

# UAH

The University of Alabama in Huntsville

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## FINANCIAL REPORT

2004

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**FINANCIAL REPORT  
2003 – 2004**



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**The University  
of Alabama  
in Huntsville**

A Space Grant College  
An Affirmative Action/Equal Opportunity Institution

## The University of Alabama in Huntsville

### Management's Discussion and Analysis (Unaudited)

This section of The University of Alabama in Huntsville (the University) annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal year ended September 30, 2004. This discussion has been prepared by University management and should be read in conjunction with the financial statements and the related footnotes. The financial statements, footnotes and this discussion are the responsibility of University management.

#### Introduction

The University is a public research university that offers 62 degree-granting programs that meet the highest standards of excellence, including 35 bachelor's degree programs, 17 master's degree programs, and 10 Ph.D. programs through its five colleges: Administrative Science, Liberal Arts, Engineering, Nursing, and Science. The University is an autonomous campus within The University of Alabama System (the System).

The University received \$53.6 million for externally funded projects during fiscal year 2004. Sponsors of research include federal and state agencies, academic institutions, industry and private foundations. Research is conducted within the individual colleges and through the University's 19 independent research centers, laboratories and institutes. Major interdisciplinary research thrusts include: optics; propulsion; space physics and astrophysics; earth system science; information technology; microgravity and materials; modeling and simulation; biotechnology; nanotechnology; and systems engineering.

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

#### Recent Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, which applies the new reporting standards to public colleges and universities. The University adopted GASB Statement No. 37, *Basic Financial Statement - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures on*

October 1, 2001. Statement No. 37 clarifies guidance to be used in preparing management's discussion and analysis and Statement No. 38 modifies, adds and deletes various note disclosure requirements.

Significant changes to the financial statements are as follows:

- Financial statements are presented to focus on the University as a whole. Previously, financial statements focused on individual fund groups.
- The statement of net assets separates current from noncurrent assets and liabilities and classifies net assets into three categories: invested in capital, net of related debt; restricted (nonexpendable/expendable); and unrestricted.
- The statement of revenues, expenses, and changes in net assets distinguishes operating from nonoperating revenues and expenses. Certain significant revenues relied upon for fundamental operational support of the core instructional mission of the University, including state appropriations, private gifts and investment income, are mandated by GASB Statement No. 34 to be reported as nonoperating revenues. Previously, there was not a concept of operating income or loss, and state appropriations and investment income were appropriately matched with the associated expenses.
- The statement of cash flows distinguishes the University's cash flow activity into four categories: operating activities, noncapital financing activities, capital and related financing activities and investing activities. Previously, a cash flow statement was not required.
- Payments made directly to students continue to be classified as scholarship and fellowship expenses. All scholarships and fellowships were previously classified as expenses. Scholarship allowances applied to student accounts are now required to be presented as an offset to tuition and fees, and auxiliary revenue. Scholarship allowances applied to student accounts reduced both operating revenue and operating expense in the statement of revenues, expenses, and changes in net assets.

### **Financial and Enrollment Highlights**

- Federal operating revenues increased by \$4.8 million, or 11.7% due primarily to funding from the Division of Army of the Department of Defense. External funding of \$53.6 million increased 1.7% as compared to the prior year.
- Operating revenue increased 10.8 % primarily due to increases in externally funded contracts and grants activity and tuition revenues.

- Compared to prior year, full time equivalent students increased 1.7% and degrees conferred increased by 12.1%.

**Equivalent Full-time Student Enrollment (FTE)**

	2000	2001	2002	2003	2004
Undergraduate	3600	3756	3894	4142	4283
Graduate	722	714	805	855	798
<b>Total</b>	<b>4322</b>	<b>4470</b>	<b>4699</b>	<b>4997</b>	<b>5081</b>

FTE calculated using ACHE formula; Undergraduate credit hour production (chp)/15; graduate I chp/12; graduate II chp/9.

**Historical Fall Headcount by Earned Hours**

	2000	2001	2002	2003	2004
Graduates	1343	1288	1447	1570	1513
Seniors	1251	1395	1335	1327	1398
Juniors	985	1052	1034	1106	1114
Sophomores	868	882	945	972	1063
Freshmen	1679	1309	1310	1484	1472
Others	437	828	974	592	476
<b>Total</b>	<b>6563</b>	<b>6754</b>	<b>7045</b>	<b>7051</b>	<b>7036</b>

**Degrees Conferred**

	2000	2001	2002	2003	2004
Bachelor's	673	646	735	807	810
Master's	293	311	269	258	379
Doctorate	29	30	34	21	31
Certificate	11	12	11	17	16
<b>Total</b>	<b>1006</b>	<b>999</b>	<b>1049</b>	<b>1103</b>	<b>1236</b>

- Appropriations for operations of \$37.4 million were received in fiscal year 2004 from the State of Alabama, an increase of approximately \$318,000 or 0.9% from the previous fiscal year.

**Statement of Net Assets**

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

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

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

A summarized comparison of the University’s assets, liabilities and net assets:

<b>Summary of Statements of Net Assets</b>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current assets	\$ 45,507,127	\$ 42,633,810	\$ 36,768,566
Noncurrent assets:			
Endowment, life income and other investments	49,568,127	30,096,379	28,012,633
Capital assets, net	119,403,232	119,715,871	115,635,545
Other	2,498,541	1,799,413	2,295,196
<b>Total assets</b>	<u>216,977,027</u>	<u>194,245,473</u>	<u>182,711,940</u>
Current liabilities	24,950,674	21,572,456	19,381,399
Noncurrent liabilities	60,046,000	48,621,057	48,624,203
<b>Total liabilities</b>	<u>84,996,674</u>	<u>70,193,513</u>	<u>68,005,602</u>
Net assets			
Invested in capital assets, net of related debt	71,680,503	71,489,473	68,814,746
Restricted	7,412,483	7,175,037	6,802,645
Unrestricted	52,887,367	45,387,450	39,088,947
<b>Total net assets</b>	<u><b>\$ 131,980,353</b></u>	<u><b>\$ 124,051,960</b></u>	<u><b>\$ 114,706,338</b></u>

For the year ending September 30, 2004, the University’s total net assets increased 6.4%. The University’s investments in capital assets, net of related debt, increased \$191,030. The increase in restricted net assets of \$237,446 reflects the increase in market value of investments held for endowment purposes. Unrestricted net assets increased \$7.5 million. Although unrestricted net assets are not subject to externally imposed stipulations,

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

For the year ending September 30, 2003, the University’s total net assets increased 8.1%. The University’s investments in capital assets, net of related debt, increased \$2.7 million primarily due to acquisition of nonoperating capital projects funded by the federal government and private gifts. The increase in restricted net assets of \$372,392 reflects the increase in market value of investments held for endowment purposes. Unrestricted net assets increased \$6.3 million.

