The University of Alabama in Huntsville

Report on Federal Awards in Accordance with OMB Circular A-133
September 30, 2013
EIN: 63-0520830

The University of Alabama in Huntsville
Index
September 30, 2013

Part I

Federal Award Programs

Independent Auditor's Report 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, 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 of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, and of the University of Alabama in Huntsville Foundation ("UAHF"), its discretely presented component unit as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated January 27, 2014. Our report includes an emphasis of a matter regarding the presentation of the financial statements as discussed in Note 1 to the financial statements. Our report includes a reference to other auditors who audited the financial statements of UAHF, as described in our report on the University's financial statements. The financial statements of UAHF were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

January 27, 2014

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

To the Board of Trustees of The University of Alabama:

Report on Compliance for Each Major Federal Program

We have audited The University of Alabama in Huntsville's (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2013. 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.

The University's basic financial statements include the operations of the University of Alabama in Huntsville Foundation ("UAHF"), which did not receive federal awards during the year ended September 30, 2013. Accordingly, our audit, described below, did not include the operations of this component unit.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University's major federal programs based on our audit of the types of compliance requirements referred to above. 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; 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University's compliance.

Opinion on Each Major Federal Program

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-001, 2013-002 and 2013-003. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

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

The University's basic financial statements include the operations of the University of Alabama in Huntsville Foundation ("UAHF"), which did not receive federal awards during the year ended September 30, 2013. Accordingly, we did not consider internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs for this component unit.

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the University and its discretely presented component unit as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We issued our report thereon dated January 27, 2014 which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

June 30, 2014, except for the Report on Schedule of Expenditures of Federal Awards as to which date is January 27, 2014

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Research and Development Cluster:			
U.S. Department of Defense:			
Department of Army		12	$ 48,306,759
Department of Navy		12	178,959
Department of Air Force		12	28,928
Missile Defense Agency		12	5,805,877
			54,320,523
Pass-Through Funds:			
John Hopkins University	959198	12	18,302
Massachusetts Institute of Technology	PO 7000151668	12	45,539
Stevens Institute of Technology	RT 38_UAH_SUBCONTRACT_20120216	12	25,185
Stevens Institute of Technology	UAH_RT_43_20121105	12	3,982
Tuskegee University	30-22420-184-76190	12	15,000
University of Florida	UF-EIES-1205017-UAH	12.910	44,974
Aegis Technologies	PO-120370	12	2,546
Analytic Services Inc.	S-12-050-UALA	12	9,212
ARINC Inc.	PO248104	12	26,585
ASRC Research and Technology Solutions	MA121608	12	361,072
AI Signal Research	P.O. M12 0003-01	12	10,510
Alliant Techsystems Inc.	PO MP00038861	12	4,950
Avocent Corporation	AVOCENT 2012-001	12	9,020
CFD Research Corporation	SUBCONTRACT NO. 1462	12	(172)
CFD Research Corporation	SUBCONTRACT NO. 1513	12	150
CFD Research Corporation	PO 001491	12	77
CFD Research Corporation	PO 20120166	12	30,749
CFD Research Corporation	SUBCONTRACT NO. 1492	12	6,294
CFD Research Corporation	SUBCONTRACT # 20120103	12	71,155
Colsa Corporation	HS-120921 ON RISK	12	23,623
Colsa Corporation	H07018000	12	342,964
Corvid Technologies Inc.	12-016 HQ0006-09-C-7090	12	82,500
Gnosys Systems	GNOSYS SYSTEMS 09-001	12	(7,013)
IERUS Technologies Inc.	2012-UAH-001	12	59,217
IFOS Corporation	IFOS-002	12	35,836
IFOS Corporation	IFOS-001	12	7,034
Intuitive Research and Technology Corporation	AE-P-UAH-001	12	270,274
John Tiller Software, Inc.	JTS DATED 9-17-2012	12	10,000
National Center for Manufacturing Sciences	NCMS 2012-001	12	16,249
Northrop Grumman	PO 7500109716	12	7,772
Optical Sciences Corporation	PO 11199H002	12	11,361
Optical Sciences Corporation	13229H001	12	28,539
Polaris	12-263	12	44,172
Science Applications International Corporation	4600006511	12	1,752,730
SimTech	SUBCONTRACT NO. 1301	12	35,159
Streamline Automation	2009-SC-02-R0	12	(677)
Subsystem Technologies Inc.	3474-060 INIT 129	12	4,768
Subsystem Technologies Inc.	3474-060	12	10,675
Torch Technologies Inc.	T13S008	12	27,066
Torch Technologies Inc.	TO8S019	12	12,713
TRI-Austin	A7218-300-02-13-SC1525	12	36,521
Yulista	PO 18P12-6320	12	274,971
			3,771,584
Total U.S. Department of Defense			58,092,107

The accompanying notes are an integral part of this schedule.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
U.S. Department of Health & Human Services:		93	176,721
ARRA Direct			
NIH Recovery Act Research Support	2R15GM067668-04	93.701	(240)
NIH Recovery Act Research Support	1R15GM093912-01	93.701	83,826
			83,586
Pass-Through Funds:			
iXpressGenes, Inc.	IXPRESSGENES 2013-001	93	74,234
Total U.S. Department of Health & Human Services			334,541
National Science Foundation:		47	4,417,940
ARRA Direct			
NSF Recovery Act Research Support	EPS-1006661	47.082	776,361
NSF Recovery Act Research Support	904007	47.082	126,323
NSF Recovery Act Research Support	847719	47.082	151,478
			1,054,162
Pass-Through Funds:			
Tuskegee University	34-21530-200-76190	47.081	148,865
University of Alabama at Birmingham	000398033-007	47.076	7,247
University of New Hampshire	SUBAWARD NO. 12-028	47.050	35,111
University of Tennessee at Knoxville	A10-0184-S001	47	25,610
			216,833
Total National Science Foundation			5,688,935
National Aeronautics & Space Administration:		43	16,516,091
Pass Through Funds:			
Florida Institute of Technology	FIT SUBAWARD 201291	43	220
Florida Institute of Technology	FIT SUBAWARD 2009-001	43	1,344
Johns Hopkins University	SUBAWARD 957385	43	25,396
Massachusetts Institute of Technology	SUBAWARD NO. 571000	43	12,262
Pennsylvania State University	SUAWARD NO. 4536-UAH-NSAS-046G	43	(20)
Rice University	R53141	43	3,093
University of Georgia	SUBAWARD NO. RR185-447/4944336	43	8,453
University of New Hampshire	SUBAWARD NO. 12-036	43	46,600
University of New Hampshire	UNH 09-080	43	106
University of Arizona	PO 13390	43	231,716
Dynetics	PO AL006259	43	3,143
Jacobs	SVT-0023	43	359
Jacobs	ESSSA-039	43	5,405
Jacobs	SVT-0023	43	8,978
Jacobs	ESSSA-039	43	1,749
Jacobs	ESSA-039	43	13,848
Jacobs	SVT-0023	43	1,716
Jacobs	SVT-0023	43	3,561
Jacobs	SVT-0023	43	(532)
Jacobs	SVT-0023	43	12,057
Jacobs	SVT-0023	43	(13,201)
Jacobs	SVT-0023 TASK # 32-000001-CX	43	6,054
Jacobs	SVT-0023	43	12,502
Lockheed Martin	8100001543	43	229,006
Predictive Science Inc.	PSI-NNX12CE25P	43	2,298
Predictive Science Inc.	PSI-NNX12CE84P	43	522
Stinger Ghaffarian Technologies	SUBCONTRACT0759	43	8,772
Southeast Atmospheric Modeling	SEAM AQAST 2011-1	43	55,659
Teledyne Brown	PO # 00072059	43	(1,928)
Time Domain Corporation	12-0033	43	9,191
Wyle Laboratories	A10372-S016	43	211,085
Wyle Laboratories	PO T72252	43	78,905

The accompanying notes are an integral part of this schedule.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Smithsonian Institute	SV2-82006	43	40,468
Smithsonian Institute	SV2-82007	43	19,413
Smithsonian Institute	AR1-12013A	43	2,040
Smithsonian Institute	AR0-11015B	43	115
Southwest Research Institute	SUBCONTRACT A99132BT	43	123,058
Southwest Research Institute	SUBCONTRACT NO. F990055DRG	43	4,314
Von Braun Center for Science & Innovation Inc.	ATP DATED 10/13/11	43	307,542
			1,475,269
Total National Aeronautics & Space Administration			17,991,360
Department of Transportation:		20	6,407
Pass Through Funds:			
University of Memphis	MEMORANDUM OF UNDERSTANDING	20	50,390
University of Memphis	MEMORANDUM OF UNDERSTANDING	20	10,441
University of Memphis	MEMORANDUM OF UNDERSTANDING	20	9,450
University of Memphis	MEMORANDUM OF UNDERSTANDING	20	41,842
University of Alabama	TASK ORDER NO. 61 (UA11-028)	20.701	7,564
University of Alabama	TASK ORDER NO. 62 (UA11-029)	20.701	(265)
University of Alabama	TASK ORDER NO. 63 (UA12-010)	20.701	20,134
University of Alabama	TASK ORDER NO. 64 (UA12-011)	20.701	15,682
Alabama Department of Transportation	4303-0199-281-HSIP-100060911-2	20	3,212
Alabama Department of Transportation	930-824R	20	38,062
Alabama Department of Transportation	03-428	20	81,464
Alabama Department of Transportation	4303-0199-281-HSIP-100060823-2	20	6,987
Alabama Department of Transportation	930-812	20	30,228
Alabama Department of Transportation	K-12-0496	20	60,845
Alabama Department of Transportation	K-120996	20	30,952
Alabama Department of Transportation	K-13-0334	20	160,952
Alabama Department of Transportation	K-11-1587	20	998
Alabama Department of Transportation	PROJ REF #100058953	20	42,886
			611,824
Total Department of Transportation			618,231
Department of Commerce:		11	165,004
Pass-Through Funds:			
University of Florida	UF 10292	11.431	106,778
Economic Dev. Partnership of Alabama	AGREEMENT DATED 6/27/11	11	(1,123)
Economic Dev. Partnership of Alabama	EDPA 13-001	11	155,210
Southeastern Universities Research Association	2011-016	11	(650)
			260,215
Total Department of Commerce			425,219
Department of Energy:		81	967,800
Pass-Through Funds:			
Tech-X	DE-SC0000833	81	4,150
University of Chicago - Argonne, LLC	2F-31781	81	45,873
University of Chicago - Argonne, LLC	3F-30462	81	51,660
University of Michigan	SUBAWARD NO. 3001421626	81.049	53,059
HiTek Services Inc.	PO 021435	81	163,480
Prism Computational Science Inc.	UAH-PRISM 2011-01		(1,679)
			316,543
Total Department of Energy			1,284,343

The accompanying notes are an integral part of this schedule.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Department of Agriculture:		10	581,989
Pass-Through Funds:			
Alabama A&M University	SUB-2012-38821-20075-UAH	10.216	8,218
Florida State University	R01320	10.200	35,002
Florida State University	R01043	10.200	(30)
			43,190
Total Department of Agriculture			625,179
Tennessee Valley Authority:		62	1,813
Department of Education:		84.365	100,176
Pass-Through Funds:			
Alabama Commission on Higher Education	AGREEMENT DATED 1/21/2011	84.367	(13)
Alabama Commission on Higher Education	AGREEMENT DTD 1/17/2012	84.367	27,917
Total Department of Education			27,904
Appalachian Regional Commission:		23.011	15,396
Environmental Protection Agency:			
Pass-Through Funds:			
Jefferson County Health Department	MOU DTD 10/18/12	66	18,200
Total Environmental Protection Agency			18,200
Department of State:			
Pass-Through Funds:			
Georgetown University	UAH-RX2050-981-13-H	98.001	35,274
Total Department of State			35,274
Department of Justice:			
Pass-Through Funds:			
University of Tennessee at Knoxville	A09-0357-S006	16	86,213
Total Department of Justice			86,213
Department of Veteran Affairs:			
Pass-Through Funds:			
VA Medical Center	IPA FOR DR. MARY M. HAYS	64	11,241
Total Department of Veteran Affairs			11,241
Small Business Administration:			
Pass-Through Funds:			
Von Braun Center for Science & Innovation Inc.	SBA-010	59	7,564
Von Braun Center for Science & Innovation Inc.	2003-010	59	16,848
Total Small Business Administration			24,412
Total Research and Development			**85,380,544**
Student Financial Aid Cluster:			
U.S. Department of Education:			
SEOG		84.007	120,037
PELL Grants		84.063	7,615,679
Work Study		84.033	157,234
Total U.S. Department of Education			7,892,950
Total Student Financial Aid			**7,892,950**

The accompanying notes are an integral part of this schedule.

