\$ 1,392,771</u></u>	<u><u>\$ 1,505,200</u></u>	<u><u>\$ 1,885,408</u></u>	<u><u>\$ 2,145,090</u></u>
Liabilities				
Current liabilities	\$ 82,759	\$ 83,634	\$ 95,226	\$ 96,226
Noncurrent liabilities	825,000	895,000	1,201,727	1,278,385
Total liabilities	<u><u>\$ 907,759</u></u>	<u><u>\$ 978,634</u></u>	<u><u>\$ 1,296,953</u></u>	<u><u>\$ 1,374,611</u></u>
Net assets				
Invested in capital assets, net of related debt	247,942	286,522	381,454	431,583
Restricted				
Expendable	72,000	72,000	280,000	280,000
Unrestricted	<u>165,070</u>	<u>168,044</u>	<u>(72,999)</u>	<u>58,896</u>
Total net assets	<u><u>485,012</u></u>	<u><u>526,566</u></u>	<u><u>588,455</u></u>	<u><u>770,479</u></u>
Total liabilities and net assets	<u><u>\$ 1,392,771</u></u>	<u><u>\$ 1,505,200</u></u>	<u><u>\$ 1,885,408</u></u>	<u><u>\$ 2,145,090</u></u>
Condensed Statements of Revenues, Expenses and Changes in Net Assets				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 524,693	\$ 466,505	\$ 476,441	\$ 454,031
Operating expenses	(428,132)	(423,034)	(492,285)	(475,996)
Depreciation expense	<u>(108,580)</u>	<u>(108,580)</u>	<u>(130,129)</u>	<u>(130,129)</u>
Operating income	(12,019)	(65,109)	(145,973)	(152,094)
Nonoperating revenues (expenses)	(29,535)	(26,669)	(36,051)	(35,087)
Changes in net assets	(41,554)	(91,778)	(182,024)	(187,181)
Net assets, beginning of year	<u>526,566</u>	<u>618,344</u>	<u>770,479</u>	<u>957,660</u>
Net assets, end of year	<u><u>\$ 485,012</u></u>	<u><u>\$ 526,566</u></u>	<u><u>\$ 588,455</u></u>	<u><u>\$ 770,479</u></u>
Condensed Statements of Cash Flows				
	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Cash flows from				
Operating activities	\$ 95,293	\$ 37,386	\$ (13,656)	\$ (15,949)
Capital and related financing activities	(99,928)	(96,940)	(116,315)	(113,968)
Investing activities	<u>393</u>	<u>5,272</u>	<u>264</u>	<u>3,882</u>
Net decrease in cash	(4,242)	(54,282)	(129,707)	(126,035)
Cash, beginning of year	<u>74,880</u>	<u>129,162</u>	<u>362,770</u>	<u>488,805</u>
Cash, end of year	<u><u>\$ 70,638</u></u>	<u><u>\$ 74,880</u></u>	<u><u>\$ 233,063</u></u>	<u><u>\$ 362,770</u></u>

Note 18 - Legal Settlement

In July 2006, Nektar Therapeutics (Nektar) and the University announced the settlement of the University's litigation against Nektar and Dr. Milton Harris, in exchange for a total cash payment of \$25,000,000. Under the terms of the agreement, Nektar and Dr. Harris jointly made an upfront payment totaling \$15,000,000 to the University during fiscal year 2006 with remaining payments due through 2016. Included in the statements of net assets is the net present value of the remaining payments owed to the University of \$5,478,770 and \$6,019,374 as of September 30, 2009 and 2008, respectively.

Note 19 - Subsequent Events

The State of Alabama declared proration of 7.5% effective October 1, 2009. The impact of this declaration on the University was an approximate \$3.4 million reduction in appropriations from the State Legislature. In the past, when proration was announced by the State, the University responded by modifying amounts budgeted for contingency purposes, applying unrestricted fund balances carried over from previous years, deferring equipment purchases, reducing operational expenses, not filling vacant positions and increasing tuition. The University will adjust for this and any future prorations, if any, by taking similar action.

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