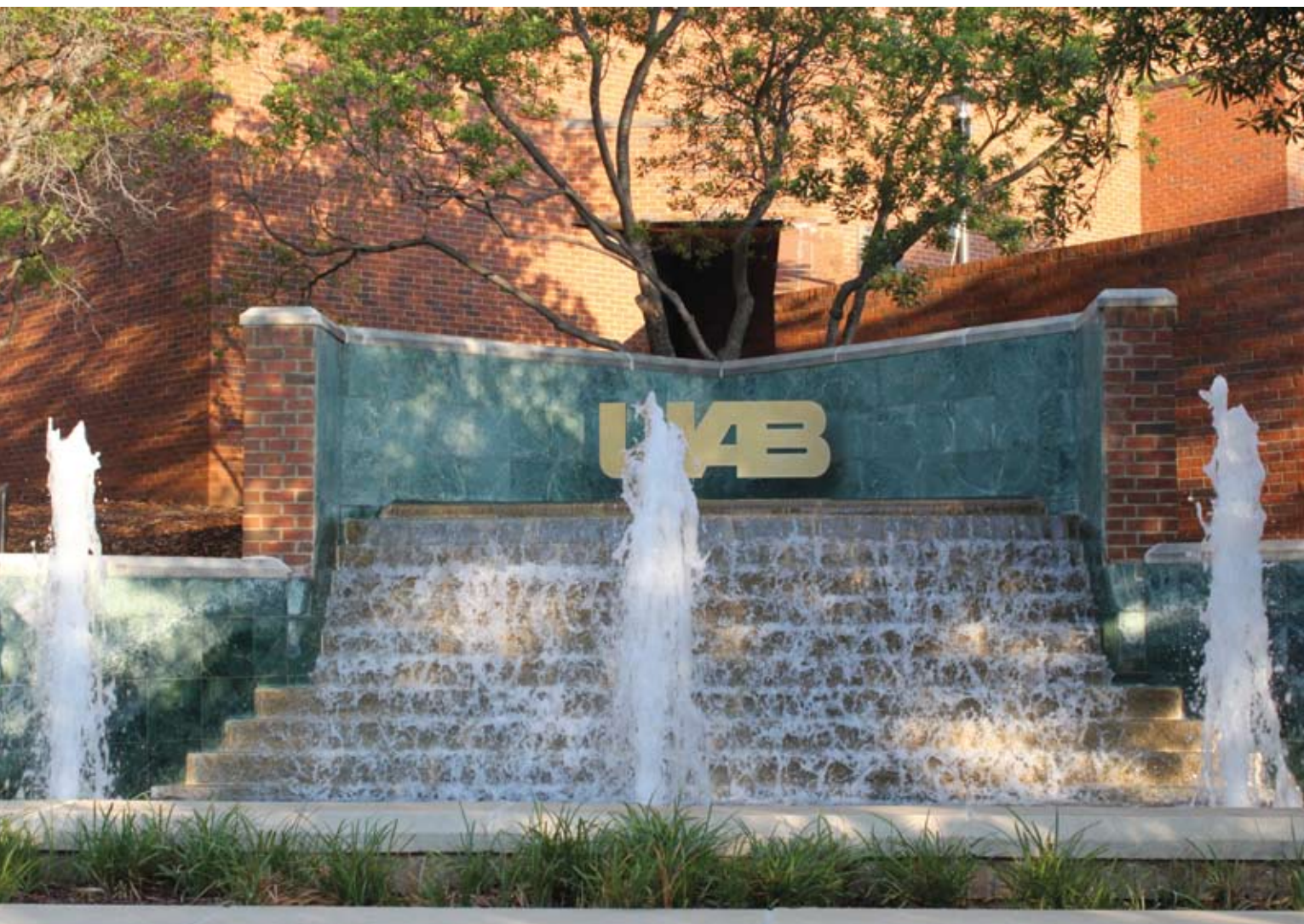




# 2010 Financial Report

The University of Alabama at Birmingham



UAB is an equal education  
opportunity institution, and an equal  
employment opportunity employer.

This report is published by the UAB  
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Vice President for Financial Affairs and Administration  
The University of Alabama at Birmingham  
Birmingham, Alabama 35294



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# Introduction to UAB

## Vision

UAB's vision is to be an internationally renowned research university – a first choice for education and health care.

## Mission

UAB's mission is to be a research university and academic health center that discovers, teaches and applies knowledge for the intellectual, cultural, social and economic benefit of Birmingham, the state and beyond.

The University of Alabama at Birmingham (UAB) became an autonomous campus within The University of Alabama System in 1969 and, in the four-plus decades since, has grown into a world-renowned research university and medical center occupying some 86 city blocks in Alabama's largest metropolitan area.

UAB is the state's largest single employer with more than 18,000 employees. The university has seen record enrollment for two consecutive years, with the total reaching a high of 17,543 students in fall 2010. And, the institution is ranked among the top quarter of all U.S. colleges and universities by The Princeton Review; it also has been recognized by the publication as among the top 10 for diversity for three consecutive years.

Classified as an institution of "very high research activity" by the Carnegie Foundation – a designation held only by the nation's top 96 public or private universities, and no other in Alabama – UAB receives more than \$400 million annually in external research funding and ranks in the top 20 nationally in National Institutes of Health funding.

UAB Hospital, the largest hospital in Alabama, annually treats some 42,000 patients, and its 11-story North Pavilion houses 37 operating suites, four intensive-

care units, a football-field-size emergency department, one of the world's busiest kidney transplant centers and Alabama's only Level 1 adult trauma center.

The information included in this introduction (pages 2-13) does not include data related to component units of UAB that are discussed in the notes to the financial statements.

## 2010 Overview

As a globally respected academic medical center, UAB excels at translating research into leading-edge patient care. UAB Hospital is the only hospital in the state to be listed in every issue (21 straight years as of 2010) of U.S. News & World Report's "America's Best Hospitals," which recognizes only 3 percent of hospitals nationwide. More than two-thirds of all Alabama physicians listed in Best Doctors in America practice at UAB.

Post-baccalaureate degree programs are coordinated through the UAB Graduate School and consistently rank highly in the U.S. News & World Report "Best Graduate Schools" issue. Among those ranked in the 2010 edition were the School of Medicine's AIDS program (ninth) and the health administration master's program in the School of Health Professions (seventh). In spring 2010, The Scientist online magazine ranked UAB 24th nationally in its top 40 "Best Places to Work as a Postdoctoral Fellow." Graduate and professional enrollment has achieved record highs for four consecutive years, reaching 5,483 in fall 2010.

UAB's Comprehensive Cancer Center, among the first eight such centers to be designated by the National Cancer Institute (NCI) in the early 1970s, remains the only one in Alabama and a six-state region. In 2010, NCI awarded the center a highly competitive Specialized Program of Research Excellence (SPORE) grant for re-

search in pancreatic cancer. This prestigious, \$11.5-million grant is using research and drugs developed here to explore groundbreaking treatments for a deadly disease. (UAB has two other SPOREs – for breast and cervical cancers.) Also in 2010, UAB’s Deep South Network for Cancer Control was named one of six National Community Network Program Centers, further cementing the institution’s status as a national leader in the field of cancer health disparities.

Civic engagement is key in UAB’s academic programs and its acclaimed Honors Academy; UAB is among a handful of universities nationally ranked by the Carnegie Foundation for the Advancement of Teaching in both the highest tier for “research activity” and the “community engagement” classification. Students continue to garner prestigious national honors: In 2010 alone, UAB students have won, among other awards, three Goldwater Scholarships (seven in the past three years); two Fulbright Scholarships (eight in the past three years); a Truman Scholarship (UAB’s fifth),

one of 60 nationally and only two in Alabama; and an NIH-Oxford-Cambridge Scholarship, one of only 15 in the nation.

In September 2010 it was announced that the research in computer forensics laboratory was ready to extend a unique brand of investigative know-how to law enforcement agencies throughout Alabama as part of Operation Swordphish. The program partners the UAB cybercrime laboratory with the Alabama Department of Public Safety and Alabama District Attorneys Association with the goal of prosecuting state and local cybercrimes.

FY 09-10 also saw the grand opening of the new UAB Women and Infants Center and the Hazelrig-Salter Radiation Oncology Facility.

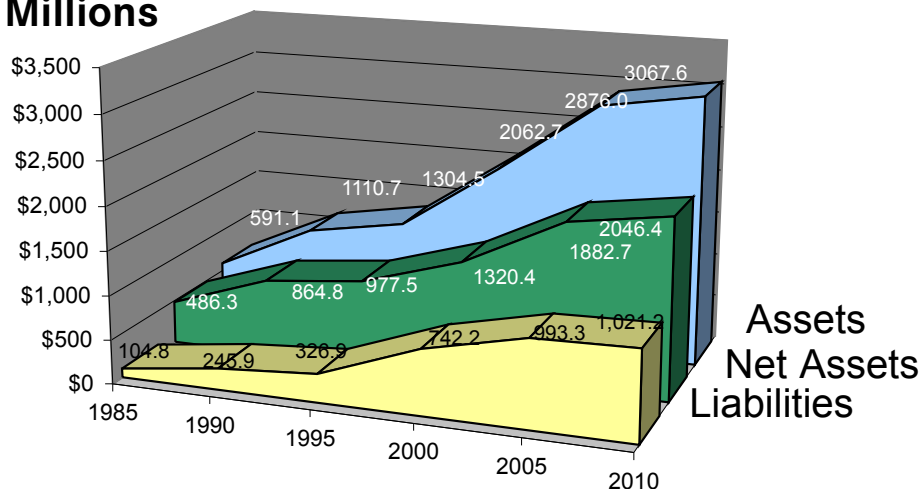


# Financial Highlights\*

## Assets and Liabilities

Since 1985 UAB's assets have increased by \$2.5 billion, while liabilities increased by only \$1.0 billion. Net assets grew during this time period by \$1.6 billion.

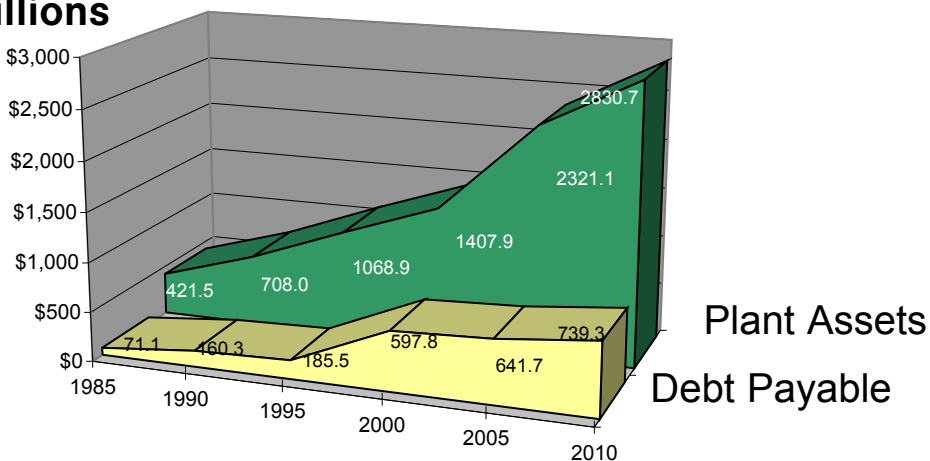
### Millions



## Capital Expansion

UAB's expansive growth in the areas of instruction, research, and patient care has dictated a need for more and better instructional space, research labs, and patient care facilities. Due to the low level of State funding for capital expenditures by public institutions of higher education, much of UAB's capital expansion has been financed through gifts, UAB funds, and the issuance of long-term bonds. The accompanying chart shows the growth in investment in plant since 1985 and the associated increase in long-term debt. The investment in plant figures do not include the effect of accumulated depreciation.

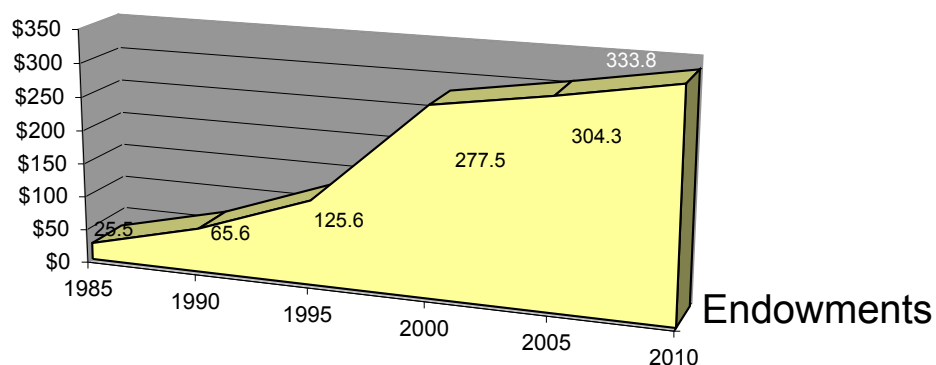
### Millions



## Endowment Growth

The increase in the pure endowment and quasi-endowment assets from \$25.5 million to \$333.8 million over the past 25 years reflects the commitment of the community to UAB's ongoing success and sound investment program.

### Millions



\*The 2010 amounts presented above encompass the change in reporting entity discussed in Footnote 3.

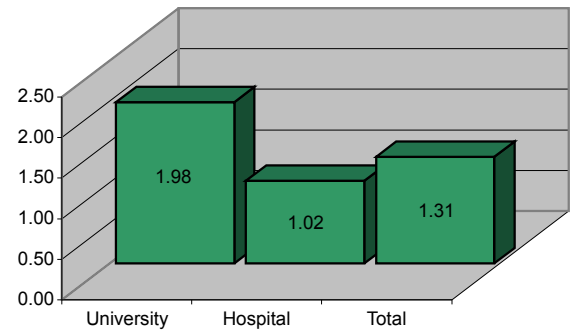
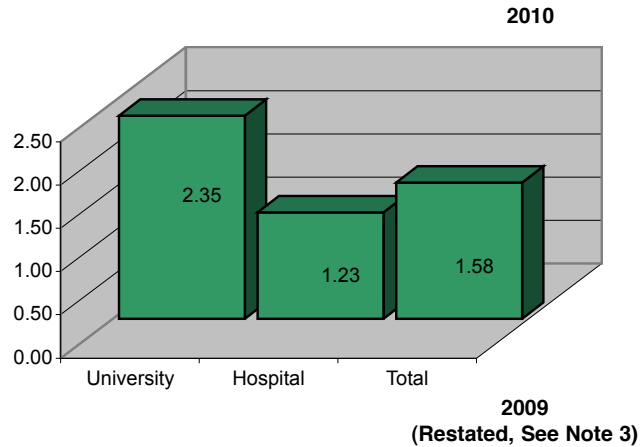
## Financial Ratios\*

The following selected ratios, calculated for the years ended September 30, 2010 and 2009, are intended to provide a better understanding of UAB's financial strength and to put the financial data into a clearer perspective.