The University of Alabama in Huntsville
Schedule of Expenditures of Federal Awards
September 30, 2013

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Federal Expenditures
Other Programs:			
U.S. Department of Education:		84.365	27,624
Pass-Through Funds:			
Alabama Commission on Higher Education	AGREEMENT DTD 1/23/2013	84.367	17,742
Alabama Commission on Higher Education	AGREEMENT DTD 1/23/2013 ACHE-A	84.367	27,536
Alabama State Department of Education	U100570	84.366	140,217
			185,495
Total U.S. Department of Education			213,119
Department of Health & Human Services:		93	387,346
Small Business Administration:			
Pass-Through Funds:			
University of Alabama	SBA-UA12-021	59.037	7,720
University of Alabama	SBA-UA13-026	59.037	92,684
Total Small Business Administration			100,404
Department of State:			
Pass-Through Funds:			
IREX	FY12-SUSI-UAH-02	19.009	21,534
Total Department of State			21,534
U.S. Department of Defense:		12	3,485
Pass-Through Funds:			
Science Applications International Corporation	4600006511	12	2,490
University of Alabama	UA13-062	12	7,799
University of Alabama	UA12-057	12	69,047
Northrop Grumman	PO 7500109716	12	12,049
			91,385
Total U.S. Department of Defense			94,870
National Aeronautics & Space Administration:		43	1,741,738
Department of Commerce:			
Pass-Through Funds:			
Alabama Technology Network	2010-MEP-SDCC-01	11.611	45,865
Alabama Technology Network	AGR DTD 10/1/11	11.611	10,530
Alabama Technology Network	AGR DTD 10/1/12	11.611	164,597
Total Department of Commerce			220,992
Department of Energy:			
Pass-Through Funds:			
Alabama Department of Economic and Community Affairs	1STR12 01	81	12,622
Total Department of Energy			12,622
U.S. Department of Homeland Security:			
Pass-Through Funds:			
Emergency Management Agency	PDMC-PL-04-AL-2010-002	97.047	44,570
Total U.S. Department of Homeland Security			44,570
Department of Transportation		20	746,290
Pass-Through Funds:			
University of Alabama	UA11-027	20	6,858
Total Department of Transportation			753,148
Total Other Federal Awards			**3,590,343**
Total Expenditures of Federal Awards			**$ 96,863,837**

The accompanying notes are an integral part of this schedule.

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, 2013. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the statements of net position, of revenues, expenses, and changes in net position, and of cash flows of the University.

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

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

2. Summary of Significant Accounting Policies

For purposes of the Schedule, expenditures for federal award programs are recognized on the accrual basis of accounting. Expenditures for federal student financial aid programs include Federal Pell program grants to students, the federal share of students’ Federal Supplemental Educational Opportunity Grants, and Federal Work-Study Program earnings and administrative cost allowances where applicable. Expenditures related to the Federal Direct Student Loan Program are disclosed in Note 5.

3. 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. For the year ended September 30, 2013, the University passed through $12,953,668 to subgrantee organizations, as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients	
Various	Research and Development Cluster	$	12,894,754
84.366	Department of Education		16,913
84.367	Department of Education		23,581
11.611	Department of Commerce		420
Total		**$**	**12,935,668**

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

The University operates under predetermined fixed F&A cost rates which are effective from October 1, 2012 through September 30, 2016. The predetermined fixed rates were based on 2011 financial information. For the fiscal year ending September 30, 2013, the base rate for on-campus research is 48.0%. Base rates for other F&A cost recoveries range from 9.0% to 48.0%.

5. Federal Student Loan Programs

Federal Direct Student Loans (CFDA Number 84.268)

The Federal Direct Student Loan Program (FDSLP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During 2013, the University disbursed $28,425,788 under the FDSLP, which is not reflected on the Schedule.

Part II

Findings and Questioned Costs

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified	
Internal control over financial reporting		
Material weakness(es) identified?	___Yes	X__No
Significant deficiency(ies) identified not considered to be material weaknesses?	___Yes	X__None reported
Noncompliance material to financial statements noted?	___Yes	X__No

Federal Awards

Internal control over major programs		
Material weakness(es) identified?	___Yes	X__No
Significant deficiency(ies) identified not considered to be material weaknesses?	___Yes	X__None reported
Type of auditors' report issued on compliance for major programs	Unmodified for all major programs	
Any audit findings disclosed that are required to be reported with Circular A-133 (Section .510(a))	X__ Yes	___No

Identification of major programs

CFDA 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	$3,000,000	
Auditee qualified as low-risk auditee?	X__ Yes	___No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

Finding 2013-001: Federal Funding Accountability and Transparency Act Reporting

Federal Agency: National Aeronautics and Space Administration
Program: Research and Development Cluster
CFDA#: 43
Award#: 2012-062-A1
Award year: 2011-2014

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

Condition
Of 10 sub-awards and sub-contracts selected for testing out of a total population of 28 sub-awards and sub-contracts over $25,000 that could be subject to FFATA special reporting, the University failed to report 1 sub-contract greater than $25,000 within the required reporting deadlines. FFATA reporting requirements state that the action must be reported no later than the last day of the month following the month in which the sub-award amendment obligation was made or the sub-contract award or modification was made. On March 12, 2013, sub-contract 2012-062-A1 had an amendment which increased the sub-contract funding to greater than $25,000 which triggered FFATA reporting requirements. The submission to the FFATA Sub-award Reporting System did not occur until November 19, 2013 which was approximately 200 days past the reporting deadline of April 30, 2013.

Questioned Costs
None.

Cause
The finding resulted from an untimely review of a sub-contract modification that resulted in an obligation of greater than $25,000 which triggered the FFATA reporting requirements.

Effect
The FFATA database was not updated on a timely basis which hinders the federal government's objective of improving accountability and transparency.

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

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

June 20, 2014

Finding 2013-001: Federal Funding Accountability and Transparency Act Reporting

MANAGEMENT VIEW

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

CORRECTIVE ACTION PLAN

The University has evaluated its procedures and has implemented modifications to ensure appropriate timelines for reporting are met. Effective February 2014, the Office of Sponsored Program assumed responsibility of FFATA reporting and will ensure the report is entered into FSRS by the end of the month following the month the sub award action was fully executed.

Respectfully,

Robert Leonard

Robert C. Leonard

Associate Vice President for Finance and Business Services

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Finding 2013-002: Subrecipient Monitoring Policies

Federal Agency: **National Aeronautics and Space Administration, National Aeronautics and Space Administration, National Science Foundation**
Program: **Research and Development Cluster**
CFDA#: **43, 43, 47.082**
Award#: **2012-057-A2, 2013-053, 2011-018**
Award year: **2011-2014, 2013-2015, 2010-2012**

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

Condition
Of 20 sub-awards and 4 ARRA sub-awards selected for subrecipient monitoring testing, we identified 3 subrecipient organizations for which the University did not retain adequate documentation to support the monitoring activities as required by the Compliance Supplement. Specifically, documentation of review was not available for one subrecipient to determine whether A-133 findings were present related to the year subject to review by the University. Additionally, documentation of review was not available for two other subrecipients that did not timely file A-133 reports and a determination could not be reached for the reasons why these A-133 reports were not available for review by the University.

Questioned Costs
None

Cause
The finding resulted from an oversight to retain necessary documentation to support conclusions reached by management to support subrecipient monitoring procedures.

Effect
A failure to consistently prepare and retain adequate documentation of subrecipient monitoring activities can jeopardize the effectiveness of the monitoring process and cause the University to not meet its compliance obligation related to subrecipient monitoring. Findings from A-133 audit reports of subrecipients could directly or indirectly affect sub-award expenditures of the University.

Recommendation
We recommend management strengthen subrecipient monitoring documentation policies in place to ensure adequate and timely follow-up is performed on subrecipients and to support management's conclusions regarding their review procedures. This should include documentation of the evaluation of findings, records of emails or phone calls with the subrecipient, and documentation of the conclusions and action plans of management of both the subrecipient and the University depending on the facts of each circumstance. This documentation should be completed within 6 months of the receipt of subrecipient A-133 audit filings, or if the subrecipient has not submitted an A-133 reporting package, within 6 months of the date that the A-133 was originally due.

THE UNIVERSITY OF
ALABAMA IN HUNTSVILLE

June 20, 2014

Finding 2013-002: Subrecipient Monitoring Policies

MANAGEMENT VIEW

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

CORRECTIVE ACTION PLAN

The Office of Sponsored Programs has reviewed its current procedures for Subrecipient Monitoring and has added additional steps to ensure the review process includes adequate and complete documentation of follow-ups, when applicable. In addition, the current process has been revised to review all Subrecipient A-133 Audit Reports, when findings (current or prior year) are noted and will be elevated to the Director of Contracts and Grants Accounting and/or the Associate VP for Finance and Business Services for additional review/comment when applicable.

Respectfully,

Robert Leonard

Robert C. Leonard

Associate Vice President for Finance and Business Services

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Finding 2013-003: Financial Management System

Federal Agency:	**Department of Defense**
Program:	**Research and Development Cluster**
CFDA#:	**12**
Award#:	**W31P4Q-09-0010**
Award year:	**2011-2012**

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

Condition
Federal expenditures of $270,969 for equipment purchases under an award were excluded from the Schedule of Expenditures of Federal Awards as of 9/30/2012.

Questioned Costs
None.

Cause
A late vendor invoice received by the University was not appropriately accrued as a Federal expenditure in fiscal year 2012. This item mirrors the topic and effected time period addressed in the prior year Finding 2012-3 reported by the University, whereby expenditure cut-off issues were noted on the Schedule of Expenditures of Federal Awards.

Effect
The error resulted in an understatement of Federal Research and Development expenditures on the Schedule of Expenditures of Federal Awards as of 9/30/2012 in the amount of $270,969. The accompanying Schedule of Expenditures of Federal Awards as of 9/30/2013 includes the out of period impact of the equipment purchases.

Recommendation
As a result of the prior year Finding 2012-3, management improved cut-off procedures during 2013 to identify invoices received subsequent to year-end that should be included as an expenditure as of year-end. No such findings related to 2013 cut-off procedures were identified. However, we recommend management continue to focus on enhancing their cut-off procedures and involving the department of sponsored programs in this process to ensure approved, received, or incurred expenditures as of year-end are properly reported.

THE UNIVERSITY OF
ALABAMA IN HUNTSVILLE

June 26, 2014

Finding 2013-3: Financial Management System

MANAGEMENT VIEW

We concur with this finding, and we have modified our cut-off procedures to identify invoices received subsequent to year-end that should be included as an expenditure as of year-end.

CORRECTIVE ACTION PLAN

The University has reviewed and implemented additional cut-off procedures in Accounts Payable and Central Receiving to identify goods and services received prior to year-end, but with invoices that are not received until subsequent to year-end to ensure proper accrual of such items.