**Capital Assets**

At September 30, 2004, the University had approximately \$237.5 million invested in capital assets and accumulated depreciation of \$118.1 million. Depreciation charges for the current year totaled \$9.1 million compared to \$9.2 million in the prior year.

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

<b>Capital Assets, Net</b>			
	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
Land	\$ 2,981,802	\$ 3,377,217	\$ 2,226,932
Land improvements and infrastructure, net	900,511	1,009,644	859,980
Buildings, net	97,934,211	98,501,835	95,779,512
Equipment, net	13,213,986	12,544,828	12,617,916
Library books, net	4,372,722	4,282,347	4,151,205
<b>Total capital assets, net</b>	<b><u>\$ 119,403,232</u></b>	<b><u>\$ 119,715,871</u></b>	<b><u>\$ 115,635,545</u></b>

Major capital expenditures during the year ended September 30, 2004, included the construction of North Campus Residence Hall Phase 2 and the Applied Science Building. Funding for these projects was provided by a combination of private gifts and University resources.

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

**Bonds, Notes, and Capital Leases**

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

<b>Bonds, Notes, and Capital Leases</b>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Bonds	\$ 61,876,000	\$ 49,836,000	\$ 49,421,000
Mortgages payable	-	40,237	44,071
Lease obligations	-	363,092	485,086
<b>Total debt outstanding</b>	<b>\$ 61,876,000</b>	<b>\$ 50,239,329</b>	<b>\$ 49,950,157</b>

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

**Statement of Revenues, Expenses, and Changes in Net Assets**

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenses, and changes in net assets, which presents the University’s results of operations. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the University. Annual state appropriations are considered nonoperating revenues according to generally accepted accounting principles, while the funds are used to support the operations of the University.

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



<b>Summary of Statements of Revenues, Expenses, and Changes in Net Assets</b>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating revenues:			
Tuition and fees	\$ 31,997,670	\$ 28,161,025	\$ 25,169,513
Less: scholarship allowances	7,283,473	6,544,827	5,618,793
Tuition and fees, net	24,714,197	21,616,198	19,550,720
Federal, state and private grants and contracts	50,552,812	45,991,963	44,816,985
Sales and services of educational departments	2,606,536	2,686,355	2,521,637
Auxiliary, net	4,593,743	4,111,973	3,077,019
	82,467,288	74,406,489	69,966,361
Operating expenses	117,287,825	110,479,899	104,808,057
Operating loss	(34,820,537)	(36,073,410)	(34,841,696)
Nonoperating revenues (expenses):			
State appropriations	37,430,572	37,112,378	36,588,114
Private gifts	2,391,172	1,913,437	2,268,584
Net investment income	4,647,883	3,777,722	291,227
Loss on disposal of capital assets	(49,820)	(121,520)	(448,863)
Interest expense	(2,289,260)	(2,040,691)	(2,312,987)
Capital state appropriations	-	-	907,498
Capital gifts and grants	618,383	4,777,706	11,288,369
Net nonoperating revenues	42,748,930	45,419,032	48,581,942
Increase in net assets	7,928,393	9,345,622	13,740,246
Net assets, beginning of year	124,051,960	114,706,338	100,966,092
<b>Net assets, end of year</b>	<b>\$ 131,980,353</b>	<b>\$ 124,051,960</b>	<b>\$ 114,706,338</b>

The following is a summary of revenues by source (both operating and nonoperating), which are used to fund the University's operating activities. Significant recurring sources of the University's revenues, such as state appropriations, are considered nonoperating, as defined by GASB Statement No. 35.

<b>Revenue Sources</b>						
	<u>2004</u>		<u>2003</u>		<u>2002</u>	
State appropriations	\$37,430,572	29.4%	\$37,112,378	30.4%	\$37,495,612	31.0%
Investment income	4,647,883	3.6%	3,777,722	3.1%	291,227	0.2%
Contracts and grants	51,171,195	40.1%	47,661,060	39.1%	53,899,224	44.4%
Gifts	2,391,172	1.9%	5,022,046	4.1%	4,474,714	3.7%
Auxiliary	4,593,743	3.6%	4,111,973	3.4%	3,077,019	2.5%
Net tuition and fees	24,714,197	19.4%	21,616,198	17.7%	19,550,720	16.1%
Sales and services	2,606,536	2.0%	2,686,355	2.2%	2,521,637	2.1%
<b>Total revenues</b>	<b>\$127,555,298</b>		<b>\$121,987,732</b>		<b>\$121,310,153</b>	

The University receives grant and contract revenue from federal, state and local governments and private agencies. These funds are used to further the mission of the University: research, education, and public service. These funds were received in exchange for services performed and are recorded as operating revenues. The following is an illustration of the breakout of the funding sources for operating grant and contract revenue:

<b>Detail of Federal Operating Revenue</b>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>
National Aeronautics and Space Administration	\$ 21,729,063	\$ 20,760,699	\$ 19,620,863
Department of Defense	12,847,264	7,995,789	9,325,349
National Science Foundation	3,076,057	3,332,915	3,925,690
Department of Education	4,006,614	4,449,251	3,549,894
Other	4,368,795	4,671,177	3,968,675
<b>Total</b>	<b>\$ 46,027,793</b>	<b>\$ 41,209,831</b>	<b>\$ 40,390,471</b>

The following is a comparison of the University's operating expenses:

<b>Operating expenses (by functional classification)</b>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Instruction	\$ 32,868,400	\$ 31,487,061	\$ 31,218,288
Research	39,485,541	36,256,240	35,142,193
Public service	3,804,260	2,614,994	1,441,379
Academic support	4,383,913	4,224,330	4,030,532
Student services	6,986,483	7,379,666	6,221,870
Institutional support	9,376,108	9,052,078	8,825,261
Operations and maintenance of plant	7,636,922	6,650,125	6,441,468
Scholarships and fellowships	583,429	645,259	730,533
Auxiliary enterprises	3,072,659	2,939,869	2,235,883
Depreciation	9,090,110	9,230,277	8,520,650
<b>Total operating expenses</b>	<b>\$ 117,287,825</b>	<b>\$ 110,479,899</b>	<b>\$ 104,808,057</b>

  

<b>Operating expenses (by natural classification)</b>			
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Compensation and benefits	\$ 78,894,920	\$ 74,400,579	\$ 67,168,614
Supplies and services	28,719,366	26,203,784	28,388,260
Depreciation	9,090,110	9,230,277	8,520,650
Scholarships and fellowships	583,429	645,259	730,533
<b>Total operating expenses</b>	<b>\$ 117,287,825</b>	<b>\$ 110,479,899</b>	<b>\$ 104,808,057</b>

### **Economic Factors That Will Affect the Future**

The University's state appropriations have not kept pace with the amounts recommended by the Alabama Commission on Higher Education (ACHE). The University is currently funded at about 61% of the ACHE funding recommendation.