### Ratio of Expendable Financial Resources to Direct Debt

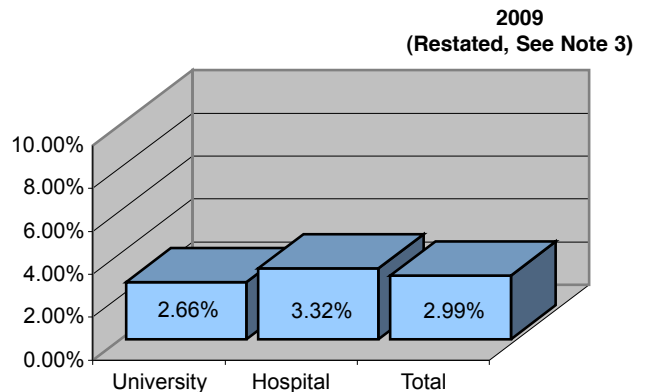
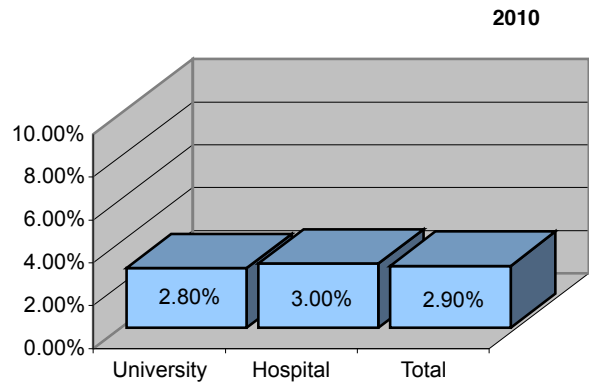
This ratio indicates the relative liquidity of the institution. A ratio of 1:1 or greater indicates that an institution has sufficient liquid assets to satisfy all related liabilities. A ratio of less than 1:1 means that there would not be sufficient liquid assets to satisfy all debts as of the reporting date.

The graph indicates that while total direct debt has risen as bonds were issued to cover the cost of plant expansion, the institution as a whole has maintained a sufficient level of liquidity.



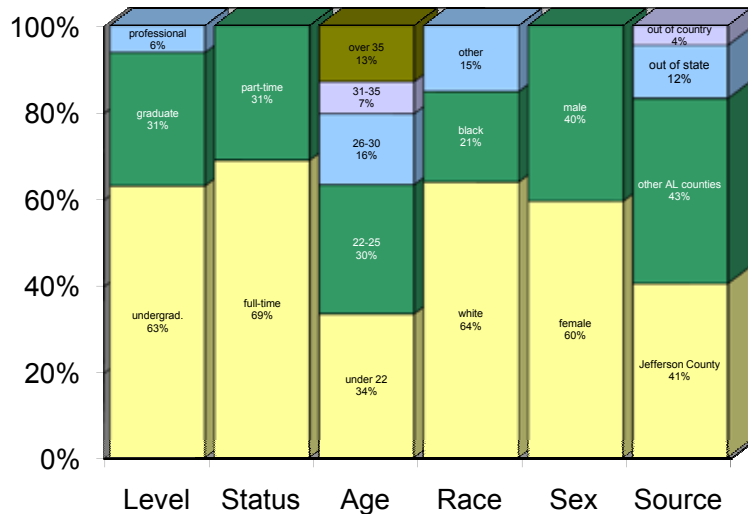
### Ratio of Actual Debt Service to Operations

This ratio is useful for analyzing the creditworthiness of an institution. Since debt service is a legal claim on resources, the higher the ratio, the fewer the resources available for other operational needs. This ratio measures the demand that the annual commitment to creditors places on unrestricted operating funds. It is expressed as a percentage of actual debt service to operating expenses.



\*These financial ratios are presented for purposes of additional analysis and are not a required part of the basic financial statements.

# Nonfinancial Highlights



## Student Profile

Total 16,874  
As of Fall 2009

Excludes Advanced Professionals

## Student Financial Aid

In fiscal year 2010, 63.4% of UAB's students received student financial aid from UAB. Financial aid disbursements of \$185.4 million were provided from the following sources:

Federal Government	
Student Loans	\$ 118,761,249
Grants	17,663,583
Work-Study	<u>1,243,111</u>
Subtotal Federal	\$ 137,667,943
State Government	\$ 294,917
University	
Loans	\$ 481,365
Scholarships	<u>46,981,417</u>
Subtotal University	\$ 47,462,782
Total	\$ <u>185,425,642</u>



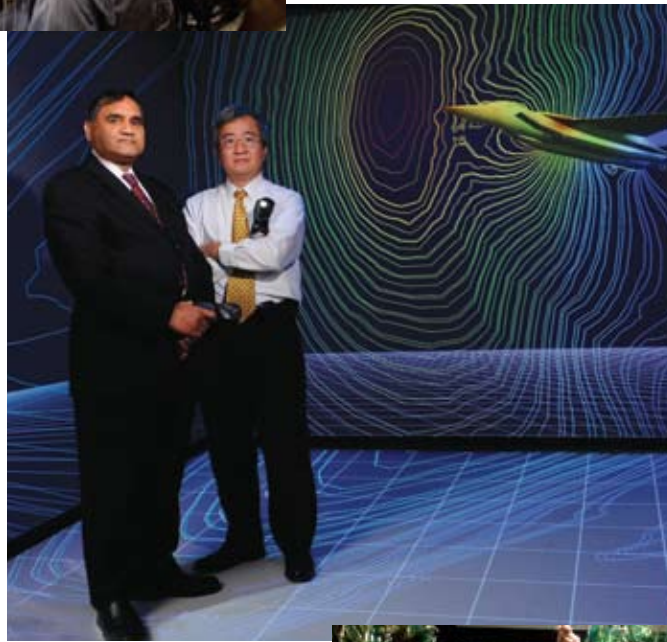


## Student Headcount

Enrollment for the fall semester of the 2009-2010 school year is outlined in the table at right.

Fall 2009	Undergraduate	Graduate	First Professional/ Advanced Professional*	Total
School of Arts and Humanities	1,282	83		1,365
School of Business	1,615	331		1,946
School of Education	900	820		1,720
School of Engineering	769	325	5	1,099
School of Natural Sciences and Mathematics	1,625	204	13	1,842
School of Social and Behavioral Sciences	1,526	242	5	1,773
Unclassified	1,395	378		1,773
<b>Subtotal</b>	<b>9,112</b>	<b>2,383</b>	<b>23</b>	<b>11,518</b>
Academic Health Center:				
School of Medicine			1,623	1,623
School of Dentistry	23	3	341	367
School of Optometry		23	193	216
School of Nursing	505	1,074		1,579
School of Health Professions	1,006	887	11	1,904
School of Public Health		395	17	412
Joint Health Sciences		428		428
<b>Subtotal, Academic Health Center</b>	<b>1,534</b>	<b>2,810</b>	<b>2,185</b>	<b>6,529</b>
<b>Total Enrollment</b>	<b>10,646</b>	<b>5,193</b>	<b>2,208</b>	<b>18,047</b>

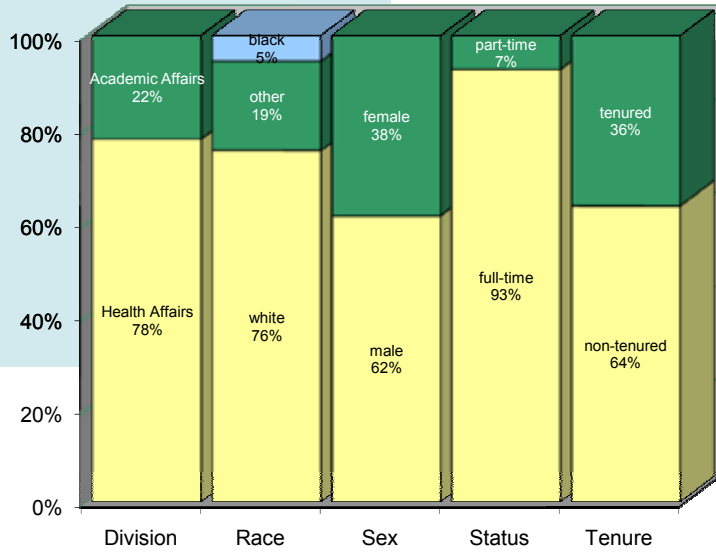
\* Includes 1,035 first professionals and 1,173 advanced professionals



# Faculty Profile

Total 2,244

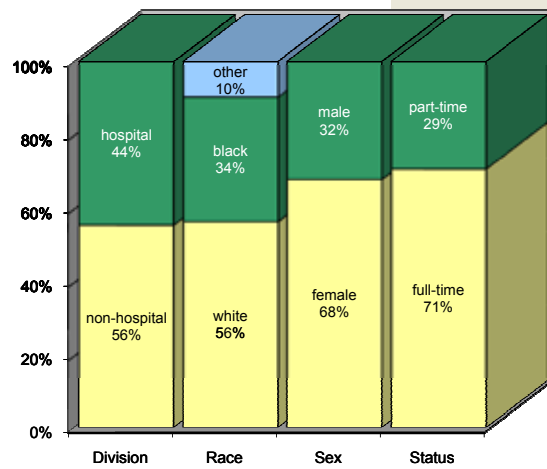
As of Fall 2009



# Staff Profile

Total 16,215

As of Fall 2009



# State Appropriations

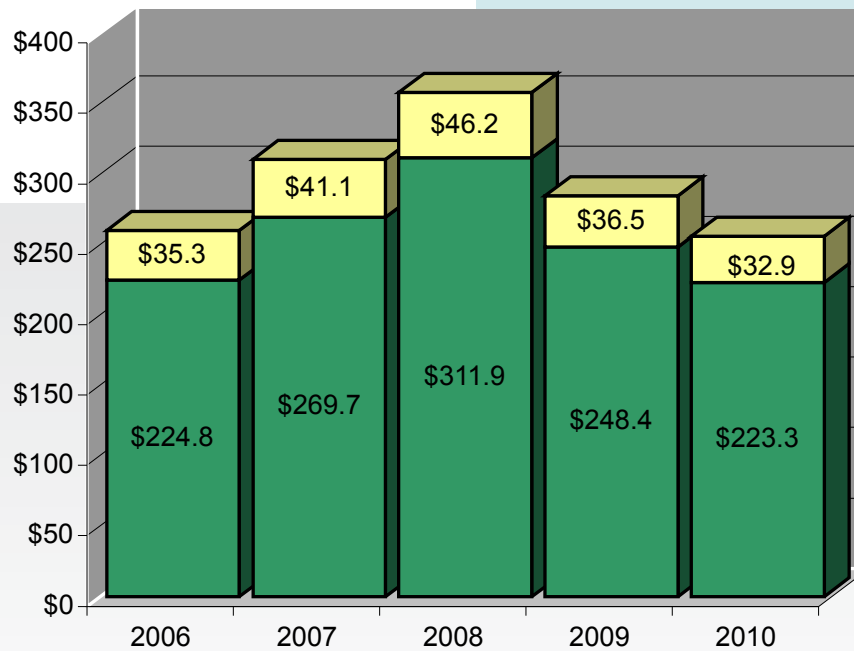
The State appropriations for UAB are made by the Alabama State Legislature based upon a process which involves requests from the Board of Trustees of The University of Alabama, and budget recommendations by the Alabama Commission on Higher Education and the Governor. State funds are appropriated annually from the Educational Trust Fund (ETF) to UAB. For the fiscal year ended September 30, 2010, UAB received direct funding from the ETF in the amount of \$256,190,587. In addition, for the fiscal year ended September 30, 2010, UAB received \$22,469,522 of State Fiscal Stabilization Funds.

## Appropriations Received

Fiscal years ended September 30

(Dollars in millions)

■ University    ■ Hospital



# Sponsored Grants and Contracts

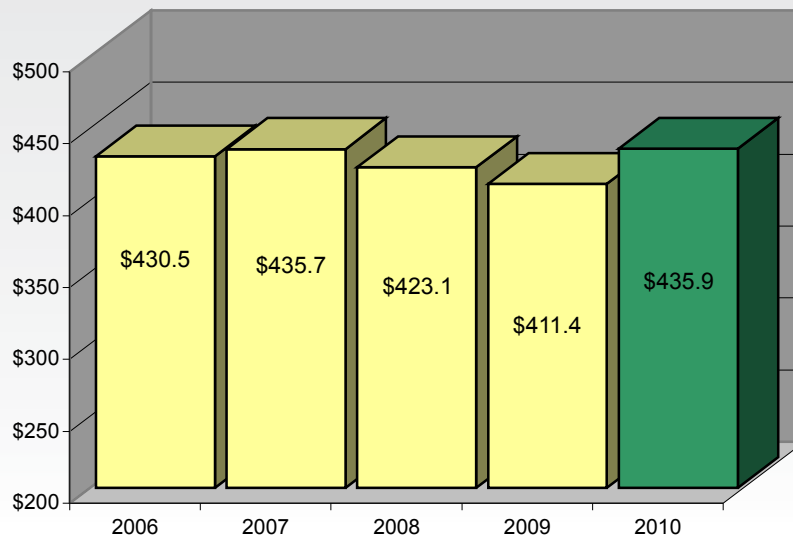
During fiscal year 2010, UAB received \$436 million in sponsored grants and contracts revenues (including \$88.5 million of indirect cost recovery). Various federal agencies provided the majority of support for these projects, with the National Institutes of Health (NIH) being the primary sponsor. Nonfederal funding sources include state agencies, local governmental agencies, and a wide variety of private sponsors.

Revenues from grants and contracts (including indirect cost recovery) increased from \$430.5 million during 2006 to \$435.9 million during 2010, an increase of 1.3% for the period.

## Grants and Contracts Revenues

Fiscal years ended September 30

(Dollars in millions)



# Hospital

The University of Alabama Hospital (the "Hospital") is a 1,146-bed quaternary and tertiary care medical facility and part of the UAB Health System. The Hospital includes North Pavilion, Jefferson Tower, Hillman Building, Spain Wallace Building, Quarterback Tower, North Wing, Spain Rehabilitation Center, West Pavilion, Russell Ambulatory Center, Medical Education Building, Women and Infant Center, Hazelrig-Salter Radiation Oncology Center, Highlands and the Center for Psychiatric Medicine. Other clinical facilities in the UAB Academic Health Center include Smolian Psychiatric Clinic, Engel Psychiatric Day Treatment Center, Lurleen B. Wallace Tumor Institute, and the 1917 Clinic. The Hospital also has strong ties with other governmental and private nonprofit institutions located within and adjacent to the UAB campus, including Veterans Affairs Medical Center, Children's Hospital, and Jefferson County's Cooper Green Hospital. Other healthcare facilities in the UAB Health System include The Kirklin Clinic, the Callahan Eye Foundation Hospital, Medical West and Baptist Health (located in Montgomery, Alabama). In September 2010, The Health Care Authority for UAB Highlands, an affiliate of UAB Health System was dissolved, and the assets and operations of this 219 bed facility were transferred to University Hospital.

## Hospital Awards and Accolades

Eleven University Hospital specialties are among the nation's top 50 in the 16 categories evaluated at 4,582 U.S. Hospital's this year by *U.S. News and World Report*, and six specialties are in the top 25. The rankings appear in the magazine's 20th annual "America's Best Hospitals" issue. With its 11 ranked programs University Hospital was one of only 152 hospitals, and the only one in Alabama or Missis-

sippi, to rank highly enough in even one specialty to make the magazine's national "Best Hospitals" list. University Hospital was again awarded the National Research Corporation Consumer Choice Award for 2010 making it the only hospital in Birmingham among the national 250 top hospitals in terms of consumer perception of quality and image.