Respectfully,

Robert Leonard

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

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Part III

Prior Year Findings and Questioned Costs

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

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

Status

The University evaluated its procedures and implemented modifications to identify awards that fall within the FFATA reporting requirements. Effective June 2013, the Office of Sponsored Programs implemented processes to ensure all fully executed sub-awards are distributed to Contracts and Grants Accounting within 72 hours of execution. Effective February 2014, the Office of Sponsored Program assumed responsibility of FFATA reporting and implemented procedures to ensure that awards that fall within the FFATA reporting requirements are entered into the FFATA Sub-award Reporting System by the end of the month following the month the sub-award action was fully executed.

A similar finding was identified in the current year and is reported as item 2013-001. This finding occurred prior to the implementation of modified sub-award procedures by management.

Finding 2012-2 - Financial Management System

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

Status

Issue resolved. Effective June 2013, management implemented a reconciliation of Federal Work Study expenditures and Department of Education drawdowns to ensure all revenues and expenditures are appropriately recorded in the proper period.

No similar findings found in the current year.

Finding 2012-3 - Financial Management System

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

Status

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

A similar finding was identified in the current year and is reported as item 2013-003. The current year finding mirrors the topic and effected time period addressed in the prior year Finding 2012-3 reported by the University, whereby expenditure cut-off issues were noted on the Schedule of Expenditures of Federal Awards. No such findings related to 2013 cut-off procedures were identified.

Finding 2012-4 - Subrecipient Monitoring Policies

Of 25 sub-awards and 2 ARRA sub-awards selected for subrecipient monitoring testing, we identified 4 subrecipients with audit findings outlined within their respective A-133 audit reports where the University did not document a response to the findings with a management decision letter or other follow-up procedures to ensure the subrecipients take timely and appropriate corrective actions on the audit findings.

Status

The Office of Sponsored Programs reviewed its current procedures for Subrecipient Monitoring and added additional procedures to ensure the review process includes adequate and complete documentation of follow-ups, when applicable. In addition, the current process has been revised to review all Subrecipient A-133 Audit Reports, when findings are noted on the Data Collection Form and will be elevated to the Director of Contracts and Grants Accounting and/or the Associate VP for Finance and Business Services for additional review when applicable.

A similar finding was identified in the current year and is reported as item 2013-002. Formalization of Subrecipient Monitoring policies has occurred since the prior year finding; however, strengthening of those policies is required to address the current year finding.

Part IV

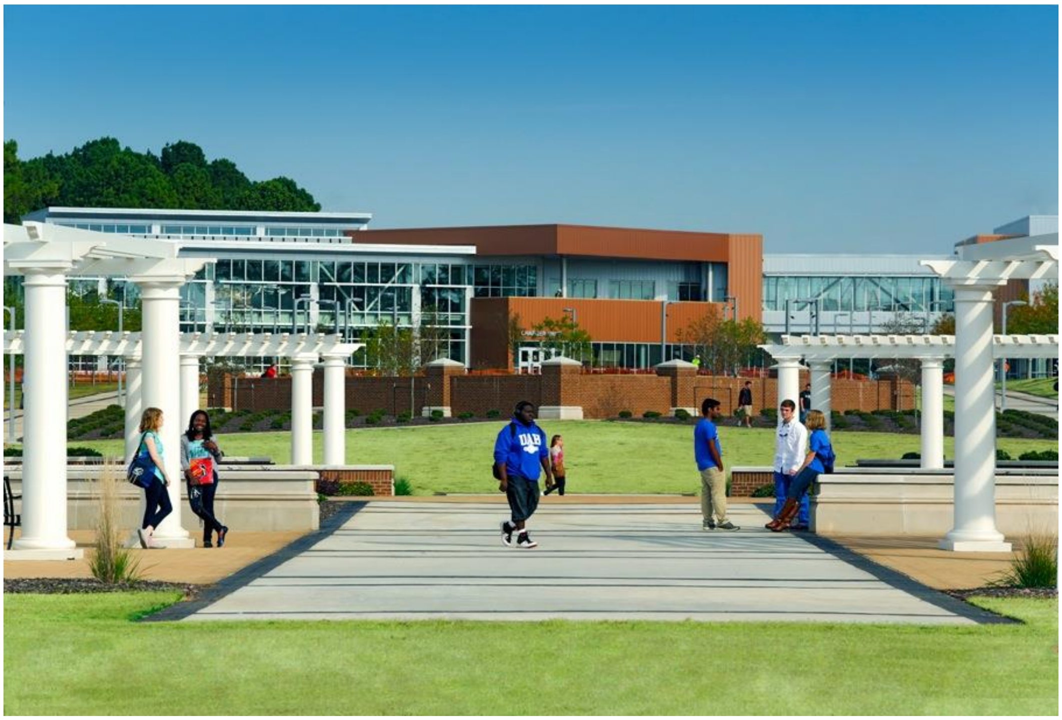
2013 Financial Report

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE

FINANCIAL REPORT
2013

The University of Alabama in Huntsville

FINANCIAL REPORT
2012-2013



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Independent Auditor's Report

To the Board of Trustees of The University of Alabama:

Report on the Financial Statements

We have audited the accompanying financial statements of The University of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which consist of the statements of net position and the related statements of revenues, expenses, and changes in net position and cash flows of the University and the statements of financial position and of activities of the University of Alabama in Huntsville Foundation ("UAHF"), the University's discretely presented component unit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the financial statements based on our audits. We did not audit the financial statements of UAHF, the University's discretely presented component unit, as of September 30, 2013 and 2012 and for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for UAHF, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of UAHF were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the University and its discretely presented component unit at September 30, 2013 and 2012, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

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, 2013 and 2012, its changes in financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis for the years ended September 30, 2013 and 2012 on pages 4 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2014 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, 2013. 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* in considering the University's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

January 27, 2014

The University of Alabama in Huntsville
Management's Discussion and Analysis (Unaudited)

The following discussion and analysis provides an overview of the financial performance and activities of The University of Alabama in Huntsville (the "University" or "UAH") during FY 2013 and 2012. This discussion and analysis has been prepared by University management and includes the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These statements should be read in conjunction with the Notes to Financial Statements.

Introduction

The University is a public co-educational, state-supported research university and is classified by the Carnegie Foundation for the Advancement of Teaching as a "Very High Activity" research university, placing it among a select group of public universities in America. The University offers 71 degree-granting programs that meet the highest standards of excellence, including 33 bachelor's degree programs, 23 master's degree programs, and 15 doctoral programs through its five colleges: Business Administration, Liberal Arts, Engineering, Nursing, and Science. The University is an autonomous campus within The University of Alabama System (the "System") and 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.

The University receives national recognition on a regular basis. UAH was listed as very competitive by *Barron's Profiles in American Colleges* and was the only public university in Alabama to earn this designation. *U.S. News & World Report* has ranked UAH among the magazine's top 100 national universities. Additionally, *USA Today* and *Princeton Review* reported UAH was one of the top 50 educational values in America and *Consumer Digest* cited UAH as the 15th best value in America.

The University received $98.6 million for externally funded projects during FY 2013. 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.

Statements of Net Position

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

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

Net position is 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. The second asset category is restricted net position, 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 restricted income derived from these investments to primarily fund scholarships and fellowships. Expendable restricted net position is 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 position, which is available to the University as needed. Many of the University's unrestricted net position has 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 position as of September 30 is as follows:

Summary of Statements of Net Position

	2013	2012	2011
Current assets	$ 173,235,505	$ 147,826,985	$131,568,438
Noncurrent assets:			
Endowment, life income and other investments	61,495,530	59,541,146	52,730,053
Capital assets, net	220,844,717	203,090,500	206,671,409
Legal settlement receivable	1,855,729	2,716,120	3,534,449
Other	219,742	268,124	1,513,239
Total assets	**457,651,223**	**413,442,875**	**396,017,588**
Current liabilities	54,979,041	49,898,977	48,413,908
Noncurrent liabilities	107,792,600	77,954,500	80,861,000
Total liabilities	**162,771,641**	**127,853,477**	**129,274,908**
Net position			
Invested in capital assets, net of related debt	121,879,828	125,072,139	126,483,662
Restricted	18,107,737	15,961,579	11,410,878
Unrestricted	154,892,017	144,555,680	128,848,140
Total net position	**$ 294,879,582**	**$ 285,589,398**	**$266,742,680**

For FY 2013, the University's current assets increased $25.4 million. Endowment, life income and other investments increased $2.0 million due to additional endowment investments of $1.2 million and improved earnings from the portfolio offset by distributed endowment earnings. Capital assets, net of depreciation, increased $17.8 million primarily due to the construction of the Student Life Center. The noncurrent portion of the legal settlement receivable of $1.9 million is the net present value of an amount to be received in future years. Current liabilities increased $5.1 million. The majority of this increase is due to the current portion of debt and deferred revenues. Noncurrent liabilities increased $29.8 million, the result of the issuance of General Fee Revenue Bonds for the construction of the Student Life Center and renovation of the Nursing Building.

For FY 2012, the University's current assets increased $16.3 million. Endowment, life income and other investments increased $6.8 million due to additional endowment investments of $5.2 million and improved earnings from the portfolio offset by distributed endowment earnings. Capital assets, net of depreciation, decreased $3.6 million due to depreciation offset by capital expenditures. The noncurrent portion of the legal settlement receivable of $2.7 million is the net present value of an amount to be received in future years. Current liabilities increased $1.5 million. The majority of this increase is due to the current portion of debt and deferred revenues. Noncurrent liabilities decreased $2.9 million, the result of bond principal payments.

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

For FY 2013, the University's total net position increased 3.3%. The University's investments in capital assets, net of related debt, decreased approximately $3.2 million primarily due to depreciation offset by capital expenditures. Restricted net position increased $2.1 million. Unrestricted net position increased approximately $10.3 million. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for capital projects as well as various academic and research programs and initiatives.

For FY 2012, the University's total net position increased 7.1%. The University's investments in capital assets, net of related debt, decreased approximately $1.4 million primarily due to reduced capital expenditures during 2012. Restricted net position increased $4.6 million. Unrestricted net position increased approximately $15.7 million. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for capital projects, as well as various academic and research programs and initiatives.

For FY 2011, the University's total net position increased 1.8%. The University's investments in capital assets, net of related debt, decreased approximately $3.7 million primarily due to depreciation offset by capital expenditures. Restricted net position increased $1.7 million. Unrestricted net position increased approximately $6.7 million. Although unrestricted net position is not subject to externally imposed stipulations, substantially all of the University's unrestricted net position has been designated for capital projects, as well as various academic and research programs and initiatives.

Capital Assets

For FY 2013, 2012 and 2011, the University had approximately $426.9 million, $397.8 million and $389.9 million invested in capital assets and accumulated depreciation of $206.1 million, $194.7 million and $183.2 million, respectively. Depreciation charges for FY 2013, 2012 and 2011 were $12.4 million, $12.2 million and $12.2 million, respectively.

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

Capital Assets, Net

	2013	2012	2011
Land	$ 7,552,605	$ 3,960,290	$ 3,910,290
Land improvements and infrastructure, net	6,835,293	4,154,200	1,921,904
Buildings and building improvements, net	191,163,946	179,875,917	184,777,581
Equipment, net	11,441,690	11,258,269	11,578,172
Library books, net	1,989,054	2,299,817	2,647,480
Computer software, net	737,727	1,031,702	1,325,677
Collections	1,124,402	510,305	510,305
Total capital assets, net	**$ 220,844,717**	**$ 203,090,500**	**$ 206,671,409**

Major capital additions during FY 2013 included the construction of the Student Life Center, the Campus Greenway, and the Nursing Building renovations.

Major capital additions during FY 2012 included the Student Life Center and athletics improvements.

Major capital additions during FY 2011 included the completion of the construction of Charger Village and a capital gift of a supercomputer.