The University continues to attract federal grant and contract revenue. Over 75% of the University's federal research revenue comes from two agencies: the National Aeronautical and Space Administration and the Department of Defense. The outcome of the federal budget process has important ramifications for the University's research budget.

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

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



**KPMG LLP**  
1900 Nashville City Center  
511 Union Street  
Nashville, TN 37219-1735

## Independent Auditors' Report

To the Board of Trustees of the University of Alabama  
and the President of the University of Alabama in Huntsville:

We have audited the accompanying statement of the net assets of the business-type activities and the discretely presented component unit of the University of Alabama in Huntsville (UAH), one of the campuses of the University of Alabama System which is a component unit of the State of Alabama, and the related statements of revenues, expenses, and changes in net assets and cash flows, where applicable, as of and for the years ended September 30, 2004 and 2003, which collectively comprise UAH's basic financial statements. These basic financial statements are the responsibility of UAH's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 1, the financial statements of UAH 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 University of Alabama System that is attributable to the transactions of UAH. They do not purport to and do not present fairly the financial position of the University of Alabama System as of September 30, 2004 and its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component unit as of September 30, 2004 and 2003, and the respective changes in its financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the financial statements, UAH has adopted the provisions of Government Accounting Standards Board Statement No. 39, *Determining whether Certain Organizations are Component Units*, as of October 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2004 on our consideration of UAH'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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 10 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

**KPMG LLP**

November 24, 2004

KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENTS OF NET ASSETS**  
**September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,655,873	\$ 15,143,060
Operating investments	26,322,926	14,649,093
Accounts receivable, net	12,884,725	9,259,692
Other current assets	3,643,603	3,581,965
Total current assets	<u>45,507,127</u>	<u>42,633,810</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	12,185,051	602,646
Endowment investments	3,846,179	3,456,836
Investments for capital activities	33,536,897	26,036,897
Capital assets, net	119,403,232	119,715,871
Other noncurrent assets	2,498,541	1,799,413
Total noncurrent assets	<u>171,469,900</u>	<u>151,611,663</u>
<b>Total Assets</b>	<b><u>\$ 216,977,027</u></b>	<b><u>\$ 194,245,473</u></b>
 <b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 10,576,357	\$ 7,760,487
Deferred revenues	12,085,250	11,832,449
Current portion of long-term debt	1,830,000	1,618,272
Deposits held for others	459,067	361,248
Total current liabilities	<u>24,950,674</u>	<u>21,572,456</u>
Noncurrent Liabilities:		
Long-term debt	60,046,000	48,621,057
Total noncurrent liabilities	<u>60,046,000</u>	<u>48,621,057</u>
<b>Total Liabilities</b>	<b><u>84,996,674</u></b>	<b><u>70,193,513</u></b>
Net Assets:		
Invested in capital assets, net of related debt	71,680,503	71,489,473
Restricted:		
Nonexpendable	1,777,384	1,762,703
Expendable	5,635,099	5,412,334
Unrestricted	52,887,367	45,387,450
<b>Total Net Assets</b>	<u>131,980,353</u>	<u>124,051,960</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 216,977,027</u></b>	<b><u>\$ 194,245,473</u></b>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION  
DISCRETELY PRESENTED COMPONENT UNIT  
STATEMENT OF FINANCIAL POSITION  
September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 4,382,546	\$ 6,742,275
Investments	21,897,650	16,408,311
Investment real estate	4,290,471	4,196,742
Accrued interest	165,159	170,994
Mortgages receivable	130,029	183,923
Pledges receivable	407,617	108,236
Collections	60,390	60,390
Land, buildings, equipment, net	1,871,370	1,863,184
<b>Total Assets</b>	<u>33,205,232</u>	<u>29,734,055</u>
<b>Liabilities</b>		
Accounts payable	\$ 18,130	\$ 47,570
Annuity liability	392,299	421,909
Mortgage payable	-	40,307
<b>Total Liabilities</b>	<u>410,429</u>	<u>509,786</u>
<b>Net Assets</b>		
Unrestricted net assets	11,273,154	10,808,294
Temporarily restricted net assets	9,598,979	7,321,390
Permanently restricted net assets	11,922,670	11,094,585
<b>Total Net Assets</b>	<u>32,794,803</u>	<u>29,224,269</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 33,205,232</u>	<u>\$ 29,734,055</u>

See accompanying notes to financial statements

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**Years Ended September 30, 2004 and 2003**

	<u><b>2004</b></u>	<u><b>2003</b></u>
<b>Operating Revenues</b>		
Tuition and fees	\$ 31,997,670	\$ 28,161,025
Less: scholarship allowances	(7,283,473)	(6,544,827)
Tuition and fees, net	<u>24,714,197</u>	<u>21,616,198</u>
Grants and contracts		
Federal	46,027,793	41,209,831
State	997,584	971,415
Private	3,527,435	3,810,717
Sales and services of educational departments	2,606,536	2,686,355
Auxiliary, net of \$292,593 in 2004 and \$295,868 in 2003 of scholarship allowances	4,593,743	4,111,973
<b>Total Operating Revenues</b>	<u><b>82,467,288</b></u>	<u><b>74,406,489</b></u>
<b>Operating Expenses</b>		
Compensation and benefits	78,894,920	74,400,579
Supplies and services	28,719,366	26,203,784
Depreciation	9,090,110	9,230,277
Scholarships and fellowships	583,429	645,259
<b>Total Operating Expenses</b>	<u><b>117,287,825</b></u>	<u><b>110,479,899</b></u>
Operating loss	(34,820,537)	(36,073,410)
<b>Nonoperating Revenues (Expenses)</b>		
State appropriations	37,430,572	37,112,378
Private gifts	2,391,172	1,913,437
Net investment income	4,647,883	3,777,722
Loss on disposal of capital assets	(49,820)	(121,520)
Interest expense	(2,289,260)	(2,040,691)
<b>Net Nonoperating Revenues</b>	<u>42,130,547</u>	<u>40,641,326</u>
Capital gifts and grants	618,383	4,777,706
	<u><b>42,748,930</b></u>	<u><b>45,419,032</b></u>
Increase in net assets	7,928,393	9,345,622
Net Assets, Beginning of Year	124,051,960	114,706,338
<b>Net Assets, End of Year</b>	<u><b>\$ 131,980,353</b></u>	<u><b>\$ 124,051,960</b></u>