## Operations

The Hospital's commitment to providing the highest quality of patient care continues to take physical shape with the completion of the new UAB Women and Infant Center (WIC) in February 2010. This 430,000 square foot free-standing facility includes the neonatology, obstetrics and gynecology services of University Hospital. The new center has: 59 antepartum (high-risk obstetrics)

and postpartum rooms; 30 gynecology/gynecologic oncology rooms; 17 labor, delivery and recovery rooms; 13 maternity evaluation unit rooms; four state-of-the-art operating rooms for C-Sections and maternity-related procedures; a five-room post-anesthesia recovery unit in which a well newborn can stay with the mother while she recovers from a C-section; 56-baby Regional Neonatal Intensive Care Unit with all private, single-family rooms, including special rooms for families with multiples; a 52-baby continuing care, special care nursery (CCN) with all single-family rooms; three well-baby nurseries on the mother-baby/postpartum unit and lead-lined rooms for gyn-oncology patients treated with radioactive implants.



Selected Hospital operating statistics are outlined below:\*

	<b>2010</b>	<b>2009</b>
Beds in service	1146	981
Patient discharges	47,055	45,524
Adjusted patient discharges	62,420	61,134
Patient days	304,719	301,469
Adjusted patient days	404,220	404,840
Operating room cases	31,844	31,735
Emergency department visits	76,085	72,332
Patient origin:		
Jefferson County	45.3%	44.8%
Other Alabama counties	47.6%	47.6%
Out of state	7.1%	7.6%

\*The statistics presented above encompass the change in reporting entity discussed in Footnote 3.

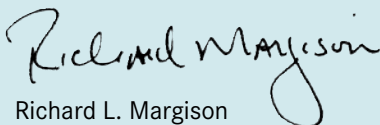


# Management's Responsibility for Financial Reporting

The accompanying financial statements of the University of Alabama at Birmingham (UAB) for the years ended September 30, 2010 and 2009, were prepared by UAB's management in conformity with accounting principles generally accepted in the United States of America.

The management of UAB is responsible for the integrity and objectivity of these financial statements, which are presented on the accrual basis of accounting and, accordingly, include some amounts based upon judgment. Other financial information in the annual report is consistent with that in the financial statements. The system of internal accounting controls is designed to help ensure that the financial reports and the books of account properly reflect the transactions of the institution, in accordance with established policies and procedures as implemented by qualified personnel.

The Board of Trustees of The University of Alabama, through its Audit and Finance Committees, monitors the financial and accounting operations of the institution, including the review and discussion of periodic financial statements and the evaluation and adoption of budgets. The Board of Trustees of The University of Alabama, through its Audit Committee, monitors the basis of engagement and reporting of independent auditors.



Richard L. Margison  
Vice President for Financial Affairs  
and Administration



Tricia Raczynski  
Associate Vice President  
for Financial Affairs

To the Board of Trustees of The University of Alabama:


In our opinion, based upon our audit and the report of other auditors, the accompanying statements of net assets and the related statements of revenues, expenses, and changes in net assets, and of cash flows of The University of Alabama at Birmingham (UAB), a campus of The University of Alabama System, present fairly, in all material respects, the financial position of UAB at September 30, 2010 and 2009, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of UAB's management. Our responsibility is to express an opinion on these financial statements based on our audits. For UAB's fiscal year 2010, we did not audit the financial statements of Southern Research Institute, which statements collectively represent 4%, 5%, and 4%, respectively, of the assets, net assets, and revenues of UAB at September 30, 2010 and for the year then ended. For UAB's fiscal year 2009, we did not audit the financial statements of Southern Research Institute, which statements collectively represent 4%, 5%, and 4%, respectively, of the assets, net assets, and revenues of UAB at September 30, 2009 and for the year then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Southern Research Institute for fiscal year 2010 and 2009, is based on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As discussed in Note 1, these financial statements are intended to present the financial position, the 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 UAB. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2010 and 2009 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 3, UAB restated its financial statements as of and for the year ended September 30, 2009, due to a change in reporting entity that occurred during fiscal year 2010.

The management's discussion and analysis and required supplemental information on pages 15 through 21 and on page 57 are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming an opinion on UAB's financial statements. The introductory information on pages 2 through 13 and the management report on this page are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



January 26, 2011



# Management's Discussion and Analysis (Unaudited)

The objective of management's discussion and analysis is to help readers of UAB's financial statements better understand the financial position and operating activities for the fiscal years ended September 30, 2010 and 2009. UAB's financial statements present the financial position, changes in financial position, and the cash flows of the University, the University of Alabama Hospital (the Hospital), and UAB's blended component units. Condensed financial information of UAB's reportable segments is presented at Note 23. GASB Statement No. 14, The Financial Reporting Entity (GASB Statement No. 14), requires governmental entities to include in their financial statements as a component unit organizations that are legally separate entities for which the governmental entity, as a primary organization, is financially accountable. Component Units include Triton Health Systems, L.L.C. (Triton), Southern Research Institute (SRI), and UAB Research Foundation (UABRF). UAB's financial statements have been restated for the periods presented as a result of a change in the reporting entity. See Note 3 for further discussion. The following discussion and analysis provides an overview of UAB's financial activities. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

## Financial Overview

UAB's financial position remained strong, as assets totaled \$3.33, \$3.13, and \$3.15 billion at September 30, 2010, 2009, and 2008. Increases of \$198.5 million or 6.3% from 2009 to 2010 were primarily due to the increasing values in conjunction with the investment market position as of September 30, 2010 growth in the investment in the Professional Liability Trust Fund and continued expansion of capital assets and the growth in accounts receivable. Decreases of \$20.4 million or 0.7% from 2008 to 2009 were primarily due to the decreasing values in conjunction with the investment market position as of September 30, 2009 and offset by continued expansion of capital assets and the growth in accounts receivable.

Total liabilities increased \$16.6 million or 1.5% from September 30, 2009 to September 30, 2010. The increase results from increases in accounts payable and accrued liabilities offset by reductions in bonds payable related to annual principal payments.

Total liabilities decreased \$39.7 million or 3.6% from

September 30, 2008 to September 30, 2009. The decrease results from reductions in bonds payable related to annual principal payments and accrued liabilities.

The change in net assets reflects the operating, non-operating and other activity of UAB, which results from revenues, expenses, and gains and losses, and is summarized for the years ended September 30, 2010, 2009, and 2008, as follows:

	2010	2009 (Restated)	2008 (Restated)
Total operating revenues	\$ 2,061,631,540	\$ 1,950,751,888	\$ 1,895,397,487
Total operating expenses	2,306,995,732	2,271,644,423	2,253,466,780
Net operating loss	\$ (245,364,192)	\$ (320,892,535)	\$ (358,069,293)
Total nonoperating income, capital, endowment and other activities	427,248,099	340,227,544	288,697,700
Increase (decrease) in net assets	\$ \$181,883,907	\$ 19,335,009	\$ (69,371,593)

A majority of UAB's endowment funds are invested in common investment pools established by The Board of Trustees of The University of Alabama (the Board). The funds are invested to maximize total return over the long term, with an appropriate level of risk. Any short term reduction in the fair value of the endowment portfolio will not have a meaningful immediate impact on the portion of investment income available to support current year operating expenses since such distributions are made pursuant to The University of Alabama System's (the System) spending rate policy.

## Statements of Net Assets

The statement of net assets presents the financial position of UAB at the end of the fiscal year, and includes all assets and liabilities recorded on the accrual basis of accounting. The changes in net assets are indicators of whether the overall financial condition of UAB has improved or worsened during the year. A summarized comparison of UAB's assets, liabilities, and net assets at September 30, 2010, 2009, and 2008, is as follows:

	2010	2009 (Restated)	2008 (Restated)
<b>ASSETS</b>			
Capital assets	\$ 1,503,730,507	\$ 1,483,581,715	\$ 1,478,892,673
Other assets	1,822,150,380	1,643,811,816	1,668,867,205
<b>TOTAL ASSETS</b>	<b>\$ 3,325,880,887</b>	<b>\$ 3,127,393,531</b>	<b>\$ 3,147,759,878</b>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities	\$ 352,336,577	\$ 313,199,021	\$ 342,527,972
Noncurrent liabilities	736,567,124	759,101,231	769,473,636
<b>TOTAL LIABILITIES</b>	<b>\$ 1,088,903,701</b>	<b>\$ 1,072,300,252</b>	<b>\$ 1,112,001,608</b>
Net assets	\$ 2,236,977,186	\$ 2,055,093,279	\$ 2,035,758,270
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,325,880,887</b>	<b>\$ 3,127,393,531</b>	<b>\$ 3,147,759,878</b>

At September 30, 2010 the major categories of current assets consist primarily of cash and cash equivalents, short-term investments, and accounts receivable, which totaled \$724.3 million of the \$775.0 million and increased \$111.8 million or 18.3% from 2009. The increase is a result primarily of growth in cash due to maturities of short term investments and an increase in accounts receivable.

At September 30, 2009 the major categories of current assets consist primarily of cash and cash equivalents, short-term investments, and accounts receivable, which totaled \$612.5 million of the \$657.2 million and increased \$35.6 million or 6.2% from 2008. The increase is a result primarily of growth in cash due to maturities of short term investments and an increase in accounts receivable.

At September 30, 2010, total current liabilities of \$352.3 million consisted primarily of accounts payable, accrued payroll and related benefits, and deferred revenue, which totaled \$326.7 million, compared to \$285.5 million at September 30, 2009, an increase of \$41.2 million or 14.4% from 2009.

At September 30, 2009, total current liabilities of \$313.2 million consisted primarily of accounts payable, accrued payroll and related benefits, and deferred revenue, which totaled \$285.5 million, compared to \$316.3 million at September 30, 2008, a decrease of \$30.6 million or 9.7% from 2008.

UAB's endowment and life income investments increased \$7.6 million to \$335.0 million from September 30, 2009 to September 30, 2010. This increase resulted from net investment gains and by the establishment of new endowment funds through gifts and the creation of Board-designated quasi-endowments. UAB's endowment funds consist of both permanent and quasi-endowments.

UAB's endowment and life income investments decreased \$5.0 million to \$327.4 million from September 30, 2008 to September 30, 2009. This decrease resulted from net investment losses partially offset by the establishment of new endowment funds through gifts and the creation of Board-designated quasi-endowments. UAB's endowment funds consist of both permanent and quasi-endowments.

Permanent endowment funds are those funds received from donors with the requirement that the principal remain unspent and invested in perpetuity to produce income to be expended for the purposes specified by the donor. Quasi-endowments consist of restricted or unrestricted funds that have been set aside by actions of the Board to produce income for an established purpose until the time the Board reverses its action. Endowment income supports schol-

arships, fellowships, professorships, research efforts, and other programs and activities of UAB.

At September 30, 2010, 2009, and 2008 respectively, UAB's investment in the Professional Liability Trust Fund (PLTF) and other long-term investments totaled approximately \$38.3, \$27.6, and \$52.9 million. The \$10.7 million increase is a result growth in investment values at September 30, 2010. The \$25.3 million decrease is a result of maturities of long-term investments and the offset of investment values at September 30, 2009.

## Capital and Debt Activities

An aspect of UAB's continued growth is an emphasis on the expansion and maintenance of capital assets. UAB continues to implement its long-range capital plan.

Capital assets primarily include land, buildings, fixed equipment systems, and inventoried equipment. The original costs of capital assets increased approximately \$110.4 and \$117.0 million from September 30, 2009 to September 30, 2010 and from September 30, 2008 to September 30, 2009, respectively. This increase consists primarily of capital expenditures and capital additions totaling \$143.3 (offset primarily by \$32.9 in disposals) and \$125.0 (offset primarily by \$7.9 in disposals) in 2010 and 2009. Capital additions are comprised primarily of renovation and new construction of research and health care facilities, as well as additions to improve information technology systems. Annual additions were funded with capital funds, grants, gifts of \$37.5 and \$15.7 million, debt proceeds of \$0.3 and \$11.8 million, and the remainder by UAB funds designated for capital purchases in 2010 and 2009, respectively.

Capital projects in process at September 30, 2010 include renovation of the Wallace Tumor Institute. Capital projects in process at September 30, 2009 include construction primarily of the new Radiation Oncology Facility and the new Womens and Infants Facility.

UAB's long-term debt related to capital assets, consisting of bonds and capital leases, totaled \$729.7, \$753.0, and \$776.0 million at September 30, 2010, 2009, and 2008, respectively. The decrease in debt during 2010 and 2009 consisted primarily of the principal payments made in accordance with the debt instruments.

## Net Assets

Net assets represent the residual interest in UAB's assets after liabilities are deducted. UAB's net assets at September 30, 2010, 2009, and 2008, are summarized as follows:

	2010	2009 (Restated)	2008 (Restated)
Invested in capital assets, net of related debt	\$ 783,002,097	\$ 739,600,715	\$ 727,074,251
Restricted			
Nonexpendable	233,211,681	223,772,637	222,397,229
Expendable	203,485,691	197,833,455	200,791,863
Unrestricted	1,017,277,717	893,886,472	885,494,927
<b>TOTAL NET ASSETS</b>	<b>\$ \$2,236,977,186</b>	<b>\$ \$2,055,093,279</b>	<b>\$ \$2,035,758,270</b>

Net assets invested in capital assets, net of related debt, represent UAB's capital assets, net of accumulated depreciation and outstanding principal of debt in excess of related bond proceeds attributable to the acquisition, construction, or improvement of those assets. The \$54.4 and \$12.5 million increase in 2010 and 2009, respectively, reflects the continued capital asset development in accordance with UAB's long-range capital plan and decrease in debt due to principal payments made.

Restricted nonexpendable net assets include UAB's permanent endowment funds and annuity and life income assets that will ultimately become pure endowment funds. The \$9.4 million increase in 2010 results primarily from the increase in fair values of investments and contributions and the \$1.4 million increase in 2009 results primarily from the increase in fair values of investments and contributions.

Restricted expendable net assets are subject to externally imposed restrictions governing their use. Restricted expendable net assets include UAB's assets whose use is restricted by an external restriction. The \$5.7 increase in 2010 results primarily from the increase in fair values of investments and contributions. The \$3.0 million decrease in 2009 in restricted expendable net assets results from gifts offsets by the decrease in fair value of investments.

Unrestricted net assets include UAB's assets whose use is not restricted by an external entity. Unrestricted net assets increased \$112.4 and \$8.4 million or 12.6% and 0.9% in 2010 and 2009, respectively.

Although unrestricted net assets are not subject to externally imposed restrictions, UAB has designated available unrestricted net assets to be used for academic and research programs as well as capital projects.