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

Debt

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

Debt

	2013	2012	2011
Bonds - Current	$ 4,235,000	$ 3,450,000	$ 2,790,000
Bonds - Long Term	106,036,000	78,266,000	80,736,000
Notes - Current	368,600	-	-
Notes - Long Term	1,474,400	-	125,000
(Discount) or Premium	282,200	(311,500)	(561,700)
Total debt outstanding	**$112,396,200**	**$ 81,404,500**	**$ 83,089,300**

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

Statements of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the statements of net position are based on the activity presented in the statements of revenues, expenses, and changes in net position, which reflect the University's results of operations. This presents the revenues, both operating and nonoperating, along with the increase/decrease in net position. 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 programs. A summarized comparison of the University's revenues, expenses and changes in net position for the years ended September 30 is as follows:

Summary of Statements of Revenues, Expenses, and Changes in Net Position

	2013	2012	2011
Operating revenues:			
Tuition and fees	$ 69,207,640	$ 68,218,529	$ 62,722,011
Less: scholarship allowances	(18,612,696)	(18,185,728)	(17,691,842)
Tuition and fees, net	50,594,944	50,032,801	45,030,169
Federal, state and private grants and contracts	97,951,418	89,660,258	81,504,667
Sales and services of educational departments	3,530,514	3,451,345	5,229,509
Auxiliary, net of $1,030,817 in 2013 and $1,083,968 in 2012 of scholarship allowances	6,135,066	6,718,898	8,172,943
Total operating revenues	158,211,942	149,863,302	139,937,288
Operating expenses	207,551,745	195,630,564	192,815,815
Operating loss	(49,339,803)	(45,767,262)	(52,878,527)
Nonoperating revenues (expenses):			
State educational appropriations	42,710,964	43,240,587	42,703,771
Private gifts	4,043,840	6,020,498	3,313,101
Net investment income	6,334,687	9,961,393	306,941
Pell grant revenue	7,615,679	8,118,163	8,558,340
State fiscal stabilization funds	-	(1,442)	4,739,873
Legal settlement	-	4,665	371
Loss on disposal of capital assets	(276,840)	(559,937)	(139,164)
Interest expense	(2,435,540)	(3,345,280)	(3,413,201)
Capital gifts and grants	637,197	1,175,333	1,555,390
Net nonoperating revenues	58,629,987	64,613,980	57,625,422
Increase in net position	9,290,184	18,846,718	4,746,895
Net position, beginning of year	285,589,398	266,742,680	261,995,785
Net position, end of year	**$294,879,582**	**$285,589,398**	**$ 266,742,680**

Approximately $42.7 million in state appropriations were received in FY 2013, a decrease of 1.2% or $530 thousand from the prior year.

Tuition and fees increased approximately $1.0 million in FY 2013. The tuition rate increased by 8.65% for Fall 2012, Spring and Summer 2013, and increased 4% in Fall 2013. Enrollment was stable in Fall 2012, followed by some declines in Spring, Summer, and Fall 2013. The $5.5 and $5.2 million increases in FY 2012 and 2011 were the result of tuition increases. The following is a summary of revenues by source (both operating and nonoperating) for the years ended September 30. 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's Discussion and Analysis – for Public Colleges and Universities.*

Revenue Sources

	2013		2012		2011	
State educational appropriations	$42,710,964	19.5%	$43,240,587	19.8%	$42,703,771	21.2%
Net investment income	6,334,687	2.9%	9,961,393	4.6%	306,941	0.1%
Grants and contracts	97,951,418	44.6%	89,660,258	41.0%	81,504,667	40.5%
Gifts	4,043,840	1.8%	6,020,498	2.8%	3,313,101	1.6%
Auxiliary	6,135,066	2.8%	6,718,898	3.1%	8,172,943	4.1%
Net tuition and fees	50,594,944	23.0%	50,032,801	22.9%	45,030,169	22.4%
Sales and services	3,530,514	1.6%	3,451,345	1.6%	5,229,509	2.6%
Capital gifts and grants	637,197	0.3%	1,175,333	0.5%	1,555,390	0.8%
Legal settlement	-	0.0%	4,665	0.0%	371	0.0%
Pell grants	7,615,679	3.5%	8,118,163	3.7%	8,558,340	4.3%
State fiscal stabilization funds	-	0.0%	(1,442)	0.0%	4,739,873	2.4%
Total revenues	**$219,554,309**		**$218,382,499**		**$201,115,075**	

Investments produced positive income for FY 2013, 2012, and 2011. Fluctuations between years are due primarily to changing market conditions.

Grants and contracts increased $8.3 million in FY 2013 primarily due to new federal contracts and grants. Grants and contracts increased $8.2 million and $900 thousand in FY 2012 and 2011, respectively, primarily due to an increase in federal grants and contracts.

The University received gifts totaling $4,043,840 in FY 2013. FY 2012 was an exceptional year at $6,020,498, due primarily to a single donor gift of $3.7 million.

The University auxiliary activities are comprised primarily of the Bevill Conference Center and Hotel, food service, housing, and bookstore. Auxiliary activities decreased slightly by $580 thousand in FY 2013. Auxiliary activities decreased $1.5 million in FY 2012 due to the Bevill Center, housing, bookstore and food services all experiencing a decline in revenue and changes in mandatory food and housing policies. Auxiliary activities increased $2.1 million in FY 2011 primarily due to housing and food services receiving increases in revenue due to the opening of the University Charger Village complex.

Sales and services was stable for FY 2013. Sales and services decreased $1.8 million in the year ended September 30, 2012 primarily due to a prior year one-time $1.5 million payment described below. Sales and services increased $1.8 million in FY 2011 due to a one-time $1.5 million food service payment from the University’s externally-contracted provider.

Capital gifts and grants decreased $538 thousand during 2013 mainly due to the difference in value assigned to onetime capital asset gifts received in FY 2013 and 2012. Capital gifts and grants decreased $380 thousand during 2012 mainly due to the difference in value assigned to onetime capital asset gifts received in FY 2012 and 2011. Capital gifts and grants increased $764 thousand during FY 2011.

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

Detail of Federal Grants & Contracts Revenue

	2013	2012	2011
National Aeronautics and Space Administration	$ 20,598,336	$ 20,113,728	$ 19,920,857
Department of Defense	58,534,186	53,552,714	45,617,018
National Science Foundation	5,617,878	3,278,044	2,414,183
Department of Education	425,351	337,118	940,410
Other	5,477,619	6,455,179	7,094,679
Total	**$ 90,653,370**	**$ 83,736,783**	**$ 75,987,147**

Department of Defense revenues increased $5.0 million, $7.9 million and $2.3 million in FY 2013, 2012 and 2011 respectively, primarily due to an increase in Army contracts.

National Science Foundation revenues increased $2.3 million in FY 2013, primarily due to a $1 million EPSCOR Research and Education contract and a $776 thousand ARRA Alabama Cyber Connection Grant. National Science Foundation revenues increased $863 thousand in FY 2012.

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

Operating expenses (by functional classification)

	2013	2012	2011
Instruction	$ 48,871,266	$ 50,230,099	$ 52,788,595
Research	81,743,099	76,373,523	72,161,096
Public service	4,822,320	2,769,564	1,271,245
Academic support	9,815,843	9,203,532	10,979,107
Student services	13,796,950	12,963,863	12,288,975
Institutional support	18,048,016	15,618,176	17,668,715
Operations and maintenance of plant	12,481,938	11,675,038	7,663,698
Scholarships and fellowships	1,090,063	606,364	1,286,400
Auxiliary enterprises	4,465,484	4,018,964	4,500,595
Depreciation	12,416,766	12,171,441	12,207,389
Total operating expenses	**$ 207,551,745**	**$ 195,630,564**	**$ 192,815,815**

Operating expenses (by natural classification)

	2013	2012	2011
Compensation and benefits	$ 143,546,057	$ 136,791,650	$ 135,629,341
Supplies and services	50,498,859	46,061,109	43,692,685
Depreciation	12,416,766	12,171,441	12,207,389
Scholarships and fellowships	1,090,063	606,364	1,286,400
Total operating expenses	**$ 207,551,745**	**$ 195,630,564**	**$ 192,815,815**

In FY 2013, instruction expenses decreased $1.4 million primarily due to a decrease in supplies and services expenses. In FY 2012, instruction expenses decreased $2.6 million primarily due to end of the American Recovery and Reinvestment Act of 2009 funding. Instruction expense increased $6.2 million in FY 2011, primarily due to annual merit based salary increases, increases in health insurance, and the American Recovery and Reinvestment Act of 2009 funding.

Research expenses increased $5.4 million, $4.2 million and $1.2 million in FY 2013, 2012 and 2011, respectively, primarily due to increases in contracts and grants.

Public service expenses increased $2.1 million, $1.5 million and $779 thousand in FY 2013, 2012 and 2011, respectively, due to increases in federal contracts and grants.

Academic support saw a slight increase of $612 thousand during FY 2013. Academic support decreased $1.7 million during FY 2012 due to a prior year write-off of electronic databases. Academic support increased $2.9 million during FY 2011 primarily due to the write-off of electronic databases and the availability of funding from the American Recovery and Reinvestment Act of 2009.

Operations and maintenance of plant was stable during FY 2013. Operations and maintenance of plant increased $4.0 million during FY 2012 primarily due to increases in utilities costs and other services, as well as the expiration of funding from the American Recovery and Reinvestment Act of 2009. In FY 2011, approximately $2.3 million of this funding was included within the instruction functional classification above.

The increase in compensation and benefits of $6.8 million, $1.2 million and $9.8 million in FY 2013, 2012 and 2011, respectively, was primarily due to annual merit based salary increases and increases in retirement, health insurance and other benefit costs.

Scholarships and fellowships expense increased $484 thousand for FY 2013. Scholarships and fellowships expense decreased $680 thousand for FY 2012. Scholarships and fellowships increased $305 thousand in FY 2011. Scholarships and fellowships expenses represent the residual expense after applying the scholarship allowance to gross tuition and fees revenue. The scholarship allowance represents the discount applied to student accounts for internal scholarships and financial aid, including pell grant assistance that is reported as nonoperating revenue.

Supplies and services expenses increased $4.4 million and $2.4 million in FY 2013 and 2012 due to the University's continued growth. Supplies and services expenses increased $5.0 million in FY 2011 primarily due to expenditure of funds provided by the American Recovery and Reinvestment Act of 2009.

Statements of Cash Flows

The statements of cash flows present 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 statements of cash flows for the years ended September 30:

Condensed Statements of Cash Flows

	2013	2012
Cash received from operations	$ 156,770,533	$ 151,607,404
Cash payments for operations	(193,583,419)	(183,736,818)
Net cash used in operating activities	(36,812,886)	(32,129,414)
Net cash used in capital and related financing activites	(1,698,298)	(13,232,685)
Net cash used in investing activities	(6,387,141)	(3,990,296)
Net cash provided by noncapital financing activities	54,128,097	59,920,446
Net increase in cash and cash equivalents from other than operating activities	46,042,658	42,697,465
Net increase in cash	9,229,772	10,568,051
Cash and cash equivalents, beginning of year	47,796,314	37,228,263
Cash and cash equivalents, end of year	$ 57,026,086	$ 47,796,314

The University used $36.8 million of cash for operating activities in FY 2013, offset by $54.1 million of cash provided by noncapital financing activities. Similarly, in FY 2012, $32.1 million of cash used for operating activities was offset by $59.9 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses. The increase in cash provided by noncapital financing activities was due mainly to an increase in private gifts.

Cash of $1.7 million and $13.2 million in FY 2013 and 2012, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments.

Cash used in investing activities totaled $6.4 million in FY 2013. Cash used in investing activities totaled $4.0 million in FY 2012. The change is primarily the result of investments made to the System Pooled Endowment Fund during FY 2013.

Economic Factors That Will Affect the Future

The University's state educational appropriations have not kept pace with the amounts recommended by the Alabama Commission on Higher Education (ACHE). For FY 2013, the University was funded at approximately 54.2% of the ACHE funding recommendation.