See accompanying notes to financial statements

**UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION**  
**DISCRETELY PRESENTED COMPONENT UNIT**  
**STATEMENT OF ACTIVITIES**  
**Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Changes in net assets</b>		
<b>Revenue, gains, and other support:</b>		
Contributions	\$ 2,902,295	\$ 1,001,331
In-kind gifts	3,800	-
Rent income	23,000	51,828
Investment income	921,841	921,034
Unrealized gain/(loss) on investments	437,625	(3,122,787)
Realized gain/(loss) on sale of investments	1,629,046	7,323,421
Other income	8,470	11,155
Change in value of split-interest agreement	30,907	15,388
<b>Total Revenues</b>	<u><b>5,956,984</b></u>	<u><b>6,201,370</b></u>
<b>Expenses:</b>		
Contributions to or in support of UAH	1,465,033	2,121,168
Scholarships to UAH	639,734	398,093
Professional services	145,612	96,825
Interest expense	1,412	3,520
Purchase option	-	35,000
Depreciation	34,235	32,228
Other expenses	100,424	50,661
<b>Total Expenses</b>	<u><b>2,386,450</b></u>	<u><b>2,737,495</b></u>
Change in net assets	3,570,534	3,463,875
Net assets, beginning of year	29,224,269	25,760,394
<b>Net Assets, End of Year</b>	<u><u><b>\$ 32,794,803</b></u></u>	<u><u><b>\$ 29,224,269</b></u></u>

See accompanying notes to financial statements



**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENT OF CASH FLOWS**  
**Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Cash Flows from Operating Activities</b>		
Student tuition and fees	\$ 25,506,695	\$ 23,377,659
Federal grants and contracts	43,160,743	45,352,248
State grants and contracts	953,510	1,026,636
Private grants and contracts	3,371,591	2,566,414
Sales and services of educational and other departmental activities	2,596,372	2,671,506
Auxiliary enterprises	4,721,012	4,311,388
Payments to suppliers	(28,014,760)	(26,072,616)
Payments to employees and related fringes	(77,571,475)	(74,447,795)
Payments for scholarships and fellowships	(645,067)	(1,111,138)
<b>Net Cash Used in Operating Activities</b>	<u><b>(25,921,379)</b></u>	<u><b>(22,325,698)</b></u>
<b>Cash Flows from Investing Activities</b>		
Interest and dividends on investments, net	4,647,883	3,777,722
Proceeds from sales and maturities of investments	-	7,487,986
Purchase of investments	(19,563,176)	(14,978,568)
<b>Net Cash Used in Investing Activities</b>	<u><b>(14,915,293)</b></u>	<u><b>(3,712,860)</b></u>
<b>Cash Flows from Capital and Related Financing Activities</b>		
Proceeds from issuance of bonds	20,645,000	21,548,230
Principal refinanced	(7,150,000)	(20,500,000)
Bond issuance cost	(416,720)	(1,048,230)
Capital gifts, grants and contracts	618,383	3,143,361
Purchase of capital assets	(8,179,516)	(10,034,271)
Principal payments on capital debt	(1,858,329)	(1,325,673)
Interest payments on capital debt	(2,431,624)	(2,171,254)
<b>Net Cash Provided by Capital and Related Financing Activities</b>	<u><b>1,227,194</b></u>	<u><b>(10,387,837)</b></u>
<b>Cash Flows from Noncapital Financing Activities</b>		
State educational appropriations	37,430,572	37,112,378
Private gifts	2,391,172	1,913,437
Student direct lending receipts	13,450,052	12,352,405
Student direct lending disbursements	(14,664,919)	(12,686,538)
Amounts received from affiliates	360,942	296,158
Amounts paid to affiliates	(263,123)	(218,917)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u><b>38,704,696</b></u>	<u><b>38,768,923</b></u>
Net (decrease) increase in cash and cash equivalents	(904,782)	2,342,528
Cash and Cash Equivalents, Beginning of Year	15,745,706	13,403,178
<b>Cash and Cash Equivalents, End of Year</b>	<u><b>\$ 14,840,924</b></u>	<u><b>\$ 15,745,706</b></u>

See accompanying notes to financial statements

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**STATEMENT OF CASH FLOWS -- Continued**  
**Years Ended September 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (34,820,537)	\$ (36,073,410)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	9,090,110	9,230,277
Changes in allowance for doubtful accounts	(67,628)	(69,865)
Changes in assets and liabilities:		
Accounts receivable	(2,342,538)	2,179,990
Other current assets	(61,638)	(465,879)
Accounts payable	2,028,051	83,952
Deferred revenues	252,801	2,789,237
<b>Net Cash Used in Operating Activities</b>	<u>\$ (25,921,379)</u>	<u>\$ (22,325,698)</u>
<b>Supplemental Noncash Activities Information</b>		
Loss on disposal of capital assets	\$ 49,820	\$ 121,520
Gift of capital assets	367,590	4,374,968
Capital assets acquired with a liability	1,002,880	72,697

See accompanying notes to financial statements

**THE UNIVERSITY OF ALABAMA IN HUNTSVILLE**  
**Notes to Financial Statements**  
**Year Ended September 30, 2004**

**Note 1 – Organization and Summary of Significant Accounting Policies**

**Financial Reporting Entity** - The University of Alabama in Huntsville (the University) is one of three campuses of The University of Alabama System (the System), which is a discretely presented component unit of the State of Alabama. The financial statements of the University are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business type activities of the financial reporting entity of the System that is attributable to the transactions of the University. The financial statements include individual schools, colleges and departments, and certain affiliated operations determined to be a part of the University's financial reporting entity.