## Statements of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents UAB's results of operations, as well as the nonoperating revenues and expenses. Annual state appropriations are classified as nonoperating revenues according to governmental accounting standards, even though the state-appropriated funds are used to support the operations of UAB. Without the nonoperating revenues, in particular the state appropriations and private gifts, UAB would not be able to cover its costs of operations. A summarized comparison of UAB's revenues, expenses and changes in net assets for the years ended September 30, 2010, 2009, and 2008 is presented below:

	2010	2009 (Restated)	2008 (Restated)
<b>OPERATING REVENUES</b>			
Student tuition and fees, net	\$ 99,073,136	\$ 89,433,793	\$ 77,573,931
Grants and contracts	487,674,404	460,473,482	463,068,202
Sales and services	1,078,137,192	1,023,526,012	982,897,473
Other revenues	396,746,808	377,318,601	358,444,840
<b>REVENUES SUPPORTING CORE ACTIVITIES</b>	<b>\$ 2,061,631,540</b>	<b>\$ 1,950,751,888</b>	<b>\$ 1,881,984,446</b>
<b>OPERATING EXPENSES</b>			
Operating expenses	\$ 2,306,995,732	\$ 2,271,644,423	\$ 2,253,466,780
<b>OPERATING LOSS</b>	<b>\$ (245,364,192)</b>	<b>\$ (320,892,535)</b>	<b>\$ (371,482,334)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State educational appropriations	\$ 256,190,587	\$ 284,944,757	\$ 358,088,951
Grants and contracts	19,208,346	21,440,588	24,543,181
State stimulus	22,469,522		
Private gifts	32,879,702	31,085,870	28,536,648
Net investment income (loss)	74,943,746	8,130,506	(137,286,973)
Interest expense	(31,670,287)	(28,023,682)	(28,725,670)
Gain (loss) of disposal of capital assets	(2,639,740)	(1,832,641)	(2,162,159)
Capital state appropriations	26,709,760	4,131,110	5,096,600
Capital gifts and grants	10,831,502	11,560,345	19,099,511
Permanent endowments	6,680,465	5,704,258	5,235,022
Net nonoperating revenues (loss)	(894,286)	1,349,684	2,850,129
Transfer of PLTF			
Other changes	12,538,782	1,736,749	26,835,501
<b>NET NONOPERATING REVENUES AND OTHER CHANGES</b>	<b>\$ 427,248,099</b>	<b>\$ 340,227,544</b>	<b>\$ 302,110,741</b>
<b>INCREASE IN NET ASSETS</b>	<b>\$ 181,883,907</b>	<b>\$ 19,335,009</b>	<b>\$ (69,371,593)</b>
Net assets, beginning of year	\$ 2,055,093,279	2,035,758,270	\$ 2,105,129,863
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 2,236,977,186</b>	<b>\$ 2,055,093,279</b>	<b>\$ 2,035,758,270</b>

Figures A and A1 are graphic illustrations of revenues by source (both operating and nonoperating), which are used to fund UAB's operating activities for the years ended September 30, 2010 and 2009, respectively.

Fig. A

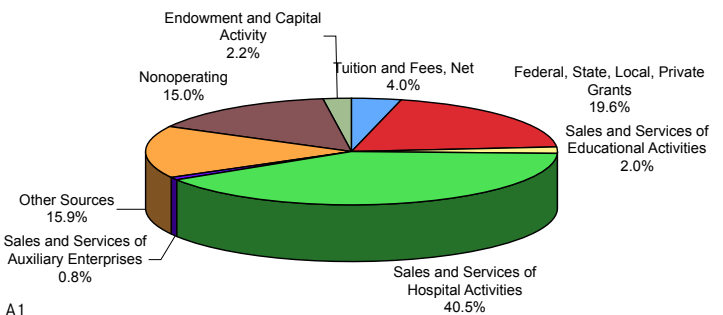
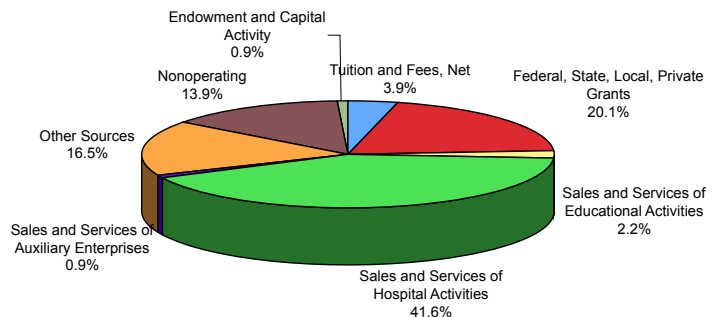


Fig. A1

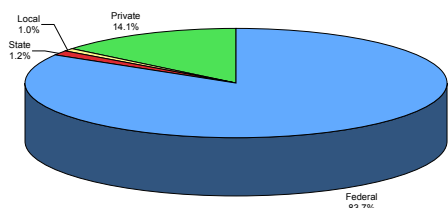


Gross tuition and fees revenue increased by \$18.1 and \$14.3 million in 2010 and 2009, respectively. Total student headcount of 18,047 and 17,281 increased by 766 and decreased by 49 or 4.4% and (0.3%) in 2010 and 2009, respectively.

UAB recognized \$52.9, \$40.5, and \$43.4 million in gift revenue (composed partially of \$6.9, \$3.7, and \$9.6 million and \$3.9, \$5.7, and \$5.2 million in capital and endowment gifts, respectively) for the years ended September 30, 2010, 2009, and 2008, respectively.

UAB receives State appropriations from the State of Alabama. UAB recognized funds from the State of Alabama totaling \$282.9, \$289.0, and \$363.1 million, of which \$256.2, \$284.9, and \$358.1 million was from the ETF, which is included as nonoperating revenue in 2010, 2009, and 2008, respectively. The remaining \$26.7, \$4.1, and \$5.0 million represents Public School and College Authority funds and other state capital funds in 2010, 2009 and 2008, respectively.

Fig. B Grants and Contact Revenue



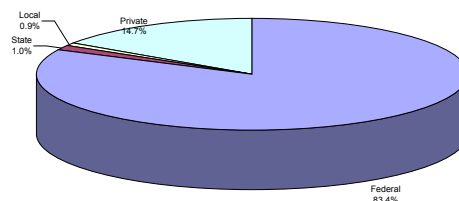
Net investment income increased \$66.8 million from 2009 to 2010. The increase is primarily a result of growth in the fair value of investments. Net investment income increased \$145.4 million from 2008 to 2009. The increase is primarily a result of growth in

tively. In addition, UAB received \$22.5 million in State Fiscal Stabilization Funds in 2010.

Net hospital sales and service revenue totaled \$1.01 billion, \$953.2, and \$913.9 million, an increase of 5.8% and 4.3% from 2009 to 2010 and 2008 to 2009, respectively. This increase results from increased volume, contract improvements, and ongoing revenue-cycle improvement activities.

UAB receives grant and contract revenue from federal, state, local, and private agencies. These funds are used to further the mission of UAB: research, education, and public service. In addition to the funds received in exchange for services performed, UAB received \$6.9, \$7.9, and \$9.5 million in 2010, 2009, and 2008, respectively, in funds to be used to acquire capital assets. Figures B and B1 are illustrations of the breakout of the funding sources for grant and contract revenue for the years ended September 2010 and 2009, respectively.

Fig. B1 Grants and Contact Revenue



the fair value of investments. Net investment income for the years ended September 30, 2010, 2009, and 2008, consist of the following components:

	2010	2009 (Restated)	2008 (Restated)
Interest and dividends	\$ 45,755,424	\$ 33,499,430	\$ 56,644,448
Net increase (decrease) in the fair value of investments	18,489,298	(31,677,208)	(187,663,603)
Return on equity investments	10,699,024	6,308,284	(6,267,818)
	<b>\$ 74,943,746</b>	<b>\$ 8,130,506</b>	<b>\$ (137,286,973)</b>

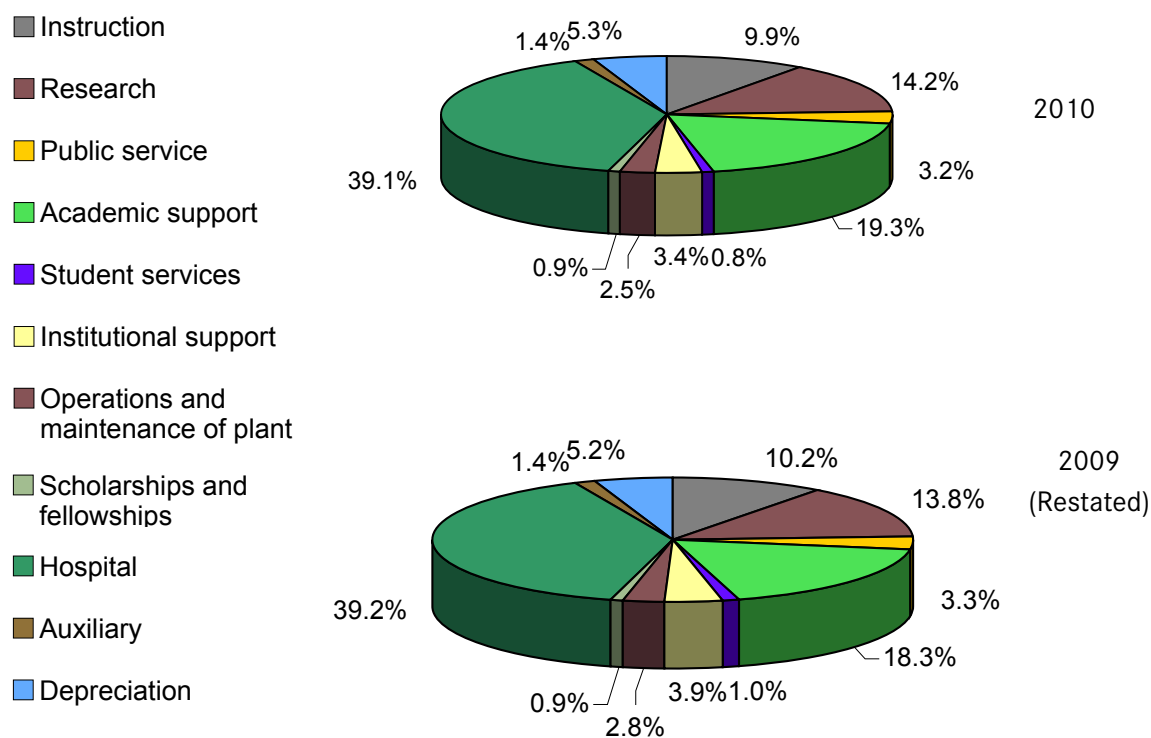
A comparative summary of UAB's operating expenses for the years ended September 30, 2010, 2009, and 2008, is as follows:

	2010	2009 (Restated)	2008 (Restated)
Salaries, wages, and benefits	\$ 1,185,398,724	\$ 1,188,947,815	\$ 1,181,361,163
Supplies and services	978,817,716	943,485,696	925,827,146
Depreciation and amortization	121,398,525	118,477,145	114,399,656
Scholarships and fellowships	21,380,767	20,733,767	20,498,768
Expenses from discontinued operations			11,380,047
	<b>\$ 2,307,995,732</b>	<b>\$ 2,271,644,423</b>	<b>\$ 2,089,951,082</b>

Salaries, wages, and benefits decreased \$3.5 million or 0.3% during 2010 and increased \$3.5 million or 0.6% during 2009, respectively. This decrease in 2010 is a result of reductions in workforce due to the economic downturn. This increase in 2009 is due primarily to UAB's continued growth. In addition, supplies and services expenses increased \$35.3 and \$17.7 million or 3.7% and 1.9% during 2010 and

2009, respectively. This increase is primarily attributable to UAB's continued growth.

In addition to their natural classification, it is also informative to review operating expenses by function. Graphic illustrations of UAB's operating expenses by function for the years ended September 30, 2010 and 2009, respectively are presented as follows:



## Statements of Cash Flows

The statement of cash flows presents the significant sources and uses of cash. UAB's cash, primarily

held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts on a daily basis.

	2010	2009 (Restated)	2008 (Restated)
Net cash used in operating activities	\$ (96,612,053)	\$ (221,976,118)	\$ (276,801,168)
Net cash used in capital and related financing activities	(158,003,248)	(169,761,394)	(237,234,437)
Net cash provided by noncapital financing activities	334,784,300	351,539,902	449,896,071
Net cash provided by (used in) investing activities	30,516,776	169,536,020	(88,940,667)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 110,685,775</b>	<b>\$ 129,338,410</b>	<b>\$ (153,080,201)</b>
Cash and cash equivalents, beginning of year	\$ 193,296,497	\$ 63,958,087	\$ 217,038,288
<b>Cash and cash equivalents, end of year</b>	<b>\$ 303,982,272</b>	<b>\$ 193,296,497</b>	<b>\$ 63,958,087</b>

UAB used \$96.6, \$222.0 and \$276.8 million of cash for operating activities, offset by \$334.8, \$351.5, and \$449.9 million of cash provided by noncapital financing activities in 2010, 2009 and 2008, respectively. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses.

Cash of \$158.0, \$170.0 and \$237.2 million in 2010, 2009 and 2008, respectively, was used for capital and related financing activities, primarily purchases of capital assets and principal and interest payments on long-term debt, partially offset by sources that included bond proceeds, gifts, and grants and contracts for capital purposes. Cash provided by investing activities totaled \$30.5 million in 2010, while cash provided by investing activities totaled \$169.5 million in 2009, and cash used in investing activities totaled \$88.9 million in 2008.

## Economic Factors That Will Affect The Future

As a labor-intensive organization, UAB faces competitive pressures related to attracting and retaining faculty and staff.

The State of Alabama appropriates money each year to UAB for operating costs and nonoperating cash requirements, including capital expenditures. Because the State is mandated by its Constitution to operate with a balanced budget, the State occasionally has reduced its appropriations, through a process known as "proration," when its annual revenues are not expected to meet budgeted appropriations. Throughout the years ending September 2010 and 2009, the State implemented proration. UAB is currently implement-

ing cost-saving measures in order to balance its own budget.

UAB will strive to remain highly competitive in terms of attracting federal grant and contract revenue, primarily from the NIH, as seven individual departments rank among the top ten in their specialties.

Private gifts are an important part of the fundamental support of UAB. Economic pressures affecting donors may also affect the future level of support UAB receives from corporate and individual giving.

The Hospital faces significant challenges in a dynamic healthcare sector and volatile economic environment. The demand for health care services and the cost of providing them are increasing significantly while the revenues to support these services are diminishing. In addition to cost increases such as rising salary and benefit costs, the Hospital also faces additional costs associated with new technologies, the education and training of health care professionals and provision of care for a disproportionate share of the medically underserved in Alabama. In recent years, federal legislation has been enacted to slow future rate increases in Medicare and Medicaid and reduce medical education and disproportionate share funding. Management is committed to staying abreast of pertinent issues; implementing appropriate management actions and continuing to provide quality care for all patients.

These financial statements are designed to provide a general overview of the University of Alabama at Birmingham and to demonstrate UAB's accountability. Questions concerning any information provided in this report or requests for additional information should be addressed to the Office of the Vice President for Financial Affairs and Administration, The University of Alabama at Birmingham, AB 1030, 1530 3RD AVE S, BIRMINGHAM AL 35294-0110.



# The University of Alabama at Birmingham

## Statements of Net Assets

September 30, 2010 and 2009

	2010	2009 (Restated, See Note 3)
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 285,518,288	\$ 176,056,905
Short term investments	212,470,504	219,604,218
Accounts receivable, net	226,321,479	216,800,651
Loans receivable, current portion	2,601,448	2,614,555
Pledges receivable, current portion	8,054,996	8,258,382
Inventories	14,375,743	13,388,631
Other current assets	25,610,720	20,440,632
<b>Total current assets</b>	<b>\$ 774,953,178</b>	<b>\$ 657,163,974</b>
Noncurrent Assets:		
Cash designated for capital activities	\$ 18,259,168	\$ 17,211,800
Restricted cash and cash equivalents	204,816	27,792
Investments for capital activities	615,499,939	577,696,653
Endowment and life income investments	335,006,502	327,401,937
Investment in Professional Liability Trust Fund	38,285,607	27,593,766
Other long-term investments	5,057,439	6,773,816
Loans receivable, net	16,998,857	16,388,001
Pledges receivable	15,159,587	10,552,121
Capital assets, net	1,503,730,507	1,483,581,715
Other noncurrent assets	2,725,287	3,001,956
<b>Total noncurrent assets</b>	<b>\$ 2,550,927,709</b>	<b>\$ 2,470,229,557</b>
<b>Total Assets</b>	<b>\$ 3,325,880,887</b>	<b>\$ 3,127,393,531</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 233,867,398	\$ 199,260,088
Deposits	3,037,407	3,110,976
Deferred revenue-grants	27,329,847	32,415,349
Deferred revenue-other	65,518,163	53,829,453
Long-term debt, current portion	22,583,762	24,583,155
<b>Total current liabilities</b>	<b>\$ 352,336,577</b>	<b>\$ 313,199,021</b>
Noncurrent Liabilities:		
Federal advances-loan funds	\$ 15,912,319	\$ 16,261,897
Long-term debt, noncurrent portion	707,127,932	728,381,790
Other noncurrent liabilities	13,526,873	14,457,544
<b>Total noncurrent liabilities</b>	<b>\$ 736,567,124</b>	<b>\$ 759,101,231</b>
<b>Total Liabilities</b>	<b>\$ 1,088,903,701</b>	<b>\$ 1,072,300,252</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 783,002,097	\$ 739,600,715
Restricted		
Nonexpendable	233,211,681	223,772,637
Expendable	203,485,691	197,833,455
Unrestricted	1,017,277,717	893,886,472
<b>Total Net Assets</b>	<b>\$ 2,236,977,186</b>	<b>\$ 2,055,093,279</b>

See accompanying notes to financial statements.