State appropriations at the University have been reduced from $58.1 million in FY 2008 to $42.7 million in FY 2013. Not surprisingly, the state appropriations received by UAH as a percent of the ACHE funding recommendation has been reduced from 78% in FY 2008 to 54.2% in FY 2013. The University utilizes savings from previous years to fund non-recurring expenditures, primarily in the areas of information technology infrastructure and various facilities renewal projects. The University did not reduce departmental budgets in FY 2013 or 2012.

The University continues to attract additional federal grant and contract revenue. About 87% of the University's federal operating revenue comes from two agencies: the National Aeronautical and Space Administration and the Department of Defense. In FY 2013, funding from the National Science Foundation was $5.6 million, an increase of $2.3 million, or 71% from the prior year. The outcome of the federal budget process has important ramifications for the University's research budget.

The University's achievement in sustaining private and federal support is a testament to the high regard in which the University is held. The level of support underscores the continued confidence among donors and grantors in the quality of the University's programs and the importance of its mission. The University must have a balanced array of many categories of facilities to meet its educational, research and public service goals and continues to assess long-term capital requirements. Support for the University's recent capital expenditures has been provided primarily from federal funds, bond issues repaid through student tuition and fees, 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

Ms. Maria Torres, President of the UAH Hispanic Student Organization
Dr. Robert Altenkirch, UAH President.

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF NET POSITION
September 30, 2013 and 2012

	2013	2012
Assets		
Current Assets:		
Cash and cash equivalents	$ 56,365,650	$ 47,178,224
Operating investments	79,970,449	69,164,239
Accounts receivable, net	28,905,228	22,643,397
Other current assets	7,994,178	8,841,125
Total current assets	173,235,505	147,826,985
Noncurrent Assets:		
Restricted cash and cash equivalents	660,436	618,090
Endowment investments	27,595,094	25,386,159
Investments for capital activities	33,240,000	33,536,897
Capital assets, net	220,844,717	203,090,500
Legal settlement receivable	1,855,729	2,716,120
Other noncurrent assets	219,742	268,124
Total noncurrent assets	284,415,718	265,615,890
Total Assets	**$457,651,223**	**$413,442,875**
Liabilities and Net Position		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 18,565,766	$ 18,353,188
Unearned revenues	28,444,114	24,824,073
Current portion of long-term debt	4,603,600	3,450,000
Deposits held for others	3,365,561	3,271,716
Total current liabilities	54,979,041	49,898,977
Noncurrent Liabilities:		
Long-term debt	107,792,600	77,954,500
Total noncurrent liabilities	107,792,600	77,954,500
Total Liabilities	**162,771,641**	**127,853,477**
Net Position:		
Invested in capital assets, net of related debt	121,879,828	125,072,139
Restricted:		
Nonexpendable	9,055,754	7,598,871
Expendable	9,051,983	8,362,708
Unrestricted	154,892,017	144,555,680
Total Net Position	294,879,582	285,589,398
Total Liabilities and Net Position	**$ 457,651,223**	**$ 413,442,875**

See accompanying notes to financial statements

UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION
September 30, 2013 and 2012

	2013	2012
Cash and cash equivalents	$ 1,744,903	$ 2,938,686
Investments	39,613,466	38,252,070
Investment real estate	2,802,731	2,813,018
Investment in trust	5,374,203	5,330,438
Accrued interest	379,329	381,724
Mortgages receivable	-	-
Pledges receivable, net	225,948	263,308
Trust receivable	484,959	484,959
Related party receivable	1,883,950	-
Income tax receivable	120,794	100,794
Collections	-	-
Total Assets	**$ 52,630,283**	**$ 50,564,997**
Accounts payable	$ 41,986	$ 22,960
Annuity payable	149,303	174,629
Payroll tax payable	4,177	4,021
Total Liabilities	**195,466**	**201,610**
Unrestricted net assets	22,870,815	22,299,398
Temporarily restricted net assets	9,483,117	8,496,852
Permanently restricted net assets	20,080,885	19,567,137
Total Net Assets	**52,434,817**	**50,363,387**
Total Liabilities and Net Assets	**$ 52,630,283**	**$ 50,564,997**

See Note 16

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years Ended September 30, 2013 and 2012

	2013	2012
Operating Revenues		
Tuition and fees	$ 69,207,640	$ 68,218,529
Less: scholarship allowances	(18,612,696)	(18,185,728)
Tuition and fees, net	50,594,944	50,032,801
Grants and contracts		
Federal	90,653,370	83,736,783
State	5,223,746	4,067,616
Private	2,074,302	1,855,859
Sales and services of educational departments	3,530,514	3,451,345
Auxiliary, net of $1,030,817 in 2013 and $1,083,968 in 2012 of scholarship allowances	6,135,066	6,718,898
Total Operating Revenues	**158,211,942**	**149,863,302**
Operating Expenses		
Compensation and benefits	143,546,057	136,791,650
Supplies and services	50,498,859	46,061,109
Depreciation	12,416,766	12,171,441
Scholarships and fellowships	1,090,063	606,364
Total Operating Expenses	**207,551,745**	**195,630,564**
Operating loss	(49,339,803)	(45,767,262)
Nonoperating Revenues (Expenses)		
State educational appropriations	42,710,964	43,240,587
Private gifts	4,043,840	6,020,498
Net investment income	6,334,687	9,961,393
Pell grant revenue	7,615,679	8,118,163
State fiscal stabilization funds	-	(1,442)
Legal settlement	-	4,665
Loss on disposal of capital assets	(276,840)	(559,937)
Interest expense	(2,435,540)	(3,345,280)
Net Nonoperating Revenues	**57,992,790**	**63,438,647**
Capital gifts	637,197	1,175,333
	58,629,987	**64,613,980**
Increase in net position	9,290,184	18,846,718
Net Position, Beginning of Year	285,589,398	266,742,680
Net Position, End of Year	**$ 294,879,582**	**$ 285,589,398**

See accompanying notes to financial statements

UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF ACTIVITIES
Years Ended September 30, 2013 and 2012

	2013	2012
Changes in net position		
Revenue, gains, and other support:		
Contributions	$ 1,873,847	$ 1,366,346
Rent income	26,366	23,985
Investment income	1,750,138	1,749,894
Unrealized gain on investments	1,719,071	2,991,398
Equity in earnings of trust	594,251	747,611
Other income	337,484	297,715
Change in allowance for uncollectibles	6,750	53,775
Change in value of split-interest agreement	16,894	-
Total Revenues	**6,324,801**	**7,230,724**
Expenses:		
Realized gain/(loss) on sale of investments	105,099	328,876
Contributions to UAH	2,380,977	1,241,531
Scholarships to UAH	1,221,737	1,311,573
Professional services	85,398	114,012
Income tax expense	306,200	173,459
Labor/Payroll expense	114,109	114,109
Change in value of split-interest agreement	-	29,599
Other expenses	39,851	40,693
Total Expenses	**4,253,371**	**3,353,852**
Change in net position	2,071,430	3,876,872
Net Position, Beginning of Year	50,363,387	46,486,515
Net Position, End of Year	**$ 52,434,817**	**$ 50,363,387**

See Note 16

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Student tuition and fees	$ 51,365,503	$ 50,709,689
Federal grants and contracts	87,437,398	85,418,945
State and local grants and contracts	4,965,143	4,122,921
Private grants and contracts	1,971,613	1,881,092
Sales and services of educational and other departmental activities	2,862,834	3,666,534
Auxiliary enterprises	8,168,042	5,808,223
Payments to suppliers	(47,200,483)	(43,610,858)
Payments to employees and related fringes	(145,666,222)	(139,295,926)
Payments for scholarships and fellowships	(716,714)	(830,034)
Net Cash Used in Operating Activities	(36,812,886)	(32,129,414)
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of bonds	32,005,000	24,870,000
Proceeds from issuance of note payable	1,843,000	-
Defeasance of bonds	-	(24,015,100)
Purchase of capital assets	(28,952,466)	(7,699,693)
Proceeds from sale of capital assets	263,236	-
Principal payments on capital debt	(3,450,000)	(2,789,900)
Interest payments on capital debt	(3,407,068)	(3,597,992)
Net Cash Used in Capital and Related Financing Activities	(1,698,298)	(13,232,685)
Cash Flows from Investing Activities		
Income distributions from System investment pool	1,348,408	1,224,944
Proceeds from sales and maturities of other investments	15,002,758	2,898
Contributions to System investment pool	(22,738,307)	(5,218,138)
Net Cash Used in Investing Activities	(6,387,141)	(3,990,296)
Cash Flows from Noncapital Financing Activities		
State educational appropriations	42,710,964	43,240,587
Private gifts	3,084,760	6,020,498
Student direct lending receipts	28,230,308	31,547,939
Student direct lending disbursements	(28,425,788)	(29,954,101)
Amounts received from affiliates	123,341	347,119
Amounts paid to affiliates	(29,496)	(181,305)
Legal settlement	818,329	782,988
Pell grant revenue	7,615,679	8,118,163
State fiscal stabilization funds	-	(1,442)
Net Cash Provided by Noncapital Financing Activities	54,128,097	59,920,446
Net increase in cash and cash equivalents	9,229,772	10,568,051
Cash and Cash Equivalents, Beginning of Year	47,796,314	37,228,263
Cash and Cash Equivalents, End of Year	**$ 57,026,086**	**$ 47,796,314**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Cash and cash equivalents in current assets	56,365,650	47,178,224
Restricted cash and cash equivalents	660,436	618,090
Total Cash and Cash Equivalents	**$ 57,026,086**	**$ 47,796,314**

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF CASH FLOWS -- Continued
Years Ended September 30, 2013 and 2012

	2013	2012
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (49,339,803)	$ (45,767,262)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	13,612,848	12,551,056
Changes in allowance for doubtful accounts	126,060	316,278
Write-off of capital assets	725,506	-
Changes in assets and liabilities:		
Accounts receivable, net	(5,187,689)	303,799
Other current assets	292,947	(414,436)
Accounts payable and accrued liabilities	(662,796)	(243,054)
Deferred revenues	3,620,041	1,124,205
Net Cash Used in Operating Activities	**$ (36,812,886)**	**$ (32,129,414)**
Supplemental Noncash Activities Information		
Loss on disposal of capital assets	$ 276,840	$ 559,937
Gift of capital assets	637,197	1,175,333
Capital assets acquired with a liability at year end	1,741,452	271,550

See accompanying notes to financial statements

Notes to Financial Statements
Years Ended September 30, 2013 and 2012

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"), 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 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* ("GASB 61"). This Statement provides additional guidance in determining whether certain organizations affiliated with the University should be considered component units of the University for financial reporting purposes. The Statement also provides guidance on determining whether component units should be presented in the University's financial statements as "blended" or "discrete" components based on their relationship and organizational structure.

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

UAHF is a legally separate, tax-exempt component unit of the University. UAHF is organized exclusively for charitable, scientific, and educational purposes in order to benefit the University. UAHF is governed by a 34-member board of trustees. Although the University does not control the timing or amount of receipts from UAHF, the majority of resources or income 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 it does not meet the criteria to be blended with the University as described in GASB 61.

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 FY 2013 and 2012, UAHF distributed $3,602,714 and $2,553,104, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF can be obtained by calling 1-256-824-6350.

The University is also affiliated with the Eminent Scholars Foundation, Alabama Engineering Foundation and UAH Alumni Association. These entities' resources are not significant to the University; therefore, they are not included as component units under GASB guidance.

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, as issued by the GASB, 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 Position: Net position is 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 position 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 position 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 position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management. Substantially all unrestricted net position is 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 maintained by The University of Alabama. Fair value for the investment pools is provided by the System, based on the fair value of the underlying investment securities held by each investment pool. Fair value of the underlying securities held in each investment pool is based on quoted market prices or dealer quotes, where available, or determined using net asset values provided by underlying investment partnerships or companies, which primarily invest in readily marketable securities. Certain real estate and non-readily marketable securities held in the System-sponsored Endowment Fund and Prime fund (Note 3) are carried at cost, unless impaired. Fair value for investments held directly by the University is determined from quoted market prices or market prices of similar instruments. Net investment income, including realized and unrealized gains and losses, is reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net position.