**Scope of Statements** – As of October 1, 2003, the University implemented Governmental Accounting Standards Board (GASB) Statement Number 39, *Determining Whether Certain Organizations are Component Units*. This Statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

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

UAHF is a legally separate, tax-exempt component unit of the University. UAHF is organized exclusively for charitable, scientific, and educational purposes in order to benefit the University. UAHF is governed by a 32-member board of trustees. Although the University does not control the timing or amount of receipts from UAHF, the majority of resources, or income thereon that UAHF holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by UAHF can only be used by, or for the benefit of, the University, UAHF is considered a component unit of the University. UAHF is reported in separate financial statements because of the difference in its reporting model, as further described below.

UAHF is a not-for-profit organization that reports its financial results under the Financial Accounting Standard Board (FASB) Statements. Most significant to UAHF's operations and reporting model are FASB Statement No.116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and 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 15) to UAHF's financial statements have been incorporated into the University's notes to the financial statements.

During the year ended September 30, 2004, UAHF distributed \$2,104,767 to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF can be obtained by calling 256-824-6503.

The University is also affiliated with the Eminent Scholar Foundation. The Eminent Scholar Foundation's resources are not significant to the University; therefore, it does not constitute a component unit under the provisions of GASB Statement No. 39.

**Basis of Accounting:** For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, an amendment of 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 USA, including all applicable effective statements of the GASB and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

**Net Assets:** GASB Statement No. 35 reports equity as “Net Assets” rather than “Fund Balance.” Net assets are classified into the following four categories according to external donor restrictions or availability of assets for satisfaction of University obligations:

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

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

**Investments:** Investments are reported at fair value. Investment income, including changes in the fair value of investments, is reported as revenue (expenses) in the statement of revenues, expenses, and changes in net assets.

**Accounts Receivable:** Accounts receivable consist primarily of tuition and fees charged to students and 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. Accounts receivable are recorded net of estimated uncollectible amounts.

**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 \$2,000 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.

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

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

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

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

Auxiliary enterprise revenues are primarily generated by University Housing.

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

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

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

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

**Endowment Spending:** For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Alabama, permits The Board of Trustees of the University of Alabama (the Board) to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. The University's policy is to retain the endowment realized and unrealized appreciation within the endowment after the spending rate distributions. The Board approved a spending rate for the fiscal years ended September 30, 2004 and 2003 of 5.0% of a moving three-year average of the market (unit) value.

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

**Income Tax Status:** The University has a tax determination letter from the Internal Revenue Service stating that the University qualifies under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes.

**Reclassifications:** Certain amounts in the 2003 financial statements have been reclassified in order to conform with classifications in the 2004 financial statements.

## Note 2 - Cash

The Board approves, by resolution, all banks or other financial institutions utilized as depositories for University funds. Prior to approval, each proposed depository must provide evidence of its designation by the Alabama State Treasurer as a qualified public depository under the Security of Alabama Funds Enhancement Act (SAFE). From time

to time, the Board may request that the depository provide evidence of its continuing designation as a qualified public depository. The enactment of the SAFE program changed the way all Alabama public deposits are collateralized. In the past, the bank pledged collateral directly to each individual public entity. Under the mandatory SAFE program, each qualified public depository (QPD) is required to hold collateral for all its public depositories on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default, a claim form would be filed with the State Treasurer who would use the SAFE pool collateral or other means to reimburse the loss.

As of September 30, 2004 and 2003, the University had cash and cash equivalents totaling \$14,840,924 and \$15,745,706, respectively. Included in the amounts are deposits with trustees held for reserves, which totaled \$387,725 in 2004 and \$602,646 in 2003.

**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, 2004 and 2003, 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:

	<u>2004</u>	<u>2003</u>
Category I:		
Time deposits	\$ 123,950	\$ 123,123
U.S. Treasury and agency obligations	-	45,113
Money market	-	5,354
Not categorized:		
Mutual funds	49,927	7,500,820
System Short-term Fund	4,088,645	-
System Intermediate Fund	27,382,348	15,620,484
System Prime Investment Fund	28,264,880	17,391,096
Pooled Endowment Fund	3,796,252	3,456,836
Total Investments	<u>\$ 63,706,002</u>	<u>\$ 44,142,826</u>

Certain endowment and similar funds are invested and administered in a common investment pool (Pooled Endowment Fund) established by the Board. At September 30, 2004 and 2003, the combined investment pool had total approximate investments as follows:



	<u>2004</u>	<u>2003</u>
Market	\$656,620,000	\$580,585,000
Cost	637,959,000	623,912,000

Assets of the investment pool are pooled on a market value basis and consist of U.S. Treasury and agency obligations, corporate debt securities, corporate equity securities, mutual funds, real estate funds and alternative type investments. The average annual gross yields on pooled investments for the fiscal years ending September 30, 2004 and 2003, of total investments are summarized as follows:

	<u>2004</u>	<u>2003</u>
Excluding gains and losses:		
Market	2.79%	2.45%
Cost	2.74%	2.11%
Including gains and losses:		
Market	13.57%	18.74%
Cost	13.31%	16.12%

In July 1998, the Board established the Prime Investment Fund, a common investment pool through which the three campuses of the System can invest certain operating funds that are associated with long-term expenses. At September 30, 2004 and 2003, the combined investment pool had approximate total investments as follows:

	<u>2004</u>	<u>2003</u>
Market	\$546,195,000	\$456,144,000
Cost	514,439,000	449,952,000

Assets of the Prime Investment Fund are pooled on a fair value basis and consist of U.S. Treasury and agency obligations, corporate debt securities, corporate equity securities, and money market funds. The average annual gross yields on pooled investments for the fiscal years ending September 30, 2004 and 2003, of total investments are summarized as follows:

	<u>2004</u>	<u>2003</u>
Excluding gains and losses:		
Market	2.48%	2.75%
Cost	2.58%	2.60%
Including gains and losses:		
Market	11.53%	17.00%
Cost	11.98%	16.07%

In September 2001, the Board established the Intermediate Fund, a common fixed income investment pool through which the three campuses of the System can invest certain



operating funds that are associated with anticipated expenses in the two to four year time frame. At September 30, 2004 and 2003, respectively, the combined investment pool had approximate total investments as follows:

	<u>2004</u>	<u>2003</u>
Market	\$387,011,000	\$349,272,000
Cost	383,074,000	340,563,000

Assets of the Intermediate Fund are pooled on a market value basis and consist of U.S. Treasury and agency obligations, corporate debt securities, and money market funds. The average annual gross yields on pooled investments for the fiscal years ending September 30, 2004 and 2003, of total investments are summarized as follows:

	<u>2004</u>	<u>2003</u>
Excluding gains and losses:		
Market	4.42%	4.78%
Cost	4.50%	4.92%
Including gains and losses:		
Market	3.45%	4.97%
Cost	3.51%	5.10%

The System financial statements report contains further disclosure regarding the Pooled Endowment Fund, Prime Investment Fund, and Intermediate Fund.