# The University of Alabama at Birmingham

## Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended September 30, 2010 and 2009

	2010	2009 (Restated, See Note 3)
<b>Operating Revenues</b>		
Tuition and fees	\$ 139,441,181	\$ 121,375,233
Less: scholarship allowances	(39,854,513)	(31,538,935)
Less: bad debt expense	(513,532)	(402,505)
Tuition and fees, net	99,073,136	89,433,793
Grants and contracts:		
Federal	\$ 406,525,237	\$ 374,470,352
State	5,638,724	5,710,615
Local	3,606,873	4,887,952
Private	71,903,570	75,404,563
Sales and services:		
Educational activities	\$ 49,681,864	\$ 50,831,174
Hospital, net of bad debt expense of \$171,617,926 and \$214,337,495	1,008,889,965	953,252,806
Auxiliary enterprises, net of scholarship allowance of \$3,661,470 and \$2,798,463	19,565,363	19,442,032
Other operating revenues	396,746,808	377,318,601
<b>Total operating revenues</b>	<b>\$ 2,061,631,540</b>	<b>\$ 1,950,751,888</b>
<b>Operating Expenses</b>		
Salaries, wages and benefits	\$ 1,185,398,724	\$ 1,188,947,815
Supplies and services	978,817,716	943,485,696
Depreciation and amortization	121,398,525	118,477,145
Scholarships and fellowships	21,380,767	20,733,767
<b>Total operating expenses</b>	<b>\$ 2,306,995,732</b>	<b>\$ 2,271,644,423</b>
<b>Operating loss</b>	<b>\$ (245,364,192)</b>	<b>\$ (320,892,535)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Gains and losses		
State appropriations	\$ 256,190,587	\$ 284,944,757
Federal grants and contracts	18,452,330	20,931,822
State grants and contracts	108,405	101,950
Local grants and contracts		29,185
Private grants and contracts	647,611	377,631
State fiscal stabilization funds	22,469,522	
Gifts	32,879,702	31,085,870
Investment income	74,943,746	8,130,506
Interest expense	(31,670,287)	(28,023,682)
Loss on asset dispositions, net	(2,639,740)	(1,832,641)
Gain on sale of discontinued operations (Note 1)	3,088,615	1,736,749
Net other nonoperating revenue (expense)	(894,286)	1,349,684
<b>Net nonoperating revenues</b>	<b>\$ 373,576,205</b>	<b>\$ 318,831,831</b>
<b>Income (Loss) before other revenues, expenses, gains, losses, and transfers</b>	<b>\$ 128,212,013</b>	<b>\$ (2,060,704)</b>
<b>Other Changes in Net Assets</b>		
Capital and endowment activities		
State funds-capital	\$ 26,709,760	\$ 4,131,110
Capital grants and contracts	6,893,758	7,883,724
Capital gifts	3,937,744	3,676,621
Endowment gifts	6,680,465	5,704,258
Other revenue (Note 3)	9,450,167	
<b>Net other changes in net assets</b>	<b>\$ 53,671,894</b>	<b>\$ 21,395,713</b>
<b>Increase in net assets</b>	<b>\$ 181,883,907</b>	<b>\$ 19,335,009</b>
<b>Net Assets, beginning of year</b>	<b>\$ 2,055,093,279</b>	<b>\$ 2,035,758,270</b>
<b>Net Assets, end of year</b>	<b>\$ 2,236,977,186</b>	<b>\$ 2,055,093,279</b>

See accompanying notes to financial statements.

# The University of Alabama at Birmingham

## Statements of Cash Flows

Years Ended September 30, 2010 and 2009

	2010	2009 (Restated. See Note 3)
<b>Cash flows from operating activities</b>		
Student tuition and fees	\$ 103,088,885	\$ 95,680,419
Grants and contracts	483,508,254	451,851,164
Receipts from sales and services of:		
Educational activities	\$ 48,823,818	\$ 49,282,829
Patient services	1,005,072,479	969,509,866
Auxiliary enterprises, net	22,925,037	23,140,103
Premium and administrative fees collected	355,417,685	313,974,315
Payment to employees and related benefits	(1,170,836,110)	(1,194,266,534)
Payment to suppliers	(985,141,556)	(969,517,222)
Payment for scholarships and fellowships	(21,380,767)	(20,733,767)
Other receipts (disbursements)	61,910,222	59,102,709
<b>Net cash (used in) operating activities</b>	<b>\$ (96,612,053)</b>	<b>\$ (221,976,118)</b>
<b>Cash flows from capital and related financing activities</b>		
State capital funds	\$ 26,709,760	\$ 4,131,110
Federal grants and contracts	5,445,628	9,445,076
Local grants and contracts	863,186	
Private gifts	3,924,900	5,226,777
Proceeds from sale of capital assets	145,661	117,909
Purchases of capital assets	(139,676,137)	(128,908,264)
Principal payments on capital debt	(24,022,770)	(23,805,681)
Interest payments on capital debt	(31,393,476)	(35,968,321)
<b>Net cash (used in) capital and related financing activities</b>	<b>\$ (158,003,248)</b>	<b>\$ (169,761,394)</b>
<b>Cash flows from noncapital financing activities</b>		
State appropriations	\$ 256,190,587	\$ 284,944,757
Private gifts	35,170,119	37,734,814
Student direct lending receipts	115,266,095	104,371,117
Student direct lending disbursements	(116,666,083)	(103,270,878)
Other deposits (disbursements)	45,246,729	29,203,642
Deposits (to) from affiliates	(423,147)	(1,443,550)
<b>Net cash provided by noncapital financing activities</b>	<b>\$ 334,784,300</b>	<b>\$ 351,539,902</b>
<b>Cash flows from investing activities</b>		
Interest and dividends from investments, net	\$ 47,527,337	\$ 48,385,549
Payments for intangibles	(725,976)	(116,822)
Collections on note receivable	163,822	164,664
Cash distributions (to) from equity investments	(6,307,703)	975,583
Proceeds from sales and maturities of investments	61,522,707	459,582,931
(Contributions to) proceeds from system pooled investment funds	(73,507,541)	20,674,177
Purchases of investments	(1,244,485)	(361,866,811)
Proceeds from sale of discontinued operations	3,088,615	1,736,749
<b>Net cash provided by investing activities</b>	<b>\$ 30,516,776</b>	<b>\$ 169,536,020</b>
<b>Net increase in cash and cash equivalents</b>	<b>\$ 110,685,775</b>	<b>\$ 129,338,410</b>
<b>Cash, beginning of year</b>	<b>\$ 193,296,497</b>	<b>\$ 63,958,087</b>
<b>Cash, end of year</b>	<b>\$ 303,982,272</b>	<b>\$ 193,296,497</b>
<b>Reconciliation of operating (loss) to net cash used in operating activities</b>		
Operating (loss)	\$ (245,364,192)	\$ (320,892,535)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization expense	\$ 121,398,523	\$ 118,477,145
Changes in assets and liabilities:		
Accounts receivable, net	\$ (12,363,556)	\$ 2,923,351
Prepaid expenses and other assets	91,098	(8,961,294)
Accounts payable and accrued liabilities	31,242,803	(22,898,500)
Deferred revenue	\$ 8,383,271	\$ 9,375,714
<b>Net cash (used in) operating activities</b>	<b>\$ (96,612,053)</b>	<b>\$ (221,976,118)</b>

See accompanying notes to financial statements.

# The University of Alabama at Birmingham

## Statements of Cash Flows (continued)

Years Ended September 30, 2010 and 2009

	2010	2009 (Restated, See Note 3)
<b>Supplemental noncash activities information</b>		
Capital assets acquired included in accounts payable	\$ 6,401,585	\$ 4,725,457
Capital assets acquired through capital lease	\$ 108,515	\$ 162,458
Interest capitalized	\$ 1,746,222	\$ 4,877,630

See accompanying notes to financial statements.



# The University of Alabama at Birmingham

## Notes to Financial Statements

September 30, 2010

### (1) Summary of Significant Accounting Policies

The University of Alabama at Birmingham (UAB) 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 State). The financial statements of UAB 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 UAB. 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.

UAB, as a public institution, prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), including all applicable effective statements of the GASB and all statements of the Financial Accounting Standards Board (FASB) through November 30, 1989 that do not conflict with GASB pronouncements. With the exception of blended component units, UAB has elected to not apply the provisions of any pronouncements of the FASB issued after November 30, 1989. All blended component units have elected to apply FASB pronouncements issued after November 30, 1989 which do not conflict with GASB pronouncements.

GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities* (GASB Statement No. 35), establishes standards for external financial reporting for public colleges and universities and requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- **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 UAB. Such assets include UAB's permanent endowment funds.

Expendable: Net assets whose use by UAB is subject to externally imposed stipulations that can be fulfilled by actions of UAB pursuant to those

stipulations or that expire by the passage of time.

- **Unrestricted:**

Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management. Substantially all unrestricted net assets are designated for academic and research programs and initiatives and capital programs.

UAB reports as a business type activity, as defined by GASB Statement No. 35. Business type activities are those financed in whole or in part by fees charged to external parties for goods or services.

UAB policy states that operating activities as reported by 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. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The estimates susceptible to significant changes include those used in determining the allowance for contractual adjustments and uncollectible accounts, valuation of investments, accruals related to compensated absences, allowance for self insurance, estimated amounts due to or from third-party payors, and reserves for general and professional liability claims. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate.

#### Scope of Statements

UAB is principally comprised of a university (the University) and the University of Alabama Hospital (the Hospital) which are UAB's reportable segments as defined by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis-For State and Local Governments: Omnibus Amendment of GASB Statements No. 21 and No. 34*. UAB's financial statements present the financial position, changes in financial position, and the cash flows of the University, the Hospital, and UAB's blended component units. Condensed financial information of UAB's reportable segments is presented at Note 23. GASB Statement No. 14, *The Financial Reporting Entity* (GASB Statement No. 14), requires governmental entities to include in their financial statements as a component unit, organizations that are legally separate entities for which the governmental entity, as a

primary organization, is financially accountable.

The by-laws and corporate charters of the Southern Research Institute (SRI) and UAB Research Foundation (UABRF) allow UAB to appoint a majority of the respective boards of directors and allow UAB to impose its will on the entities. These entities operate for the exclusive benefit of UAB. Additionally, Triton Health Systems, L.L.C. (Triton) has a governing body that is substantively the same as the governing body of UAB. Therefore, management has determined that SRI, UABRF, and Triton (the Component Units) constitute blended component units of UAB under GASB Statement No. 14. The Component Units report financial results under principles prescribed under the GASB.

Triton was formed to advance the educational and research mission of UAB and to educate and train physicians and other health care professionals. Triton is owned 99% by UAB and 1% by The UAB Educational Foundation (UABEF). SRI offers research and technology services to support industry and federal government agencies primarily in the areas of drug design and evaluation, environmental controls, materials engineering and chemical and biological defense. UABRF was organized exclusively for charitable, scientific, and educational purposes in order to benefit UAB. The activities of SRI and Triton are maintained using a calendar year-end. UABRF maintains a September 30 year-end. The activities of SRI and Triton are maintained using a fiscal calendar year-end that predates UAB's fiscal year-end of September 30. However, interfund cash transactions during the period from January 1 through September 30 have been eliminated in order to balance the accounts. Separate financial statements are available for SRI, Triton, and UABRF by contacting UAB.

#### **Discontinued Operations**

Effective July 31, 2007, SRI sold all of the capital stock of its wholly owned subsidiary, Brookwood Pharmaceuticals, Inc. (Brookwood), to Surmodics, Inc. (Surmodics) pursuant to the terms of a stock purchase agreement between SRI and Surmodics (the Purchase Agreement). SRI determined that the sale of stock of Brookwood met the criteria for discontinued operations. Accordingly, the gain on the sale of Brookwood is included in nonoperating revenue. See Note 21 for further discussion of a related contingency.

Other significant accounting policies are as follows:

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

**Investments:** UAB accounts for its investments, other than land and other real estate held as investments by endowments, in accordance with the provisions of

GASB Statement No. 31, *Accounting and Reporting for Certain Investments and For External Investment Pools* (GASB 31) (see Note 5). Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at their fair value. UAB invests certain amounts in a commingled investment pool sponsored by the System. The value of the investments in the pools is determined by the System and based on UAB's proportionate share of the net asset value of the investment pools. 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 are carried at cost. (Note 5). Investments carried at cost are subject to review for impairment.

UAB accounts for its land and other real estate held as investments by endowments in accordance with GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Investments are reported in four categories in the statement of net assets. Investments recorded as endowment and life income investments are those invested funds considered by management to be of long duration. Other long-term investments include amounts resulting from UAB's equity investment in other entities, as discussed in Note 5 and Note 20. Investments for capital projects are included in noncurrent assets. All other investments are included as short-term investments.

**Inventories:** Inventories are carried at the lower of cost or market. Inventories consist primarily of textbooks, medical supplies, and pharmaceuticals.

**Capital assets:** All capital assets are carried at cost on date of acquisition (or in the case of gifts, at fair value on the date of donation), less accumulated depreciation (or in the case of assets leased under capital leases, net of accumulated amortization). UAB computes depreciation for buildings and building improvements (15-40 years) and for fixed equipment systems (3-20 years) using a component method. Depreciation of land improvements (40 years), library collection (10 years), and inventoried equipment (3-20 years) is computed on a straight-line basis. The Hospital uses guidelines established by the American Hospital Association to assign useful lives to inventoried equipment.

Capital assets acquired under capital leases are amortized over the shorter of the lives of the respective leases or the estimated useful lives of the assets. Capital assets acquired through federal grants and contracts in which 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.

Computer software capitalization, which is included as inventoried equipment, includes the costs of software and implementation. Implementation costs include consulting expenses and allocation of internal salaries and fringes for the core implementation team.

**Pledges:** UAB receives gift 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. Endowment pledges do not meet eligibility requirements and are not recorded as assets until the related gift is received in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB Statement No. 33).

**Endowment spending:** 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.

UPIFMA 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. UAB's policy is to retain the endowment realized and unrealized appreciation within an endowment after the spending rate distributions in a manner consistent with the standards of prudence prescribed by UPMIFA. The Board approved a spending rate for the fiscal years September 30, 2010 and 2009 of 5% of a moving three-year average of the market (unit) value.

**Deferred revenue:** Deferred revenue consists primarily of student fees related predominantly to future fiscal years and amounts received from grant and contract sponsors that have not yet been earned under the terms of the agreements and, therefore, have not yet been included in the net assets.