Investments are reported in three categories in the statement of net position. 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 current amounts due to the University related to a legal settlement. Accounts receivable are recorded net of estimated uncollectible amounts. The noncurrent legal settlement receivable is recorded at net present value as the term is greater than one year.

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

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

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

Collections are recognized as an asset on the accompanying statements of net position in accordance with GASB guidance. 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.

Unearned Revenues: Unearned revenues consist primarily of amounts received for fall semester student tuition and fees and housing fees that are not earned until the next fiscal year. Unearned 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 position 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 guidance, including state educational appropriations, private gifts for other than capital purposes, investment income, federal pell grants and state fiscal stabilization funds.

Auxiliary enterprise revenues are generated primarily 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 position.

Contract and Grant Revenue: The University receives contract and grant revenues from governmental and private sources. The University recognizes revenues 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 are classified as scholarship and fellowship expenses.

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

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

Endowment Spending: For donor restricted endowments, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted in Alabama, permits The Board of Trustees of the University of Alabama (the Board) to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. UPMIFA also prescribes the guidelines for the expenditure of donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. UPMIFA focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA includes a robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The University's policy is to retain the endowment realized and unrealized appreciation with the endowment after the spending rate distributions in a manner consistent with the standards of prudence prescribed by UPMIFA. The Board approved a spending rate for FY 2013 and 2012 of 5.0% of a trailing three-year average of the market (unit) value.

Pledges: The University receives pledges and bequests of financial support. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Pledges are recorded at their gross, undiscounted amount, net of a reasonable provision for doubtful accounts. Endowment pledges do not meet eligibility requirements and are not recorded as assets until the related gift is received. Due to uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. The University's trust policies do not differ in nature from endowment policies.

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

Note 2 - Cash

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

The System maintains a short-term investment pool for the System entities to invest operating cash reserves. The Short-Term Fund is invested in a treasury obligation money market fund managed by Federated. For FY 2013 and 2012, the University had approximately $22.2 million and $25.2 million in the Short-Term Fund, all of which was invested in the money market fund. The assets held in the money market fund are presented in cash and cash equivalents.

For FY 2013 and 2012, the University had cash and cash equivalents totaling $57,026,086 and $47,796,314 respectively. Included in the amounts are deposits with trustees held for reserves, which totaled $660,436 in FY 2013 and $564,545 in FY 2012.

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, 2013 and 2012, 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:

		2013		2012
Category I:				
Time deposits	$	135,423	$	135,259
Not categorized:				
Mutual funds		44,247		41,151
System Short-term Fund		22,194,565		25,198,879
System Intermediate Fund		44,723,748		59,923,925
System Prime Fund		65,815,899		40,200,788
Pooled Endowment Fund		27,595,094		25,386,159
Agency Funds		2,491,132		2,400,013
Total Investments	$	163,000,108	$	153,286,174

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

System Pools, which include the investments of other System entities and other affiliated entities, and the University-specific investment portfolio.

Endowment Fund: The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over a perpetual time frame. Accordingly, the primary investment objectives of the Endowment Fund are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support to the endowment beneficiaries. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocation targets are established to meet the return objectives while providing adequate diversification in order to minimize investment volatility. As discussed in Note 1, the Endowment Fund invests in securities with non-readily determinable market values which are valued at cost, unless impaired. For FY 2013 and 2012, the portion of the University's investment in the Endowment Fund, reported at cost, is $3,167,391 and $3,084,069, respectively. The remainder of the investment is reported at fair value.

Prime Fund: The Prime Fund is a longer-term fund used as an investment vehicle to manage operating reserves with a time horizon of seven to ten years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid and semi-liquid securities. This fund is not currently invested in long-term lockup funds with illiquid assets. As discussed in Note l, certain investments within the Prime Fund are valued at cost, unless impaired. For FY 2013 and 2012, the University's portion of investments in the Prime fund, and measured at cost, totaled approximately $771,000 and $522,000, respectively. The remainder of the investment is reported at fair value.

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

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

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

The composition of the System's investments, by investment type for the System Pools, at September 30, 2013 and 2012 is as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2013	2012	2013	2012	2013	2012	2013	2012
RECEIVABLES:								
ACCRUED INCOME RECEIVABLES	$ 1,096,967	$ 1,007,252	$ 651,549	$ 610,059	$ 4,056,788	$ 4,047,259	$ -	$ -
TOTAL RECEIVABLES	**1,096,967**	**1,007,252**	**651,549**	**610,059**	**4,056,788**	**4,047,259**	**-**	**-**
CASH EQUIVALENTS:								
CERTIFICATES OF DEPOSIT	-	-	-	-	8,094,239	6,095,374	-	-
COMMERCIAL PAPER	-	-	-	-	2,599,751	-	-	-
OPTIONS	-	-	-	-	-	29,792	-	-
MONEY MARKET FUNDS	56,519,604	37,622,530	50,827,901	25,012,340	69,728,143	116,977,393	201,099,030	165,309,391
TOTAL CASH EQUIVALENTS	**56,519,604**	**37,622,530**	**50,827,901**	**25,012,340**	**80,422,133**	**123,102,559**	**201,099,030**	**165,309,391**
EQUITIES:								
U.S. COMMON STOCK	74,460,258	71,093,168	53,886,837	49,927,229	-	-	-	-
U.S. PREFERRED STOCK	1,238,188	1,031,250	1,125,625	937,500	-	-	-	-
NON U.S. STOCK	10,624,062	9,012,235	6,771,037	7,038,544	-	-	-	-
TOTAL EQUITIES	**86,322,508**	**81,136,653**	**61,783,499**	**57,903,273**	**-**	**-**	**-**	**-**
FIXED INCOME SECURITIES:								
U.S. GOVERNMENT OBLIGATIONS	21,850,510	28,152,015	11,213,984	12,728,703	317,145,893	363,188,133	-	-
MUNICIPAL GOVERNMENT OBLIGATIONS	-	-	-	-	217,383	6,423,894	-	-
MORTGAGE BACKED SECURITIES	-	-	-	-	120,283,662	50,978,064	-	-
COLLATERALIZED MORTGAGE OBLIGATIONS	-	428,837	-	176,195	50,078,274	57,695,598	-	-
CORPORATE BONDS	59,987,039	48,420,651	30,751,076	25,691,441	343,033,010	324,568,847	-	-
NON-U.S. BONDS	-	-	-	-	1,046,990	8,953,326	-	-
TOTAL FIXED INCOME SECURITIES	**81,837,549**	**77,001,503**	**41,965,060**	**38,596,339**	**831,805,212**	**811,807,862**	**-**	**-**
COMMINGLED FUNDS:								
U.S. EQUITY FUNDS	102,773,998	102,545,643	110,668,279	99,826,894	-	-	-	-
NON-U.S. EQUITY FUNDS	280,637,986	250,230,913	259,399,547	220,690,653	-	-	-	-
U.S. BOND FUNDS	31,464,754	29,518,564	59,945,698	55,590,858	78,977,321	118,258,903	-	-
NON-U.S. BOND FUNDS	61,765,298	57,589,079	56,698,721	54,429,629	-	-	-	-
HEDGE FUNDS	153,064,178	148,184,664	120,473,011	115,874,279	-	-	-	-
PRIVATE EQUITY FUNDS	62,791,546	61,912,960	-	-	-	-	-	-
TIMBERLAND FUNDS	16,960	5,624,452	-	-	-	-	-	-
REAL ESTATE FUNDS	131,161,560	128,235,796	104,551,847	102,617,303	-	-	-	-
TOTAL COMMINGLED FUNDS	**823,676,280**	**783,842,071**	**711,737,103**	**649,029,616**	**78,977,321**	**118,258,903**	**-**	**-**
TOTAL FUND INVESTMENTS	**1,048,355,941**	**979,602,757**	**866,313,563**	**770,541,568**	**991,204,667**	**1,053,169,323**	**201,099,030**	**165,309,391**
TOTAL FUND ASSETS	**1,049,452,908**	**980,610,009**	**866,965,112**	**771,151,627**	**995,261,455**	**1,057,216,582**	**201,099,030**	**165,309,391**
TOTAL FUND LIABILITIES	(122,926)	(126,133)	(85,447)	(88,592)	(584,144)	(481,793)	-	-
AFFILIATED ENTITY INVESTMENTS IN FUNDS	(138,865,562)	(124,786,897)	(53,288,957)	(51,504,726)	(88,296,301)	(77,940,650)	-	-
TOTAL NET ASSET VALUE	**$ 910,464,420**	**$ 855,696,979**	**$ 813,590,708**	**$ 719,558,309**	**$ 906,381,010**	**$ 978,794,139**	**$ 201,099,030**	**$ 165,309,391**

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

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

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

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

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Government Credit Index for U.S. investments and the Citigroup WGBI Index for international investment benchmarks for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate and U.S. treasury and/or agency bonds with a minimum BBB- rating and an average duration of four years. In addition, approximately $0 and $20,000 in the Endowment and Prime Funds, for FY 2013 and 2012, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately $317,200,000 and $259,800,000, in the Endowment and Prime Funds, for FY 2013 and 2012, respectively.

The Intermediate Fund is benchmarked against the 1-3 year Barclays Government Credit Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For FY 2013 and 2012, respectively, approximately $135,800,000 and $63,200,000 was invested by the Intermediate Fund in unrated fixed income securities, excluding commingled bond funds, money market funds and commercial paper. Fixed income commingled funds and commercial paper totaled approximately $151,300,000 and $235,200,000 for FY2013 and 2012, respectively. For FY 2013 and 2012, $8,100,000 and $6,100,000, respectively, was invested by the Intermediate Fund in certificates of deposit.

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

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2013 and 2012 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2013	2012	2013	2012	2013	2012	2013	2012
Fixed or Variable Income Securities								
U.S. Government Obligations	$ 21,850,510	$ 28,152,015	$ 11,213,984	$ 12,728,703	$ 317,145,893	$ 363,188,133	$ -	$ -
Municipal Government Obligations	-	-	-	-	217,383	6,423,894	-	-
Other U.S. Denominated:								
AAA	1,254,938	1,586,686	642,291	749,786	18,861,309	30,554,363	-	-
AA	11,441,938	8,698,140	5,792,481	4,205,006	85,433,796	77,971,612	-	-
A	27,814,947	23,416,600	14,242,504	12,943,728	182,513,978	195,302,384	-	-
BBB	19,475,216	15,128,540	10,073,800	7,969,116	78,670,892	61,721,408	-	-
BB	-	-	-	-	6,740,499	9,130,213	-	-
B	-	-	-	-	3,613,132	1,351,313	-	-
C and < C	-	-	-	-	2,818,596	2,939,022	-	-
Unrated	-	19,522	-	-	135,789,735	63,225,519	-	-
Commingled Funds:								
Bank Common Trust Fund: Unrated	-	-	-	-	-	-	-	-
U.S. Bond Funds: Unrated	31,464,754	29,518,564	59,945,698	55,590,858	78,977,321	118,258,903	-	-
Non-U.S. Bond Funds: Unrated	61,765,298	57,589,079	56,698,721	54,429,629		-	-	-
Money Market Funds: Unrated	56,519,604	37,622,530	50,827,901	25,012,340	69,728,143	116,977,393	201,099,030	165,309,391
Commercial Paper: Unrated	-	-	-	-	2,599,751	-	-	-
Certificate of Deposits	-	-	-	-	8,094,239	6,095,374	-	-
Options	-	-	-	-	-	29,792	-	-
TOTAL	**$ 231,587,205**	**$ 201,731,676**	**$ 209,437,380**	**$ 173,629,166**	**$ 991,204,668**	**$ 1,053,169,323**	**$ 201,099,030**	**$ 165,309,391**

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

Concentration of Credit Risk: Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments. As previously mentioned, credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of FY 2013 and 2012, there was no investment in a single issuer that represents 5% or more of total investments held by any single investment manager of the System Pools, except for investments issued by the U.S. government and money market fund investments held by the Short Term Fund.