**Note 4 – Accounts Receivable**

The composition of accounts receivable at September 30, 2004 and 2003 is summarized as follows:

	<u>2004</u>	<u>2003</u>
Tuition and fees (net of allowance for doubtful accounts of \$258,387 in 2004 and \$314,945 in 2003)	\$ 2,456,381	\$ 2,284,102
Auxiliary enterprises and other operating activities	44,474	50,203
Federal, state, and private grants and contracts (net of allowance for doubtful accounts of \$225,982 in 2004 and \$237,052 in 2003)	10,330,002	6,881,683
Other	53,868	43,704
Net accounts receivable	<u>\$ 12,884,725</u>	<u>\$ 9,259,692</u>

**Note 5 – Capital Assets**

Capital assets activity for the years ended September 30, 2004 and 2003 is summarized as follows:

	October 1, <u>2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2004</u>
Land	\$ 3,377,217	\$ 4,585	\$ (400,000)	\$ -	\$ 2,981,802
Land improvements and infrastructure	4,707,071	104,486	-	-	4,811,557
Buildings and building improvements	153,292,560	4,484,958	(1,071,236)	-	156,706,282
Equipment	48,269,617	2,978,474	(1,090,072)	745,040	50,903,059
Equipment under capital lease	745,040	-	-	(745,040)	-
Library books	20,161,109	1,036,021	-	-	21,197,130
Computer software	-	868,765	-	-	868,765
Total cost of capital assets	<u>230,552,614</u>	<u>9,477,289</u>	<u>(2,561,308)</u>	<u>-</u>	<u>237,468,595</u>
Less accumulated depreciation	110,836,743	9,090,110	(1,861,490)	-	118,065,363
Capital assets - net	<u>\$ 119,715,871</u>	<u>\$ 387,179</u>	<u>\$ (699,818)</u>	<u>\$ -</u>	<u>\$ 119,403,232</u>

	October 1, <u>2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	September 30, <u>2003</u>
Land	\$ 2,226,932	\$ 1,150,285	\$ -	\$ -	\$ 3,377,217
Land improvements and infrastructure	4,342,795	364,276	-	-	4,707,071
Buildings and building improvements	145,935,517	7,357,043	-	-	153,292,560
Equipment	46,927,871	3,498,862	(2,157,116)	-	48,269,617
Equipment under capital lease	745,040	-	-	-	745,040
Library books	19,099,451	1,061,658	-	-	20,161,109
Total cost of capital assets	<u>219,277,606</u>	<u>13,432,124</u>	<u>(2,157,116)</u>	<u>-</u>	<u>230,552,614</u>
Less accumulated depreciation	103,642,062	9,230,277	(2,035,596)	-	110,836,743
Capital assets - net	<u>\$ 115,635,544</u>	<u>\$ 4,201,847</u>	<u>\$ (121,520)</u>	<u>\$ -</u>	<u>\$ 119,715,871</u>

**Note 6 – Long-term Debt**

Long-term debt activity for the years ended September 30, 2004 and 2003 is summarized as follows:

Type/Supported by	October 1, 2003	New Debt, net	Principal Repayment/ Defeasance	September 30, 2004
Bonds:				
Student housing revenue	\$ 19,651,000	\$ 20,645,000	\$ 7,855,000	\$ 32,441,000
General fee revenue	30,185,000	-	750,000	\$ 29,435,000
Mortgage payable	40,237	-	40,237	-
Lease obligations	363,092	-	363,092	-
Total debts	<u>50,239,329</u>	<u>\$ 20,645,000</u>	<u>\$ 9,008,329</u>	<u>61,876,000</u>
Less current portion	<u>1,618,272</u>			<u>1,830,000</u>
Total long-term debt	<u>\$ 48,621,057</u>			<u>\$ 60,046,000</u>

Type/Supported by	October 1, 2002	New Debt, net	Principal Repayment/ Defeasance	September 30, 2003
Bonds:				
Student housing revenue	\$ 20,321,000	\$ -	\$ 670,000	\$ 19,651,000
General fee revenue	29,100,000	21,835,000	20,750,000	30,185,000
Mortgage payable	44,071	-	3,834	40,237
Lease obligations	485,086	-	121,994	363,092
Total debts	<u>49,950,157</u>	<u>\$ 21,835,000</u>	<u>\$ 21,545,828</u>	<u>50,239,329</u>
Less current portion	<u>1,325,954</u>			<u>1,618,272</u>
Total long-term debt	<u>\$ 48,624,203</u>			<u>\$ 48,621,057</u>

During the year ended September 30, 2004, new debt was incurred by issuing bonds for the construction of a new student housing facility, and refinancing bonds that lowered the applicable interest rate. Principal and interest on these revenue bonds are collateralized by a pledge of revenues produced by student housing and student tuition and fees. Debt obligations bear interest at fixed and variable rates ranging from 1.40% to 6.00%, and mature at various dates through fiscal year 2034.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,830,000	\$ 2,677,151	\$ 4,507,151
2006	1,870,000	2,620,716	4,490,716
2007	1,930,000	2,561,339	4,491,339
2008	1,995,000	2,497,193	4,492,193
2009	2,065,000	2,428,494	4,493,494
2010 - 2014	11,600,000	10,953,953	22,553,953
2015 - 2019	11,880,000	8,448,951	20,328,951
2020 - 2024	12,366,000	5,659,185	18,025,185
2025 - 2029	11,060,000	2,435,304	13,495,304
2030 - 2034	5,280,000	650,075	5,930,075
	<u>\$ 61,876,000</u>	<u>\$ 40,932,361</u>	<u>\$ 102,808,361</u>