**Federal refundable loans:** Certain loans to students are administered by UAB with funding primarily supported by the federal government. UAB's statement of

net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

**Compensated absences:** UAB accrues annual leave for employees at rates based upon length of service and job classification. UAB accrues compensatory time based upon job classification and hours worked. These amounts are included in accounts payable and accrued liabilities.

**Student tuition and fees:** Student tuition and residence fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarship and fellowship expenses.

**Grant and contract revenue:** UAB receives grant and contract revenue from governmental and private sources. UAB recognizes revenue associated with the sponsored programs in accordance with GASB Statement No. 33, based on the terms of the individual grant or contract.

**Hospital revenue:** Net patient service revenue is reported at the Hospital's estimated net realizable amounts from patients, third-party payors, and others for services rendered, included estimated retroactive revenue adjustments due to revenue audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered.

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its estimated rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Auxiliary enterprise revenue:** Auxiliary enterprise revenues primarily represent revenues generated by intercollegiate athletics and parking.

**Other revenue:** Other revenue represents primarily revenues generated by UAB for activities such as intellectual property income and subscriber premiums.

**Equity investments:** Investments in affiliated companies where UAB can exercise significant influence and for which UAB's ownership interest is 50% or less are accounted for using the equity method. The investment in the Professional Liability Trust Fund (PLTF) also is accounted for using the equity method. See Notes 5 and 20.

## (2) Related Parties

UAB is affiliated with the UABEF, the University of Alabama Health Services Foundation, P.C. (HSF),

UAB Health System (UABHS), and the Valley Foundation (VF). UAB is not financially accountable for HSF, VF, UABEF, and UABHS; therefore, they do not constitute component units under the provisions of GASB Statement No. 14. These entities are not required to be presented as component units under GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which amends GASB 14.

The purpose of UABEF is to operate exclusively for the benefit of UAB. UABEF provides funds and certain facilities to UAB for its educational and scientific functions and provides support for UAB athletic programs. UABEF is not disclosed as a component unit under GASB No. 39 as UABEF is not deemed significant to UAB. UABEF has 13 board members, including seven outside members not affiliated with UAB. UABEF leases certain facilities to UAB, with annual rental expense of approximately \$1,932,000 and \$1,786,000 for 2010 and 2009, respectively. UAB expects to receive title to certain of the properties upon retirement of the related debt. These properties have been appropriately capitalized by UAB as assets acquired under capital leases. UABEF made contributions to UAB which totaled approximately \$4,365,000 and \$4,709,000 in 2010 and 2009, respectively. UABEF's total assets were approximately \$48,697,000 and \$47,808,000 at September 30, 2010 and 2009, respectively. UABEF's total liabilities were approximately \$17,117,000 and \$17,862,000 at September 30, 2010 and 2009, respectively.

HSF's primary purpose is to provide a group medical practice for physicians who are members of the regular faculty of the School of Medicine at UAB and serve on the University of Alabama Hospital's medical staff. It is governed by a 19-member board of directors, 16 of whom are not affiliated with UAB. An affiliation agreement (the Agreement) documents the relationship between HSF and UAB. The University's other operating revenues include approximately \$39,668,000 and \$40,576,000 of funding from HSF in 2010 and 2009, respectively, which is used to support the educational and research activities of UAB. These funds were paid by HSF pursuant to its tax-exempt purpose and in recognition of the mutual benefit derived by the two organizations from the enhancement and continued development of UAB's programs. The funds were negotiated with HSF as part of UAB's budget development process. In the normal course of business, HSF purchases various services from the Hospital, aggregating approximately \$1,162,000 and \$2,003,000 in 2010 and 2009, respectively, and the Hospital purchases various services from HSF, aggregating approximately \$23,979,000 and \$19,831,000 for the years ended September 30, 2010 and 2009, respectively. As a result of these transactions, the Hospital had a net payable to HSF of approximately \$5,105,000 and \$3,886,000 at September 30, 2010 and 2009, respectively.

During 2009, the Hospital entered into an operating agreement with HSF whereby HSF began leasing two floors of the UAB Women and Infants' Facility when construction was completed in February 2010. HSF reimbursed the Hospital for construction costs of this space as they were incurred on a square-footage basis. Total reimbursements are being amortized as rent revenue on a straight-line basis over a period equal to the 90 year total lease term, commencing on February 20, 2010 when the building was placed into service. The Hospital had received reimbursements from HSF totaling approximately \$0 and \$13,229,000, which is included in the accompanying statement of net assets as deferred revenue—other for the years ended September 30, 2010 and 2009, respectively. Approximately \$97,000 was recognized as rent revenue during the year ended September 30, 2010.

The Board and the HSF's board have entered into an agreement under which UAB and HSF have established a common management group, the UAB Health System to provide management for their existing and future health care delivery operations. The UAB Health System Board of Directors is composed of 18 members, of whom nine are appointed by the Board. For the fiscal years ended September 30, 2010 and 2009, respectively, UAB contributed approximately \$6,313,000 and \$6,364,000 to the UAB Health System Board to support Health System administrative functions. In addition, at September 30, 2010 and 2009, respectively, the Hospital had a net payable from the Health System of approximately \$60,000 and a net receivable of \$6,000.

VF's primary purpose is to provide a group medical practice for physicians who are faculty members in the UAB School of Medicine Huntsville program. It is governed by a 17-member board of directors, consisting of three nonvoting members and 14 voting members, of whom seven are affiliated with UAB. VF's total assets were approximately \$7,736,000 (unaudited) and \$7,096,000 (unaudited) and total liabilities were approximately \$1,213,000 (unaudited) and \$1,090,000 (unaudited) at September 30, 2010 and 2009, respectively.

The Hospital received premium revenue (capitation fees) of approximately \$56,691,000 and \$52,985,000 from Triton during the years ended September 30, 2010 and 2009.

### (3) Change in Reporting Entity

The Health Care Authority for UAB Highlands, an Affiliate of UAB Health System ("Highlands") was established on January 26, 2006 by the Board for purposes of acquiring and operating a 219-bed



medical center near the Hospital. The Board appointed all members of Highlands' Board of Directors.

On September 30, 2010, the Board dissolved Highlands as a legal entity and contributed its assets and operations to the Hospital. The Hospital accounted for this transaction in a manner similar to a pooling of interests because the transaction constituted a transfer of assets between entities under common

control. Accordingly, the accompanying financial statements are presented as if the transaction had occurred at the beginning of the earliest period presented. The financial statements and information presented as of and for the year ended September 30, 2009 have been restated to reflect the change in reporting entity. The impact of the restatement is summarized as follows:

September 30, 2009	As Previously Reported	Adjustments	As Currently Stated
<b>CONDENSED STATEMENT OF NET ASSETS</b>			
Current assets	\$ 642,216,670	\$ 14,947,304	\$ 657,163,974
Non-current assets	2,495,576,521	(25,346,964)	2,470,229,557
<b>Total assets</b>	<b>\$ 3,137,793,191</b>	<b>\$ (10,399,660)</b>	<b>\$ 3,127,393,531</b>
Current liabilities	\$ 300,410,808	\$ 12,788,213	\$ 313,199,021
Noncurrent liabilities	718,192,075	40,909,156	759,101,231
<b>Total liabilities</b>	<b>\$ 1,018,602,883</b>	<b>\$ 53,697,369</b>	<b>\$ 1,072,300,252</b>
Invested in capital net of related debt	\$ 743,546,872	\$ (3,946,157)	\$ 739,600,715
Restricted nonexpendable	223,772,637		223,772,637
Restricted expendable	197,833,455		197,833,455
Unrestricted	954,037,344	(60,150,872)	893,886,472
<b>Total net assets</b>	<b>\$ 2,119,190,308</b>	<b>\$ (64,097,029)</b>	<b>\$ 2,055,093,279</b>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>			
Total operating revenues	\$ 1,883,781,976	\$ 66,969,912	\$ 1,950,751,888
Total operating expenses	(2,196,189,718)	(75,454,705)	(2,271,644,423)
<b>Operating loss</b>	<b>\$ (312,407,742)</b>	<b>\$ (8,484,793)</b>	<b>\$ (320,892,535)</b>
Nonoperating revenues	322,004,810	(3,172,979)	318,831,831
<b>Income (Loss) before other changes in net assets</b>	<b>\$ 9,597,068</b>	<b>\$ (11,657,772)</b>	<b>\$ (2,060,704)</b>
Capital grants and transfers	21,395,713		21,395,713
<b>Increase in net assets</b>	<b>\$ 30,992,781</b>	<b>\$ (11,657,772)</b>	<b>\$ 19,335,009</b>
Net assets, beginning of year	2,088,197,527	(52,439,257)	2,035,758,270
<b>Net assets, end of year</b>	<b>\$ 2,119,190,308</b>	<b>\$ (64,097,029)</b>	<b>\$ 2,055,093,279</b>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>			
Net cash provided (used) by:			
Operating activities	\$ (212,880,203)	\$ (9,095,915)	\$ (221,976,118)
Noncapital financing activities	(163,430,802)	(6,330,592)	(169,761,394)
Capital and related financing activities	346,058,526	5,481,376	351,539,902
Investing activities	161,304,850	8,231,170	169,536,020
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 131,052,371</b>	<b>\$ (1,713,961)</b>	<b>\$ 129,338,410</b>
Cash and cash equivalents, beginning of year	55,767,161	8,190,926	63,958,087
<b>Cash and cash equivalents, end of year</b>	<b>\$ 186,819,532</b>	<b>\$ 6,476,965</b>	<b>\$ 193,296,497</b>

In connection with this transaction, the Board acquired the outstanding bonds of Highlands. These obligations totaled \$40 million and were issued in September 2007. Additionally, an outstanding payable of \$9.5 million from Highlands to the UAB Health System was forgiven.

## (4) Cash and Cash Equivalents

The Board approves, by resolution, all banks or other financial institutions utilized as depositories for UAB 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 for 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.

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 deposits on a pooled basis in a custody account established for the State Treasurer as SAFE administrator. In the unlikely event a public entity should suffer a deposit loss due to QPD insolvency or default, a claim form would be filed with the state treasurer, who would use the SAFE pool collateral or other means to reimburse the loss.

The System sponsors a short-term investment pool for the System entities to invest operating cash reserves. The Short-Term Fund is invested in a treasury obligation money market fund managed by Federated. As of September 30, 2010 the University had approximately \$150,000,000 in the Short-Term Fund all of which was invested in the money market fund. The assets held in the money market fund are presented in cash and cash equivalents and restricted cash and cash equivalents. As of September 30, 2009 the University, within the Short-Term Fund,

had approximately \$70,018,402 as money market funds and approximately \$11,382,589 as short term investments. As of September 30, 2010 and 2009, respectively, UAB had cash and cash equivalents totaling \$303,982,272 and \$193,296,497.

## (5) Investments

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, 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.

UAB applies the same investment policies for separately held investments as those of the System Pools.

### **Endowment Fund**

The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, the 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 allocations are established to meet targeted returns while providing adequate diversification in order to minimize investment volatility. As discussed in Note 1, certain investments within the Endowment Fund are valued at cost. UAB's portion of investments in the Endowment Fund which are measured at cost totaled approximately \$31,700,000 and \$28,000,000 at September 30, 2010 and 2009, respectively.

### **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 liquid. As discussed in Note 1, certain investments in the Prime Fund are valued at cost. UAB's portion of investments which are measured at cost totaled approximately \$8,200,000 at September 30, 2010 and 2009.

### **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 4 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 investments, by investment type, for the System Pools at September 30, 2010 and 2009 is as follows:

## September 30, 2010

	ENDOWMENT FUND	PRIME FUND	INTERMEDIATE FUND	SHORT TERM FUND
Receivables:				
Accrued Income Receivables	\$ 1,022,703	\$ 730,638	\$ 3,394,772	\$
<b>TOTAL RECEIVABLES</b>	<b>\$ 1,022,703</b>	<b>\$ 730,638</b>	<b>\$ 3,394,772</b>	<b>\$</b>
Cash Equivalents:				
Certificates Of Deposit	\$	\$	\$ 2,700,000	\$
Commercial Paper			27,000,000	
Money Market Funds	20,090,042	15,547,782	15,395,632	168,718,531
<b>TOTAL CASH EQUIVALENTS</b>	<b>\$ 20,090,042</b>	<b>\$ 15,547,782</b>	<b>\$ 45,095,632</b>	<b>\$ 168,718,531</b>
Equities:				
U S Common Stock	\$ 63,959,778	\$ 46,906,064	\$	\$
Non-U S Stock	3,734,348	2,708,329		
<b>TOTAL EQUITIES</b>	<b>\$ 67,694,126</b>	<b>\$ 49,614,393</b>	<b>\$</b>	<b>\$</b>
Fixed Income Securities:				
U S Government Obligations	\$ 33,786,763	\$ 19,534,274	\$ 192,236,728	\$
Municipal Government Obligations			2,093,673	
Mortgage Backed Securities	911,352	566,328	19,764,250	
Collateralized Mortgage Obligations	1,525,678	1,900,449	30,978,826	
Corporate Bonds	31,889,288	21,567,664	256,027,315	
Non-US Bonds			7,756,995	
<b>TOTAL FIXED INCOME SECURITIES</b>	<b>\$ 68,113,081</b>	<b>\$ 43,568,715</b>	<b>\$ 508,857,787</b>	<b>\$</b>
Commingled Funds:				
Bank Common Fund Trust Fund	\$	\$	\$	\$
U S Equity Funds	130,953,359	101,565,158		
Non-U S Equity Funds	209,620,702	173,321,023		
U S Bond Funds	74,155,378	93,914,279	108,159,733	
Non-U S Bond Funds	51,744,077	38,096,317		
Hedge Funds	126,056,610	93,416,606		
Private Equity Funds	50,904,793			
Timberland Funds	8,527,039			
Real Estate Funds	69,314,611	40,046,944		
<b>TOTAL COMMINGLED FUNDS</b>	<b>\$ 721,276,569</b>	<b>\$ 540,360,327</b>	<b>\$ 108,159,733</b>	<b>\$</b>
<b>TOTAL FUND INVESTMENTS</b>	<b>\$ 877,173,818</b>	<b>\$ 649,091,217</b>	<b>\$ 662,113,152</b>	<b>\$ 168,718,531</b>
<b>TOTAL FUND ASSETS</b>	<b>\$ 878,196,521</b>	<b>\$ 649,821,855</b>	<b>\$ 665,507,924</b>	<b>\$ 168,718,531</b>
<b>TOTAL FUND LIABILITIES</b>	<b>\$ (108,538)</b>	<b>\$ (78,054)</b>	<b>\$ (253,747)</b>	<b>\$</b>
<b>AFFILIATED ENTITY INVESTMENT IN FUNDS</b>	<b>\$ (109,872,550)</b>	<b>\$ (1,891,880)</b>	<b>\$ (8,165,066)</b>	<b>\$</b>
<b>TOTAL NET ASSET VALUE</b>	<b>\$ 768,215,433</b>	<b>\$ 647,851,921</b>	<b>\$ 657,089,111</b>	<b>\$ 168,718,531</b>