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

The effective durations for fixed or variable income securities, for the System Pools, for FY 2013 and 2012 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2013	2012	2013	2012	2013	2012
U.S. GOVERNMENT OBLIGATIONS	5.6	5.0	5.4	5.5	1.8	1.9
MUNICIPAL GOVERNMENT OBLIGATIONS	0.0	0.0	0.0	0.0	0.2	1.8
CORPORATE BONDS	4.2	5.4	4.2	5.2	1.5	1.7
NON-US BONDS	0.0	0.0	0.0	0.0	1.5	1.7
COMMINGLED BOND FUNDS	1.5	0.6	2.3	1.5	2.3	2.3

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. For FY 2013 and 2012, the fair market value of these investments for the System Pools, are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2013	2012	2013	2012	2013	2012
MORTGAGE BACKED SECURITIES	$ -	$ -	$ -	$ -	$ 120,283,662	$ 50,978,064
COLLATERALIZED MORTGAGE OBLIGATIONS	-	428,837	-	176,195	50,078,274	57,695,598
TOTAL FIXED	$ -	**$ 428,837**	$ -	**$ 176,195**	**$ 170,361,936**	**$ 108,673,662**

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.

For FY 2013 and 2012 the effective durations for these securities are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2013	2012	2013	2012	2013	2012
MORTGAGE BACKED SECURITIES	-	-	-	-	0.7	1.7
COLLATERALIZED MORTGAGE OBLIGATIONS	-	2.6	-	2.7	1.0	1.1

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 and fixed income securities. Each international equity manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager's portfolio, measured at market value. Currency hedging of foreign bonds and stocks is allowed under System Policy. For FY 2013 and 2012, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately $1,000,000 and $8,900,000 of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund for FY 2013 and 2012, 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, 2013 and 2012, there were no securities on loan from the investment pools.

Note 4 – Accounts Receivable

The composition of accounts receivable for FY 2013 and 2012 is summarized as follows:

	2013	2012
Tuition and fees (net of allowance for doubtful accounts of $804,045 in 2013 and $804,045 in 2012)	$ 5,278,520	$ 5,308,162
Auxiliary enterprises and other operating activities	165,184	590,704
Federal, state, and private grants and contracts (net of allowance for doubtful accounts of $371,619 in 2013 and $245,559 in 2012)	20,834,626	14,827,375
Legal settlement receivable, net present value	860,391	818,329
Other	1,766,507	1,098,827
Net accounts receivable	$ 28,905,228	$ 22,643,397

Note 5 – Capital Assets

Capital assets activity for FY 2013 and 2012 is summarized as follows:

	October 1, 2012	Additions	Retirements	Adjustments	September 30, 2013
Land	$ 3,960,290	$ 3,653,083	$ (60,768)	$ -	$ 7,552,605
Land improvements and infrastructure	11,174,484	3,696,087	-	-	14,870,571
Buildings and building improvements	287,330,900	3,597,740	(299,232)	-	290,629,408
Construction in progress	2,224,158	16,956,124	-	(725,506)	18,454,776
Equipment	63,744,811	2,773,646	(1,089,684)	-	65,428,773
Library books	25,878,434	145,788	(78,547)	-	25,945,675
Computer software	2,939,750	-	-	-	2,939,750
Collections	510,305	614,097	-	-	1,124,402
Total cost of capital assets	397,763,132	31,436,565	(1,528,231)	(725,506)	426,945,960
Less accumulated depreciation	194,672,632	12,416,766	(988,155)	-	206,101,243
Capital assets, net	$ 203,090,500	$ 19,019,799	$ (540,076)	$ (725,506)	$ 220,844,717

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

Note 6 – Long-term Debt

Long-term debt activity for FY 2013 and 2012 is summarized as follows:

Type/Supported by	October 1, 2012	New Debt	Principal Repayment	September 30, 2013
Bonds:				
Student housing revenue	$ 43,446,000	$ -	$ 1,535,000	$ 41,911,000
General fee revenue	38,270,000	32,005,000	1,915,000	68,360,000
Note payable	-	1,843,000	-	1,843,000
Total debts	81,716,000	$ 33,848,000	$ 3,450,000	112,114,000
Less current portion	(3,450,000)			(4,603,600)
(Discount) or premium	(311,500)			282,200
Total long-term debt	$ 77,954,500			$ 107,792,600

Type/Supported by	October 1, 2011	New Debt	Principal Repayment	September 30, 2012
Bonds:				
Student housing revenue	$ 52,401,000	$ -	$ 8,955,000	$ 43,446,000
General fee revenue	31,125,000	24,870,000	17,725,000	38,270,000
Note payable	125,000	-	125,000	-
Total debts	83,651,000	$ 24,870,000	$ 26,805,000	81,716,000
Less current portion	(2,790,000)			(3,450,000)
(Discount) or premium	(561,700)			(311,500)
Total long-term debt	$ 80,299,300			$ 77,954,500

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

	Principal	Interest	Total
2014	$ 4,603,600	$ 3,971,281	$ 8,574,881
2015	4,698,600	$ 3,556,358	$ 8,254,958
2016	4,818,600	$ 3,770,833	$ 8,589,433
2017	4,143,600	$ 3,656,293	$ 7,799,893
2018	4,253,600	$ 3,560,560	$ 7,814,160
2019-2023	21,111,000	$ 16,036,399	$ 37,147,399
2024-2028	23,015,000	$ 11,936,040	$ 34,951,040
2029-2033	16,465,000	$ 7,831,810	$ 24,296,810
2034-2038	14,035,000	$ 4,615,711	$ 18,650,711
2039-2043	14,970,000	$ 1,566,886	$ 16,536,886
	$ 112,114,000	$ 60,502,171	$ 172,616,171

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

Description and Purpose	Date Issued	Final Maturity	Interest Rate - %	Original Indebtedness	Outstanding Indebtedness September 30, 2013	Outstanding Indebtedness September 30, 2012
Bonds Payable:						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	$ 2,180,000	$ 605,000	$ 680,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	776,000	866,000
Student Housing Revenue Bonds-Series 2004-A	9/30/2004	9/1/2034	3.00-4.625	13,130,000	10,705,000	11,010,000
Student Housing Revenue Bonds-Series 2004-B	9/30/2004	9/1/2016	3.00-3.625	7,515,000	2,215,000	2,900,000
Revenue Bonds-Series 2005-A	10/1/2005	6/1/2025	3.00-4.375	8,580,000	5,810,000	6,185,000
Revenue Bonds-Series 2009A	8/4/2009	7/1/2029	3.0-4.50	8,115,000	6,905,000	7,215,000
Student Housing Revenue Bonds-Series 2010-A	7/14/2010	6/1/2042	2.85-6.125	27,990,000	27,610,000	27,990,000
General Fee Revenue Bonds-Series 2012-A	4/3/2012	10/1/2031	0.73-4.28	11,170,000	10,700,000	11,170,000
General Fee Revenue Bonds-Series 2012-B	9/5/2012	12/1/2026	0.74-3.84	13,700,000	12,940,000	13,700,000
General Fee Revenue Bonds-Series 2013-A-1	4/4/2013	4/1/2023	1.57	7,550,000	7,550,000	-
General Fee Revenue Bonds-Series 2013-A-2	4/4/2013	4/1/1943	4.00	24,455,000	24,455,000	-
Total Bonds Payable				126,987,000	110,271,000	81,716,000
Note Payable:						
UAH Foundation	7/10/2013	7/1/2018		1,843,000	1,843,000	-
Total Note Payable				1,843,000	1,843,000	-
Total Debt				$ 128,830,000	$ 112,114,000	$ 81,716,000

During FY 2013 the University issued General Fee Revenue Bonds - Series 2013-A-1 and 2013-A-2 for the purpose of constructing and equipping of a new Charger Union facility, constructing and equipping of a Nursing Building expansion, and other related campus infrastructure improvements and additions. The Series 2013-A-1 bond was privately issued in April 2013 directly to a bank for $7,550,000. This bond principal matures each year from 2014 until 2023 and carries an interest rate of 1.57%. The Series 2013-A-2 bonds were also issued in April 2013 in the form of $16,445,000 serial bonds with principal maturing each year from 2024 through 2038 and an $8,010,000 term bond maturing in 2043. Each form of the Series 2013-A-2 bonds carries an interest rate of 4.00%.

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

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

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

The University's general fee bonds and student housing bonds are subject to certain covenants. These covenants, among other things, require the University to establish and maintain reasonable fees, rates, and other charges to ensure pledged revenues are sufficient for debt service coverage; to maintain books and records pertaining to the pledged revenues; to furnish annual audits and other periodic reports that reflect the financial condition of the Borrower, the project, other pledged facilities, and other pledged assets; and to comply with certain restrictions as to additional indebtedness. The University is in compliance with all restrictive financial covenants as of September 30, 2013.

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 position include a reserve of $326,168 and $283,776 for general liability for FY 2013 and 2012, respectively.

The University also maintains a self-insurance health plan. For FY 2013, the University paid $21.50 and $5.00 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 $1,179,280 and $1,114,627 for health insurance for FY 2013 and 2012, 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:

	2013	2012
Balance, beginning of year	$ 1,398,403	$ 3,019,219
Claims paid	(9,434,244)	(8,531,979)
Contributions and adjustments	9,541,289	6,911,163
Balance, end of year	$ 1,505,448	$ 1,398,403

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) and the

Variable Annuity Life Insurance Company (VALIC). TRS is a defined benefit plan while the TIAA – CREF and VALIC programs are defined contribution plans.

The TRS was established as of September 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 were hired before January 1, 2013, (Tier 1 employees) 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.

Participants in TRS hired on or after January 1, 2013, (Tier 2 employees) who retire at age 62 with 10 years or more of credited service, are entitled to an annual monthly benefit, payable 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 1.65% of their final average salary (average of highest five years of annual compensation during the last 10 years of service) for each year of service up to a benefit cap of 80% of average final salary. A participant terminating before reaching retirement age, but after completing 10 years of credited service, is eligible for a vested allowance at age 62 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:

	2013	2012
University contributions	$ 9,654,665	$ 9,406,114
Employee contributions	7,167,693	6,825,737
Total contributions	$ 16,822,358	$ 16,231,851

	2013 Tier 1	2013 Tier 2	2012
University contribution regular rate	10.08%	9.44%	10.00%
Employee contribution rate	7.50%	6.00%	7.25%
Employee contribution law enforcement rate	8.50%	7.00%	8.25%

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, 2012 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. State law required employee contribution rates for Teachers' Retirement to increase to 7.50% and 8.50%. The new rates took effect October 1, 2012.

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, 2012 (the most recent valuation date) and September 30, 2011 for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately as follows:

	2012	2011
Actuarial accrued liability (AAL)	$ 28,251,367,000	$ 28,776,316,000
Actuarial valuations of assets	18,786,008,000	19,430,135,000
Overfunded (underfunded) AAL	$ (9,465,359,000)	$ (9,346,181,000)

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 they accrue and, along with that of employees, are immediately and fully vested.