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

<u>Description and Purpose</u>	<u>Date Issued</u>	<u>Final Maturity</u>	<u>Interest Rate - %</u>	<u>Original Indebtedness</u>	<u>Outstanding Indebtedness September 30, 2004</u>	<u>Outstanding Indebtedness September 30, 2003</u>
<b>Bonds Payable:</b>						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	\$ 2,180,000	\$ 1,215,000	\$ 1,275,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	1,486,000	1,556,000
Student Housing Revenue Bonds Series 1994-A	1/15/1994	6/1/2016	2.50 - 5.00	10,790,000	-	7,585,000
Revenue Bonds-Series 1999-A	12/1/1999	12/1/2024	5.10 - 6.00	8,900,000	8,125,000	8,330,000
Student Housing Revenue Bonds Series 2001	12/27/2001	12/1/2031	3.00 - 5.30	9,370,000	9,095,000	9,235,000
Revenue Bonds-Series 2002-A	12/19/2002	9/30/2027	1.40 - 4.75	3,965,000	3,875,000	3,965,000
Revenue Bonds-Series 2003-A	2/3/2003	9/30/2027	1.45 - 4.70	17,890,000	17,435,000	17,890,000
Student Housing Revenue Bonds-Series 2004-A	9/30/2004	9/1/2034	3.00 - 4.63	13,130,000	13,130,000	-
Student Housing Revenue Bonds-Series 2004-B	9/30/2004	9/1/2016	3.00 - 3.63	7,515,000	7,515,000	-
<b>Total Bonds Payable</b>				<u>76,342,000</u>	<u>61,876,000</u>	<u>49,836,000</u>
<b>Mortgage Payable:</b>						
713 Erskine Street property	1/30/1990	10/30/2016	8.50	54,027	-	40,237
<b>Total Mortgage Payable</b>				<u>54,027</u>	<u>-</u>	<u>40,237</u>
<b>Lease Obligations Payable:</b>						
Telephone system	8/10/2000	9/1/2005	6.00	745,040	-	363,092
<b>Total Lease Obligations Payable</b>				<u>745,040</u>	<u>-</u>	<u>363,092</u>
<b>Total Debt</b>				<u>\$ 77,141,067</u>	<u>\$ 61,876,000</u>	<u>\$ 50,239,329</u>

The University has various bond covenants, and management believes the University is in compliance at September 30, 2004.

### 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 trust fund, at an actuarially determined rate, to provide

funding for the retained risk. The accompanying statements of net assets include a reserve of \$194,768 and \$254,291 for general liability at September 30, 2004 and 2003, respectively.

The University also maintains a self-insurance health plan. The University pays Blue Cross/Blue Shield of Alabama a monthly administrative charge in the amount of 6.5% of the claim costs actually paid in the previous month. The accompanying statements of net assets include a self-insurance reserve of \$347,208 and \$547,910 for health insurance at September 30, 2004 and 2003, respectively. Annual contributions are made to the health plan, utilizing an actuarially determined rate, to provide funding for the reserve.

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

	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 802,201	\$ 979,661
Claims paid	(3,844,443)	(3,768,444)
Contributions	3,584,218	3,590,984
Balance, end of year	<u>\$ 541,976</u>	<u>\$ 802,201</u>

**Note 8 – Retirement Plans**

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

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

Covered employees are required by law to contribute to TRS. All regular employees of the University are members of TRS with the exception of temporary employees. The following is a comparative of contribution requirements:

	<b>2004</b>	<b>2003</b>	<b>2002</b>
University contributions	\$3,561,461	\$2,635,611	\$2,928,956
Employee contributions	2,714,528	2,625,111	2,457,178
Total contributions	\$6,275,989	\$5,260,722	\$5,386,134
University contribution rate	6.56%	5.02%	5.96%
Employee contribution rate	5.00%	5.00%	5.00%

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 June 30, 2003 (the most recent valuation date) and 2002 for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately as follows:

	<b>2003</b>	<b>2002</b>
Actuarial accrued liability (AAL)	\$19,357,735,000	\$18,374,174,000
Actuarial valuations of assets	18,110,470,000	17,904,881,000
Overfunded (underfunded) AAL	(1,247,265,000)	(469,293,000)

Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2003 annual financial report of the TRS. That report is publicly available and may be obtained by contacting the TRS Communication Department at 1-800-214-2158, ext. 695.

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 contribution is funded as it accrues and, along with that of employees, is immediately and fully vested. The contribution for fiscal years 2004 and 2003, excluding amounts from employees who are not eligible for matching, is summarized as follows:

	<b>2004</b>	<b>2003</b>
University contributions	\$1,621,502	\$1,585,844
Employee contributions	2,587,588	2,302,262
Total contributions	<u>\$4,209,090</u>	<u>\$3,888,106</u>

The University’s total salaries and wages for fiscal years 2004 and 2003 are summarized in the table below:

	<b>2004</b>	<b>2003</b>
Total Salaries and Wages	\$63,089,904	\$60,743,694
Salaries and Wages of employees participating in:		
TRS	54,290,564	52,502,211
TIAA - CREF	34,507,127	33,364,089

**Note 9 – Post-Employment Benefits**

Certain retired employees may elect to continue to participate in the University’s group health plan until 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 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 Public Education Employees Health Insurance Plan (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. The University paid \$765,630 for 231 retirees for the year ended September 30, 2004.

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.

**Note 10 – Compensated Absences**

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. The statement of net assets includes accruals of \$2,435,548 and \$2,082,761 as of September

30, 2004 and 2003, respectively, for accrued vacation pay and salary-related payments associated with vacation pay. There is no such accrual recognized for sick leave benefits because no terminal cash benefit is available to employees for accumulated sick leave.

#### **Note 11 – Federal Direct Lending Program**

The Federal Direct Student Loan Program (FDSLP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. For fiscal years ended September 30, 2004 and 2003, the University disbursed approximately \$14,665,000 and \$12,690,000, respectively, under the FDSLP.

#### **Note 12 – Contingencies and Commitments**

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

The University defeased certain indebtedness during fiscal year 2004 by depositing funds in an escrow trust account sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreement, all funds deposited in the trust account are invested in obligations of the U.S. government. Neither the assets of the trust account nor the defeased indebtedness are included in the accompanying statement of net assets as of September 30, 2004. The principal outstanding on the defeased indebtedness at September 30, 2004 was \$7,150,000.