## September 30, 2009

	ENDOWMENT FUND	PRIME FUND	INTERMEDIATE FUND	SHORT TERM FUND
Receivables:				
Accrued Income Receivables	\$ 795,831	\$ 675,968	\$ 2,165,834	\$
<b>TOTAL RECEIVABLES</b>	<b>\$ 795,831</b>	<b>\$ 675,968</b>	<b>\$ 2,165,834</b>	<b>\$</b>
Cash Equivalents:				
Certificates Of Deposit	\$	\$	\$	\$
Commercial Paper			3,660,924	
Money Market Funds	42,002,374	23,706,508	8,444,513	130,246,378
<b>TOTAL CASH EQUIVALENTS</b>	<b>\$ 42,002,374</b>	<b>\$ 23,706,508</b>	<b>\$ 12,105,437</b>	<b>\$ 130,246,378</b>
Equities:				
U S Common Stock	\$ 26,954,210	\$ 21,302,169	\$	\$
Non-U S Stock	3,679,003	2,553,924		
<b>TOTAL EQUITIES</b>	<b>\$ 30,633,213</b>	<b>\$ 23,856,093</b>	<b>\$</b>	<b>\$</b>
Fixed Income Securities:				
U S Government Obligations	\$ 11,842,720	\$ 11,091,835	\$ 82,914,102	\$
Municipal Government Obligations			1,232,148	
Mortgage Backed Securities	20,187,898	18,945,890	27,260,836	
Collateralized Mortgage Obligations	4,507,042	3,312,760	64,674,578	
Corporate Bonds	20,624,945	17,440,382	145,023,991	
Non-US Bonds			2,430,817	
<b>TOTAL FIXED INCOME SECURITIES</b>	<b>\$ 57,162,605</b>	<b>\$ 50,790,867</b>	<b>\$ 323,536,472</b>	<b>\$</b>
Commingled Funds:				
Bank Common Fund Trust Fund	\$	\$	\$	\$ 16,004,639
U S Equity Funds	155,436,175	116,269,956		
Non-U S Equity Funds	219,549,152	157,123,290		
U S Bond Funds	56,912,057	79,196,422	55,722,603	
Non-U S Bond Funds	49,688,842	40,741,576		
Hedge Funds	122,211,021	94,900,567		
Private Equity Funds	48,589,401			
Timberland Funds	8,527,039			
Real Estate Funds	50,834,637	32,673,281		
<b>TOTAL COMMINGLED FUNDS</b>	<b>\$ 711,748,324</b>	<b>\$ 520,905,092</b>	<b>\$ 55,722,603</b>	<b>\$ 16,004,639</b>
<b>TOTAL FUND INVESTMENTS</b>	<b>\$ 841,546,516</b>	<b>\$ 619,258,560</b>	<b>\$ 391,364,512</b>	<b>\$ 146,251,017</b>
<b>TOTAL FUND ASSETS</b>	<b>\$ 842,342,347</b>	<b>\$ 619,934,528</b>	<b>\$ 393,530,346</b>	<b>\$ 146,251,017</b>
<b>TOTAL FUND LIABILITIES</b>	<b>\$ (153,016)</b>	<b>\$ (107,821)</b>	<b>\$ (198,701)</b>	<b>\$</b>
<b>AFFILIATED ENTITY INVESTMENT IN FUNDS</b>	<b>\$ (104,078,093)</b>	<b>\$</b>	<b>\$ (4,048,791)</b>	<b>\$</b>
<b>TOTAL NET ASSET VALUE</b>	<b>\$ 738,111,238</b>	<b>\$ 619,826,707</b>	<b>\$ 389,282,854</b>	<b>\$ 146,251,017</b>

The composition of investments, by investment type, of UAB's separately held investments, and UAB's interest in the System Pools, at September 30, 2010 and 2009 is as follows:

	2010	2009
Receivables:		
Accrued Income Receivables	\$	\$ 2,643
<b>TOTAL RECEIVABLES</b>	<b>\$</b>	<b>\$ 2,643</b>
Cash and equivalents:		
Commerical paper	\$ 100,000	\$ 1,087,209
Money market funds	616,479	405,768
<b>TOTAL CASH AND EQUIVALENTS</b>	<b>\$ 716,479</b>	<b>\$ 1,492,977</b>
Equities:		
Common stock	\$ 141,439	\$ 141,662
Equity investment in partnerships	38,285,607	28,251,339
<b>TOTAL EQUITIES</b>	<b>\$ 38,427,046</b>	<b>\$ 28,393,001</b>
Fixed Income Securities:		
US government obligations	\$	\$ 44,511,702
Collateralized mortgage obligations		246,253
Corporate bonds		163,150
Foreign bonds	1,884,945	1,740,130
<b>TOTAL FIXED INCOME SECURITIES</b>	<b>\$ 1,884,945</b>	<b>\$ 46,661,235</b>
Commingled Funds:		
US equity funds	\$ 31,981,850	\$ 28,228,522
Non-US equity funds	9,896,763	11,124,424
US bond funds	35,262,639	33,905,848
Liquid Alternatives	5,711,998	5,929,718
Private equity funds	1,437,272	647,938
Real estate funds	1,987,352	1,521,533
<b>TOTAL COMMINGLED FUNDS</b>	<b>\$ 86,277,874</b>	<b>\$ 81,357,983</b>
<b>REAL ESTATE</b>	<b>\$ 4,852,000</b>	<b>\$ 4,852,000</b>
Portion of System Pooled Investments:		
Endowment Fund	\$ 298,070,846	\$ 290,298,793
Prime Fund	468,412,627	445,844,218
Intermediate Fund	307,678,174	248,784,951
Short-Term Fund	150,048,060	81,400,991
<b>Total Portion of System Pooled Investments</b>	<b>\$ 1,224,209,707</b>	<b>\$ 1,066,328,953</b>
<b>Total Cash and Investments</b>	<b>\$ 1,356,368,051</b>	<b>\$ 1,229,088,792</b>
Less Short-Term Fund	\$ 150,048,060	\$ 70,018,402
<b>TOTAL INVESTMENTS</b>	<b>\$ 1,206,319,991</b>	<b>\$ 1,159,070,390</b>

### Investment Risk Factors

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

### Credit Risk

Fixed income securities are subject to credit risk,

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

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and

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

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

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Aggregate Bond Index benchmark for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate, mortgage backed, asset backed and U.S. treasury and/or agency bonds with a minimum BBB- rating

and an average duration of four years. In addition, approximately \$3,800,000 and \$47,000,000 in the Endowment and Prime Funds, at September 30, 2010 and 2009, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$293,500,000 and \$292,200,000 in the Endowment and Prime Funds, at September 30, 2010 and 2009, respectively.

The Intermediate Fund is benchmarked against the Barclays 1-3 Government Index, with funds invested with three separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with an average minimum rating of BB or higher. For September 30, 2010 and 2009, approximately \$62,000,000 and \$35,800,000, respectively, was invested by the Intermediate Fund in unrated fixed income securities, excluding commingled bond funds, money market funds and commercial paper. Fixed income commingled funds and commercial paper totaled approximately \$150,600,000 and \$67,800,000 at September 30, 2010 and 2009, respectively. For September 30, 2010 and 2009, \$2,700,000 and \$0 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 the Hospital. The Short-Term Fund is principally invested in a money market fund which invests 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 4 for additional information related to the Short-Term Fund.

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

## September 30, 2010 and 2009

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

The credit risk for fixed and variable income securities of UAB's separately held investments at September 30, 2010 and 2009 is as follows:

<b>September 30, 2010 and 2009</b>		
	<b>2010</b>	<b>2009</b>
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$	\$ 44,511,702
Other U.S. Denominated:		
AAA		1,985,529
AA		2,286,641
A		2,173
BBB		80,086
BB		50,303
B		27,454
CCC		15,250
CC		118,506
Unrated		63,832
Commingled Funds:		
U.S. Bond Funds: Unrated	35,262,639	29,685,477
Non-U.S. Bond Funds: Unrated	1,884,945	1,740,130
Money Market Funds: Unrated	8,302	405,768
Commercial Paper: Unrated	100,000	1,087,209
<b>TOTAL</b>	<b>\$ 37,255,886</b>	<b>\$ 82,060,060</b>

#### Custodial Credit Risk

Custodial credit risk is the risk that in the event of the corporate failure of the custodian, the 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 (e.g. open-ended mutual funds, common collective trusts) represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

#### Concentration of Credit Risk

Concentration of credit risk is the risk associated

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

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

#### 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 information presented does not take into account the relative weighting of the portfolio components to the total portfolio. The effective durations for fixed or variable income securities, for the System Pools at September 30, 2010 and 2009 are as follows:

	<b>ENDOWMENT FUND</b>		<b>PRIME FUND</b>		<b>INTERMEDIATE FUND</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
U S government obligations	3.4	4.8	3.3	4.4	3.0	1.4
Corporate bonds	6.4	5.4	6.0	5.6	2.0	1.2
Commingled bond funds	5.8	5.0	5.2	4.5	2.4	1.9

There are no fixed or variable income securities in the Short-Term Fund at September 30, 2010 and 2009.

While the Board does not have a specific policy relative to interest rate risk, UAB has historically invested funds outside of the investment pools in fixed income and variable income securities with short maturity terms.

The effective durations for fixed or variable income

securities for UAB's separately held investments at September 30, 2010 and 2009 are as follows:

<b>September 30, 2010 and 2009</b>		
	<b>2010</b>	<b>2009</b>
U S government obligations	0.0	1.0
Commingled bond funds	4.7	4.4

Investments may also include mortgage pass through securities and collateralized mortgage obli-

gations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. At September

30, 2010 and 2009, the fair market values of these investments in the System Pools are as follows:

### September 30, 2010 and 2009

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2010	2009	2010	2009	2010	2009
Mortgage backed securities	\$ 911,352	\$ 20,187,898	\$ 566,328	\$ 18,945,890	\$ 19,764,250	\$ 27,260,836
Collateralized mortgage obligations	1,525,678	4,507,042	1,900,449	3,312,760	30,978,826	64,674,578
<b>TOTAL</b>	<b>\$ 2,437,030</b>	<b>\$ 24,694,940</b>	<b>\$ 2,466,777</b>	<b>\$ 22,258,650</b>	<b>\$ 50,743,076</b>	<b>\$ 91,935,414</b>

**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 obliges of the underlying asset reduces the total expected rate of return.

**Collateralized Mortgage Obligations.** Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or princi-

pal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

At September 30, 2010 and 2009, the effective durations for these securities held in the System Pools are as follows:

### September 30, 2010 and 2009

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2010	2009	2010	2009	2010	2009
Mortgage backed securities	2.3	2.7	2.2	2.7	2.9	1.3
Collateralized mortgage obligations	2.2	1.5	1.6	0.3	1.6	1.0

There are no mortgage backed securities or CMOs in the Short Term Fund at September 30, 2010 and 2009.

There are no mortgage backed securities or CMOs in UAB's separately held investments at September 30, 2010 and 2009.

#### Foreign Currency Risk

The strategic asset allocation policy for the Endowment Fund, the Prime Fund, and UAB's separately held investments includes an allocation to non-United States equity securities. Under Board policy, foreign equity holdings in a single industry should not exceed 25% of the investment manager's portfolio measured at market value, with 50% of portfolio's holdings representing EAFE Index firms. Each investment manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager's portfolio, measured at market value.

Hedging of foreign currency risks is allowed at the investment manager's discretion. In addition, investments in foreign bonds are allowed under Board policy. Foreign bonds denominated in U.S. dollars are limited to 10% of the investment manager's portfolio, and bonds denominated in currencies other than U.S. dollars are generally limited to 20% of the investment manager's portfolio, measured at market value. As of September 30, 2010 and 2009, all foreign investments denominated in U.S. dollars within the Endowment Fund, Prime Fund, and UAB's separately held investments are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$7,800,000 and \$2,400,000 of foreign bonds denominated in U.S. dollars and are held by the Intermediate Fund at September 30, 2010 and 2009, respectively.

## Securities Lending

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

and acceptable investment of the collateral.

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

## Joint Ventures

UAB accounts for its ownership of the PLTF as a joint venture, using the equity method in the amount of approximately \$38,286,000 and \$27,594,000 at September 30, 2010 and 2009, respectively. See Note 20 for further discussion of the PLTF.

# (6) Accounts Receivable

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

	2010	2009 (Restated)
Patient care	\$ 278,950,893	\$ 311,167,075
Receivables from sponsoring agencies	57,580,022	57,030,509
Student accounts	12,517,073	9,184,649
Other	33,336,749	34,199,942
	<b>\$ 382,384,737</b>	<b>\$ 411,582,175</b>
Less: Provision for doubtful accounts from patient care	153,332,274	191,833,743
Less: Provision for doubtful accounts from student accounts	2,333,310	2,306,571
Less: Provision for doubtful accounts Other	397,674	641,210
<b>Total accounts receivable</b>	<b>\$ 226,321,479</b>	<b>\$ 216,800,651</b>

# (7) Loans and Pledges Receivable

The composition of loans and pledges receivable at September 30, 2010 and 2009, is summarized below:

The principal repayment and interest rate terms of federal and university loans vary considerably. The allowance for doubtful accounts only applies to University-funded notes and the University portion of federal student loans, since the University is not ob-

ligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to UAB under the Perkins and various health professions loan programs.

Pledges for permanent endowments do not meet eligibility requirements, as defined by GASB Statement No. 33, 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.

	2010	2009
<b>LOANS RECEIVABLE:</b>		
Federal loan program	\$ 18,643,488	\$ 18,871,684
University loan funds	1,730,635	1,634,434
Other	1,252,969	1,365,855
Total loans receivable	\$ 21,627,092	\$ 21,871,973
Less allowance for doubtful accounts	2,026,787	2,869,417
Total loans receivable, net	\$ 19,600,305	\$ 19,002,556
Less: current portion	2,601,448	2,614,555
<b>Total loans receivable outstanding, noncurrent</b>	<b>\$ 16,998,857</b>	<b>\$ 16,388,001</b>
<b>GIFT PLEDGES OUTSTANDING:</b>		
Operations	\$ 14,219,277	\$ 9,828,041
Capital	8,995,306	8,982,462
Total gift pledges	\$ 23,214,583	\$ 18,810,503
Less: current portion	8,054,996	8,258,382
<b>Total gift pledges, noncurrent</b>	<b>\$ 15,159,587</b>	<b>\$ 10,552,121</b>



# (8) Capital Assets

There were no net interest costs capitalized in 2010 or 2009 for the University and Component Units. Net interest costs capitalized in 2010 and 2009, respectively, were approximately \$1,746,000 and \$4,877,630 (net of \$0 investments earnings each year) for the Hospital.