The contributions for FY 2013 and 2012, excluding amounts from employees who are not eligible for matching, are summarized as follows:

	2013	2012
University contributions	$ 2,881,646	$ 2,802,757
Employee contributions	5,457,994	4,979,596
Total contributions	$ 8,339,640	$ 7,782,353

The University's total salaries and wages subject to benefit plan participation for FY 2013 and 2012 are summarized in the table below:

	2013	2012
Total Salaries and Wages	$ 110,787,026	$ 106,531,600
Salaries and Wages of employees participating in:		
TRS	$ 96,142,144	$ 94,337,504
TIAA - CREF	$ 59,981,242	$ 58,594,950

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

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

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

PEEHIP. PEEHIP is a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board. PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan are subject to a lifetime contract maximum of $1,000,000 for each covered individual. The *Code of Alabama 1975,* Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers. The required rates of retirees are as follows for FY 2013:

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

The required contribution rate of the employer was $336 per employee per month for FY 2013. The University paid $1,405,824 and $1,525,140 for 358 and 345 retirees for FY 2013 and 2012, respectively. The required contribution rate is determined by PEEHIP in accordance with State statute. The complete financial report for PEEHIP can be obtained at the Public Education Employees' Health Insurance Plan website http://www.rsa-al.gov/PEEHIP/peehip.html under the Trust Fund Financials tab.

Note 10 – Compensated Absences

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. The statement of net position includes vacation pay and salary-related payments associated with vacation pay accruals of $4,610,600 and $4,570,813 for FY 2013 and 2012, respectively. There is no such accrual recognized for sick leave benefits because no terminal cash benefit is available to employees for accumulated sick leave.

Note 11 – Federal Direct Lending Program

The Federal Direct Student Loan Program (“FDSLP”) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. For FY 2013 and 2012, the University disbursed $28,425,788 and $29,954,101 respectively, under the FDSLP.

Note 12 – Contracts and Grants

For FY 2013, the University was awarded approximately $60.2 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 FY 2013, the University received and expended federal funding under the American Recovery and Reinvestment Act (“ARRA”). In 2013, those funds were primarily in the form of sponsored research grants in the amount of $1,137,748.

Note 13 – Contingencies and Commitments

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

The University has contracted for the construction and renovation of several facilities. At September 30, 2013, the estimated remaining cost to complete the construction and renovation of these facilities was approximately $23.5 million which is expected to be financed from grants, bond proceeds, University funds and private gifts.

Note 14 – Operating Expenses by Function

Operating expenses by functional classification for FY 2013 and 2012 are summarized as follows:

	Year Ended September 30, 2013					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 34,437,189	$ 10,792,058	$ 3,642,019	$ -	$ -	$ 48,871,266
Research	48,463,342	14,364,788	18,914,969	-	-	81,743,099
Public service	1,834,775	539,127	2,448,418	-	-	4,822,320
Academic support	5,439,264	1,540,081	2,836,498	-	-	9,815,843
Student services	5,987,761	1,808,127	6,001,062	-	-	13,796,950
Institutional support	9,667,027	2,072,926	6,308,063	-	-	18,048,016
Operations and maintenance of plant	3,775,968	1,351,575	7,354,395	-	-	12,481,938
Scholarships and fellowships	-	-	-	-	1,090,063	1,090,063
Auxiliary enterprises	1,181,700	290,349	2,993,435	-	-	4,465,484
Depreciation	-	-	-	12,416,766	-	12,416,766
Total Operating Expenses	$ 110,787,026	$ 32,759,031	$ 50,498,859	$ 12,416,766	$ 1,090,063	$ 207,551,745

	Year Ended September 30, 2012					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 34,072,855	$ 11,016,319	$ 5,140,925	$ -	$ -	$ 50,230,099
Research	46,916,513	13,373,299	16,083,711	-	-	76,373,523
Public service	1,014,439	275,963	1,479,162	-	-	2,769,564
Academic support	5,353,644	1,506,099	2,343,789	-	-	9,203,532
Student services	5,637,651	1,659,419	5,666,793	-	-	12,963,863
Institutional support	8,636,067	781,270	6,200,839	-	-	15,618,176
Operations and maintenance of plant	3,801,292	1,382,870	6,490,876	-	-	11,675,038
Scholarships and fellowships	-	-	-	-	606,364	606,364
Auxiliary enterprises	1,099,139	264,811	2,655,014	-	-	4,018,964
Depreciation	-	-	-	12,171,441	-	12,171,441
Total Operating Expenses	$ 106,531,600	$ 30,260,050	$ 46,061,109	$ 12,171,441	$ 606,364	$ 195,630,564

Note 15 – Recently Issued Accounting Standards

The GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* ("GASB 60"), in November 2010. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements ("SCAs"), which area type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University adopted GASB 60 during FY 2013 with no material impact to its financial statements.

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34("GASB 61")*, in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The Statement also clarifies the reporting of equity interests in legally separate organizations. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The University adopted GASB 61 during FY 2013 with no material impact to its financial statements.

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB 62")*, in December 2010. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB Statements and Interpretations, Accounting Principles Board Opinions and AICPA Accounting Research Bulletins issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements. This Statement also supersedes GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements. However, those entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University adopted GASB 62 during FY 2013 with no material impact to its financial statements.

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"), in June 2011. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements,* introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. GASB 63 also renames the measure "net assets" to be "net position". The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University adopted GASB 63 during FY 2013 and has conformed its financial statement presentation for this guidance.

The GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"), in March 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The University early adopted GASB 65 during FY 2013 and conformed its 2012 financial statement presentation for this guidance, the effect of which was not significant.

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

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

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

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

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

- **Unrestricted**- Net assets that are not subject to donor-imposed stipulations.
- **Temporarily Restricted**- Net assets subject to donor-imposed stipulations that may or will be met either by actions of UAHF and/or the passage of time.
- **Permanently Restricted**- Net assets subject to donor-imposed stipulations to be maintained permanently by UAHF. Generally, the donors of these assets restrict UAHF to use all or a part of the income earned on the related investments for specific purposes. Unrealized and realized gains and losses and dividends and interest from investing in income producing assets may be included in any of these net asset classifications depending on donor-imposed stipulations.

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

Investments – The cost and reported value of investments at September 30, 2013 and 2012 are presented below:

	2013		2012	
	Reported Value	Cost	Reported Value	Cost
Certificates of deposit	$ 504,520	$ 504,520	$ 592,286	$ 592,286
Pooled Endowment Fund	35,899,846	34,014,884	34,001,718	33,686,503
Marketable debt securities	722,009	733,218	780,301	777,486
Marketable equity securities	1,455,922	1,154,319	1,328,378	1,174,906
Mutual funds	1,031,169	934,557	1,549,387	1,477,929
Total	$ 39,613,466	$ 37,341,498	$ 38,252,070	$ 37,709,110

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

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

During 2008, one of the income interests terminated, and a pro-rata distribution of the ownership interests held by the trust were transferred to UAHF. As a result of the satisfaction of a pro-rata share of the pledge, UAHF recognized a gain of $4,375,835 representing the increase in fair value of the noncash assets between the date the assets were promised in 1974 and their values upon actual receipt in 2008. As a result of the receipt of these equity interests, UAHF currently holds approximately 21% and 19.5% of Big Springs and Chambers, respectively. These equity interests allow UAHF to exercise significant influence over Big Springs and Chambers, and accordingly, UAHF accounts for these interests in under the equity method of accounting. During the years ended September 30, 2013 and 2012, UAHF recorded its proportionate share of earnings of each company (on a combined basis) of $594,251 and $747,611, respectively. In addition, UAHF received distributions from Chambers of $550,485 and $653,250 in 2013 and 2012, respectively. Big Springs did not make any distributions in either 2013 or 2012.

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

The following summarizes the combined financial position and results of operations of Big Springs and Chambers (on a consolidated basis) for the years ended September 30, 2013 and 2012:

	2013	2012
Current Assets	$ 18,093,689	$ 18,262,557
Noncurrent Assets	11,794,572	12,785,897
Current Liabilities	(3,502,034)	(4,364,272)
Noncurrent Liabilities	(257,493)	(786,854)
Equity	$ 26,128,734	$ 25,897,328
Net Sales	$ 36,080,676	$ 67,571,005
Operating Income	$ 1,768,001	$ 1,227,295
Net Income	$ 3,052,625	$ 3,661,124

Income Taxes-The Foundation is a nonprofit corporation that is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue code for activities related to its exempt purpose. Certain of the Foundation's activities are considered by the Internal Revenue Service to provide unrelated business income and, accordingly, income from these activities is subject to federal income tax. The Foundation's income tax expense totaled $306,200 and $173,459 for the years ended September 30, 2013 and 2012, respectively.

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

Restricted Net Assets-Restricted net assets are classified as either temporarily restricted net assets and available for the following purposes, or permanently restricted net assets, which are restricted to investment in perpetuity, the income from which is expendable for the following purposes at September 30, 2013 and 2012:

	Temporarily Restricted		Permanently Restricted	
	2013	2012	2013	2012
Student support	$4,148,249	$ 3,718,363	$ 10,758,833	$ 10,272,424
Faculty support	2,417,674	2,097,051	5,959,331	5,932,992
Academic support	2,621,331	2,448,974	3,312,293	3,311,293
Facilities renovation	116,229	100,164	-	-
Research	123,587	81,068	-	-
Library	56,047	51,232	50,428	50,428
Total	$ 9,483,117	$ 8,496,852	$ 20,080,885	$ 19,567,137

Note 17 - Legal Settlement Receivable

In July 2006, Nektar Therapeutics (Nektar) and the University announced the settlement of the University's litigation against Nektar and Dr. Milton Harris, in exchange for a total cash payment of $25,000,000. Under the terms of the agreement, Nektar and Dr. Harris jointly made an upfront payment totaling $15,000,000 to the University during fiscal year 2006 with remaining payments due through 2016. Included in the statements of net position is the net present value of the remaining payments owed to the University of $2,716,120 and $3,534,449 as of FY 2013 and 2012, respectively.

Note 18 - 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 FY 2013 and 2012, is as follows:

Condensed Balance Sheets

	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	2013	**2012**	**2013**	**2012**
Assets				
Current assets	$ 179,193	$ 271,843	$ 154,891	$ 154,891
Capital assets, net of accumulated depreciation	980,148	1,103,813	976,938	1,107,067
Total assets	$ 1,159,341	$ 1,375,656	$ 1,131,829	$ 1,261,958
Liabilities				
Current liabilities	$ 483,737	$ 85,071	$ 1,200,910	$ 661,749
Noncurrent liabilities	525,000	605,000	892,125	811,397
Total liabilities	$ 1,008,737	$ 690,071	$ 2,093,035	$ 1,473,146
Net assets				
Invested in capital assets, net of related debt	$ 375,148	$ 423,813	$ 200,938	$ 241,067
Restricted				
Expendable	152,000	132,000	280,000	280,000
Unrestricted	(376,544)	129,772	(1,442,144)	(732,255)
Total net position	150,604	685,585	(961,206)	(211,188)
Total liabilities and net position	$ 1,159,341	$ 1,375,656	$ 1,131,829	$ 1,261,958

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	2013	**2012**	**2013**	**2012**
Operating revenues	$ 383,869	$ 707,306	$ 308,609	$ 783,912
Operating expenses	(793,870)	(759,334)	(902,318)	(826,172)
Depreciation expense	(123,665)	(123,665)	(130,129)	(130,129)
Operating income (loss)	(533,666)	(175,693)	(723,838)	(172,389)
Nonoperating expenses	(1,315)	(3,566)	(26,180)	(28,793)
Transfers from general fund	-	301,697	-	-
Changes in net position	(534,981)	122,438	(750,018)	(201,182)
Net position, beginning of year	685,585	563,147	(211,188)	(10,006)
Net position, end of year	$ 150,604	$ 685,585	$ (961,206)	$ (211,188)

Condensed Statements of Cash Flows

	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	2013	**2012**	**2013**	**2012**
Cash flows from				
Operating activities	$ (390,937)	$ (32,965)	$ (983,754)	$ (445,855)
Capital and related financing activities	298,287	(98,566)	983,754	445,855
Net increase (decrease) in cash	(92,650)	(131,531)	-	-
Cash, beginning of year	92,650	224,181	-	-
Cash, end of year	$ -	$ 92,650	$ -	$ -

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