The University has contracted for the construction of North Campus Residence Hall. At September 30, 2004, the estimated remaining cost to complete the construction of this facility was \$9.6 million, which is expected to be paid from bond proceeds.



**Note 13 – Operating Expenses by Function**

Operating expenses by functional classification for the years ended September 30, 2004 and 2003 are summarized as follows:

	Year Ended September 30, 2004					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 22,900,874	\$ 5,792,222	\$ 4,175,304	\$ -	\$ -	\$ 32,868,400
Research	24,503,885	5,789,805	9,191,851	-	-	39,485,541
Public service	1,011,105	215,429	2,577,726	-	-	3,804,260
Academic support	2,758,504	742,624	882,785	-	-	4,383,913
Student services	2,835,913	670,673	3,479,897	-	-	6,986,483
Institutional support	6,279,874	1,837,199	1,259,035	-	-	9,376,108
Operations and maintenance of plant	2,326,026	672,452	4,638,444	-	-	7,636,922
Scholarships and fellowships	-	-	-	-	583,429	583,429
Auxiliary enterprises	473,723	84,612	2,514,324	-	-	3,072,659
Depreciation	-	-	-	9,090,110	-	9,090,110
<b>Total Operating Expenses</b>	<b>\$ 63,089,904</b>	<b>\$ 15,805,016</b>	<b>\$ 28,719,366</b>	<b>\$ 9,090,110</b>	<b>\$ 583,429</b>	<b>\$ 117,287,825</b>

	Year Ended September 30, 2003					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 22,225,134	\$ 4,981,890	\$ 4,280,037	\$ -	\$ -	\$ 31,487,061
Research	22,569,627	4,959,107	8,727,506	-	-	36,256,240
Public service	1,001,221	178,031	1,435,742	-	-	2,614,994
Academic support	2,851,909	673,148	699,273	-	-	4,224,330
Student services	2,812,121	565,337	4,002,208	-	-	7,379,666
Institutional support	6,467,318	1,660,928	923,832	-	-	9,052,078
Operations and maintenance of plant	2,358,980	561,986	3,729,159	-	-	6,650,125
Scholarships and fellowships	-	-	-	-	645,259	645,259
Auxiliary enterprises	457,384	76,458	2,406,027	-	-	2,939,869
Depreciation	-	-	-	9,230,277	-	9,230,277
<b>Total Operating Expenses</b>	<b>\$ 60,743,694</b>	<b>\$ 13,656,885</b>	<b>\$ 26,203,784</b>	<b>\$ 9,230,277</b>	<b>\$ 645,259</b>	<b>\$ 110,479,899</b>

**Note 14 – Recently Issued Accounting Standards**

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for the fiscal year ending September 30, 2005. Statement No. 40 updates the custodial risk disclosures and establishes more comprehensive disclosure requirements regarding other deposit and investment risks. The University is continuing to evaluate the effect Statement No. 40 will have on its disclosures. This statement will have no effect on the University’s net assets.

## Note 15 – Component Unit

### Basis of Accounting – University of Alabama Huntsville Foundation

The financial statements of UAHF have been prepared on the accrual basis.

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

- **Unrestricted**- Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category include unrestricted gifts and earnings on these unrestricted gifts.
- **Temporary Restricted**- Net assets subject to donor-imposed restrictions that may or will be met either by actions of UAHF or the passage of time. Items that affect this net asset category include restricted gifts and earnings on endowment funds expendable for purposes stipulated by the donor. These amounts are reclassified to unrestricted net assets when such purpose or time restrictions are met.
- **Permanently Restricted**- Net assets subject to donor-imposed restrictions to be maintained permanently by UAHF. Items that affect this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and only the income be made available for expenditure.

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

In accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in debt securities and investments in equity securities with readily determinable fair values are reported at their fair values based on published market prices. Other investments, including real estate, are stated at cost or fair value at date of donation in the case of gifts. Changes in fair values are reported as unrealized gains or losses in the statement of activities and changes in net assets. All interest income and realized gains and losses are reported in the statement of activities and changes in net assets.

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

**Investments** – The cost and fair value of investments at September 30, 2004 and 2003 are presented below:

	2004		2003	
	Fair Value	Cost	Fair Value	Cost
Certificates of deposit	\$85,117	\$85,117	\$325,575	\$325,575
Pooled Endowment Fund	17,338,265	17,124,493	15,300,969	15,495,631
Marketable debt securities	3,788,740	3,783,519	121,026	122,575
Marketable equity securities	482,332	476,466	478,796	482,174
Mutual funds	203,196	241,431	181,945	233,350
	<u>\$21,897,650</u>	<u>\$21,711,026</u>	<u>\$16,408,311</u>	<u>\$16,659,305</u>

Certain endowment and similar funds are invested and administered in a common investment pool (Pooled Endowment Fund) established by the Board of Trustees of the University of Alabama. At September 30, 2004 and 2003, respectively, the combined investment pool had total investments of approximately \$656,620,000 and \$580,585,000 at fair value, and approximately \$637,959,000 and \$623,912,000 at cost. Assets of the investment pool are pooled on a fair value basis and consist of cash, U.S. Treasury and agency obligations, corporate debt securities, corporate equity securities, mutual funds, and real estate funds. The average annual yields for the fiscal years ended September 30, 2004 and 2003, respectively, excluding gains and losses on pooled investments amounted to 2.79% and 2.45% of total investments at fair value and 2.74% and 2.11% of total investments at cost. The average annual yields for the fiscal years ended September 30, 2004 and 2003, respectively, including gains and losses on pooled investments amounted to 13.57% and 18.74% of total investments at fair value or 13.31% and 16.12% of total investments at cost. The University of Alabama System report contains further disclosure regarding this common investment pool.

**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, 2004 and 2003:

	Temporarily Restricted		Permanently Restricted	
	2004	2003	2004	2003
Student support	\$4,323,657	\$3,847,478	\$6,574,967	\$6,015,491
Faculty support	2,340,912	1,873,983	3,863,455	3,863,455
Academic support	2,848,257	1,517,442	1,444,942	1,176,344
Other	86,153	82,487	39,306	39,295
Total	<u>\$9,598,979</u>	<u>\$7,321,390</u>	<u>\$11,922,670</u>	<u>\$11,094,585</u>

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OF THE UNIVERSITY OF ALABAMA**

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President *ex officio*

**Dr. Joseph P. Morton**  
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