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

<b>September 30, 2010</b>		<b>BEGINNING BALANCE</b>	<b>ADDITIONS</b>	<b>SALES/RETIREMENTS/ TRANSFERS</b>	<b>ENDING BALANCE</b>
		<b>(Restated)</b>			
<b>UNIVERSITY AND COMPONENT UNITS</b>					
Capital assets not being depreciated					
Land	\$	46,356,676	\$ 5,739,690	\$	\$ 52,096,366
Construction in progress		28,190,811	30,256,853	17,536,644	40,911,020
	<b>\$</b>	<b>74,547,487</b>	<b>\$ 35,996,543</b>	<b>\$ 17,536,644</b>	<b>\$ 93,007,386</b>
Capital assets being depreciated					
Land Improvements	\$	20,851,939	2,072,169	\$	\$ 22,924,108
Buildings		1,095,423,600	33,389,893	2,044,141	1,126,769,352
Fixed Equipment Systems		82,885,181	1,719,499		84,604,680
Equipment		349,958,024	24,423,375	15,115,636	359,265,763
Library Materials		84,523,151	2,561,499		87,084,650
	<b>\$</b>	<b>1,633,641,895</b>	<b>\$ 64,166,435</b>	<b>\$ 17,159,777</b>	<b>\$ 1,680,648,553</b>
<b>Total Capital Assets</b>	<b>\$</b>	<b>1,708,189,382</b>	<b>\$ 100,162,978</b>	<b>\$ 34,696,421</b>	<b>\$ 1,773,655,939</b>
Less: Accumulated Depreciation		887,963,579	72,400,493	15,152,816	945,211,256
<b>Total Net Capital Assets</b>	<b>\$</b>	<b>820,225,803</b>	<b>\$ 27,762,485</b>	<b>\$ 19,543,605</b>	<b>\$ 828,444,683</b>
<b>HOSPITAL</b>					
Capital assets not being depreciated					
Land	\$	19,470,486	\$	\$	\$ 19,470,486
Construction in progress		174,563,879	3,574,071	170,549,692	7,588,258
	<b>\$</b>	<b>194,034,365</b>	<b>\$ 3,574,071</b>	<b>\$ 170,549,692</b>	<b>\$ 27,058,744</b>
Capital assets being depreciated					
Land Improvements	\$	221,059	\$	\$	\$ 221,059
Buildings		627,242,646	189,408,738		816,651,384
Fixed Equipment Systems		10,468,853			10,468,853
Equipment		292,793,016	38,195,737	15,681,822	315,306,931
	<b>\$</b>	<b>930,725,574</b>	<b>\$ 227,604,475</b>	<b>\$ 15,681,822</b>	<b>\$ 1,142,648,227</b>
<b>Total Capital Assets</b>	<b>\$</b>	<b>1,124,759,939</b>	<b>\$ 231,178,546</b>	<b>\$ 186,231,514</b>	<b>\$ 1,169,706,971</b>
Less: Accumulated Depreciation		461,404,027	48,548,056	15,530,936	494,421,147
<b>Total Net Capital Assets</b>	<b>\$</b>	<b>663,355,912</b>	<b>\$ 182,630,490</b>	<b>\$ 170,700,578</b>	<b>\$ 675,285,824</b>
<b>TOTAL UAB</b>					
Capital assets not being depreciated					
Land	\$	65,827,162	5,739,690	\$	\$ 71,566,852
Construction in progress		202,754,690	33,830,924	188,086,336	48,499,278
	<b>\$</b>	<b>268,581,852</b>	<b>\$ 39,570,614</b>	<b>\$ 188,086,336</b>	<b>\$ 120,066,130</b>
Capital assets being depreciated					
Land Improvements	\$	21,072,998	2,072,169	\$	\$ 23,145,167
Buildings		1,722,666,246	222,798,631	2,044,141	1,943,420,736
Fixed Equipment Systems		93,354,034	1,719,499		95,073,533
Equipment		642,751,040	62,619,112	30,797,458	674,572,694
Library Materials		84,523,151	2,561,499		87,084,650
	<b>\$</b>	<b>2,564,367,469</b>	<b>\$ 291,770,910</b>	<b>\$ 32,841,599</b>	<b>\$ 2,823,296,780</b>
<b>Total Capital Assets</b>	<b>\$</b>	<b>2,832,949,321</b>	<b>\$ 331,341,524</b>	<b>\$ 220,927,935</b>	<b>\$ 2,943,362,910</b>
Less: Accumulated Depreciation		1,349,367,606	120,948,549	30,683,752	1,439,632,403
<b>Total Net Capital Assets</b>	<b>\$</b>	<b>1,483,581,715</b>	<b>\$ 210,392,975</b>	<b>\$ 190,244,183</b>	<b>\$ 1,503,730,507</b>

## September 30, 2009

	BEGINNING BALANCE (Restated)		ADDITIONS (Restated)		SALES/RETIREMENTS/ TRANSFERS (Restated)		ENDING BALANCE (Restated)
<b>UNIVERSITY AND COMPONENT UNITS</b>							
Capital assets not being depreciated							
Land	\$ 45,439,170	\$	943,728	\$	26,222	\$	\$46,356,676
Construction in progress	25,653,353		17,127,824		14,590,366		28,190,811
	<b>\$ 71,092,523</b>	<b>\$</b>	<b>18,071,552</b>	<b>\$</b>	<b>14,616,588</b>	<b>\$</b>	<b>74,547,487</b>
Capital assets being depreciated							
Land Improvements	\$ 18,886,220	\$	1,965,719	\$		\$	20,851,939
Buildings	1,073,653,228		23,475,425		1,705,053		1,095,423,600
Fixed Equipment Systems	81,523,141		1,436,164		74,124		82,885,181
Equipment	335,300,752		19,035,209		4,377,937		349,958,024
Library Materials	81,278,078		3,245,073				84,523,151
	<b>\$ 1,590,641,419</b>	<b>\$</b>	<b>49,157,590</b>	<b>\$</b>	<b>6,157,114</b>	<b>\$</b>	<b>1,633,641,151</b>
Total Capital Assets	\$ 1,661,733,942	\$	67,229,142	\$	20,773,702	\$	1,708,189,382
Less: Accumulated Depreciation	820,321,908		72,192,243		4,550,572		887,963,579
<b>Total Net Capital Assets</b>	<b>\$ 841,412,034</b>	<b>\$</b>	<b>(4,963,101)</b>	<b>\$</b>	<b>16,223,130</b>	<b>\$</b>	<b>820,225,803</b>
<b>HOSPITAL</b>							
Capital assets not being depreciated							
Land	\$ 19,470,486	\$		\$		\$	19,470,486
Construction in progress	119,723,507		64,789,537		9,949,165		174,563,879
	<b>\$ 139,193,993</b>	<b>\$</b>	<b>64,789,537</b>	<b>\$</b>	<b>9,949,165</b>	<b>\$</b>	<b>194,034,365</b>
Capital assets being depreciated							
Land Improvements	\$ 208,950	\$	12,109	\$		\$	221,059
Buildings	624,060,103		3,182,543				627,242,646
Fixed Equipment Systems	10,404,654		64,199				10,468,853
Equipment	280,255,161		14,284,073		1,746,218		292,793,016
	<b>\$ 914,928,868</b>	<b>\$</b>	<b>17,542,924</b>	<b>\$</b>	<b>1,746,218</b>	<b>\$</b>	<b>930,725,574</b>
Total Capital Assets	\$ 1,054,122,861	\$	82,332,461	\$	11,695,383	\$	1,124,759,939
Less: Accumulated Depreciation	416,642,222		46,168,970		1,407,165		461,404,027
<b>Total Net Capital Assets</b>	<b>\$ 637,480,639</b>	<b>\$</b>	<b>36,163,491</b>	<b>\$</b>	<b>10,288,218</b>	<b>\$</b>	<b>663,355,912</b>
<b>TOTAL UAB</b>							
Capital assets not being depreciated							
Land	\$ 64,909,656	\$	943,728	\$	26,222	\$	65,827,162
Construction in progress	145,376,860		81,917,361		24,539,531		202,754,690
	<b>\$ 210,286,516</b>	<b>\$</b>	<b>82,861,089</b>	<b>\$</b>	<b>24,565,753</b>	<b>\$</b>	<b>268,581,852</b>
Capital assets being depreciated							
Land Improvements	\$ 19,095,170	\$	1,977,828	\$		\$	21,072,998
Buildings	1,697,713,331		26,657,968		1,705,053		1,722,666,246
Fixed Equipment Systems	91,927,795		1,500,363		74,124		93,354,034
Equipment	615,555,913		33,319,282		6,124,155		642,751,040
Library Materials	81,278,078		3,245,073				84,523,151
	<b>\$ 2,505,570,287</b>	<b>\$</b>	<b>66,700,514</b>	<b>\$</b>	<b>7,903,332</b>	<b>\$</b>	<b>2,564,367,469</b>
Total Capital Assets	\$ 2,715,856,803	\$	149,561,603	\$	32,469,085	\$	2,832,949,321
Less: Accumulated Depreciation	1,236,964,130		118,361,213		5,957,737		1,349,367,606
<b>Total Net Capital Assets</b>	<b>\$ 1,478,892,673</b>	<b>\$</b>	<b>31,200,390</b>	<b>\$</b>	<b>26,511,348</b>	<b>\$</b>	<b>1,483,581,715</b>



# (9) Long-Term Debt

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

A portion of UAB's long term debt has been issued with variable interest rates. The interest rates are determined in accordance with the individual related indenture of the related outstanding debt. UAB's bonds are collateralized by pledged revenues as defined in the applicable indentures. See Note 11 for information regarding the pledged revenues, which collateralize certain outstanding debt.

## September 30, 2010

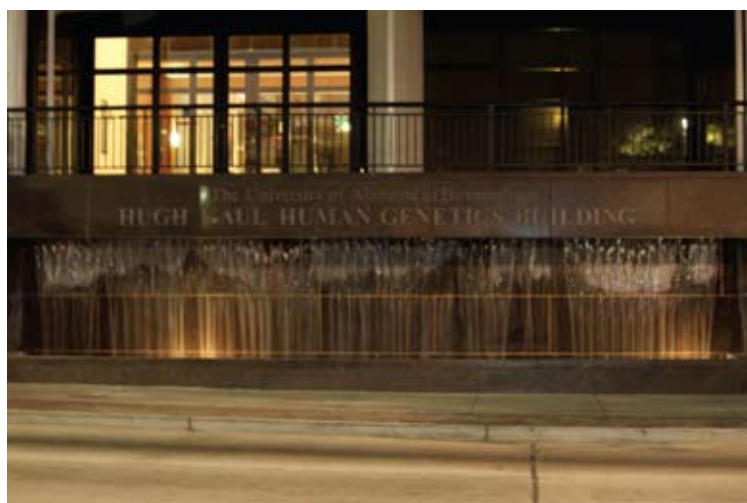
	BEGINNING BALANCE (Restated)	NEW DEBT	PRINCIPAL REPAYMENT	ENDING BALANCE
<b>UNIVERSITY</b>				
Leases Payable for purchase of equipment, 4.55% to 5.04%, due various dates through 2010	\$ 95,652	\$ 108,515	\$ 108,664	\$ 95,503
Lease Payable Medical Advancement Foundation, variable rate interest, (3.25% at September 30, 2009) due annually through 2030	19,225,000			19,225,000
Birmingham General Revenue Bonds Series 1993B, variable rate interest(3.50% at September 30, 2009), due annually through 2013	5,200,000		1,000,000	4,200,000
Birmingham General Revenue Bonds Series 2001, 5.00% due annually through 2027	38,170,251		2,320,489	35,849,762
Birmingham General Revenue Bonds Series 2002, 3.0% to 3.8%, due annually through 2013	5,625,000		1,050,000	4,575,000
Birmingham General Revenue Bonds Series 2003A, 3.0% due annually through 2027	60,145,000		2,445,000	57,700,000
Birmingham General Revenue Bonds Series 2003B, 2.5% to 3% due annually through 2009	2,512,912		2,512,912	
Birmingham General Revenue Bonds Series 2005A, 4.0% to 5% principal due annually from 2007 through 2020	48,610,000		4,205,000	44,405,000
Birmingham General Revenue Bonds Series 2005B, 3.25% principal due annually from 2008 through 2020	50,790,000		2,025,000	48,765,000
	\$ 230,373,815	\$ 108,515	\$ 15,667,065	\$ 214,815,265
Less: unamortized bond discount				447,919
<b>TOTAL UNIVERSITY DEBT</b>				\$ 214,367,346
Less: current portion				14,638,234
<b>TOTAL UNIVERSITY DEBT, NONCURRENT</b>				\$ 199,729,112
<b>HOSPITAL</b>				
Lease Payable, 3.75% due monthly at through 2019	\$ 6,280,389		\$ 1,309,183	\$ 4,971,206
Birmingham General Revenue Bonds Series 2001, 5.00% due annually through 2027	2,044,749		194,511	1,850,238
Birmingham General Revenue Bonds Series 2003B, 2.5% to 3% due annually through 2009	252,088		252,088	
Birmingham Hospital Revenue Bonds Series 2004A, 5% due annually through 2014	23,705,000		4,330,000	19,375,000
Birmingham Hospital Revenue Bonds Series 2006A, 4% due annually through 2041	244,420,000		580,000	243,840,000
Highlands Bonds	40,000,000			40,000,000
Birmingham Hospital Revenue Bonds Series 2008A, 4% to 5.75% due annually through 2025	106,155,000		1,625,000	104,530,000
Birmingham Hospital Revenue Bonds Series 2008B, variable interest rate (1.60% at September 30, 2009), due annually through 2031	109,930,000			109,930,000
	\$ 532,787,226	\$	\$ 8,290,782	\$ 524,496,444
Less: unamortized bond discount				9,201,598
<b>TOTAL HOSPITAL DEBT</b>				\$ 515,294,846
Less: current portion				7,896,026
<b>TOTAL HOSPITAL DEBT, NONCURRENT</b>				\$ 507,398,820
<b>COMPONENT UNITS</b>				
Leases Payable for purchase of equipment, 3.68% to 5.45%, due various dates through 2010	\$ 114,426		\$ 64,924	\$ 49,502
	\$ 114,426	\$	\$ 64,924	\$ 49,502
Less: unamortized bond discount				
<b>TOTAL COMPONENT UNITS DEBT</b>				\$ 49,502
Less: current portion				\$ 49,502
<b>TOTAL COMPONENT UNITS DEBT, NONCURRENT</b>				\$
<b>TOTAL UAB</b>	\$ 763,275,467	\$ 108,515	\$ 24,022,771	\$ 739,361,211
Less: unamortized bond discount				9,649,517
<b>TOTAL UAB DEBT</b>				\$ 729,711,694
Less: current portion				22,583,762
<b>TOTAL UAB DEBT, NONCURRENT</b>				\$ 707,127,932

## September 30, 2009

	BEGINNING BALANCE (Restated)	NEW DEBT (Restated)	PRINCIPAL REPAYMENT (Restated)	ENDING BALANCE (Restated)
<b>UNIVERSITY</b>				
Leases Payable for purchase of equipment, 4.55% to 5.04%, due various dates through 2010	\$ 255,317	\$	\$ 159,665	\$ 95,652
Lease Payable Medical Advancement Foundation, variable rate interest, (3.71% at September 30, 2008), due annually through 2030	19,735,000		510,000	19,225,000
Birmingham General Revenue Bonds Series 1993B, variable rate interest (8.25% at September 30, 2008), due annually through 2013	6,200,000		1,000,000	5,200,000
Birmingham General Revenue Bonds Series 2001, 5.25% due annually through 2027	40,393,640		2,223,389	38,170,251
Birmingham General Revenue Bonds Series 2002, 3.0% to 3.8%, due annually through 2013	6,645,000		1,020,000	5,625,000
Birmingham General Revenue Bonds Series 2003A, 4.5% due annually through 2029	62,525,000		2,380,000	60,145,000
Birmingham General Revenue Bonds Series 2003B, 2.5% to 3% due annually through 2009	4,962,209		2,449,297	2,512,912
Birmingham General Revenue Bonds Series 2005A, 4.0% to 5% principal due annually from 2007 through 2020	52,675,000		4,065,000	48,610,000
Birmingham General Revenue Bonds Series 2005B, 4.5% principal due annually from 2008 through 2027	52,760,000		1,970,000	50,790,000
	<b>\$ 246,151,166</b>	<b>\$</b>	<b>\$ 15,777,351</b>	<b>\$ 230,373,815</b>
Less: unamortized bond discount				655,058
<b>TOTAL UNIVERSITY DEBT</b>				<b>\$ 229,718,757</b>
Less: current portion				16,208,003
<b>TOTAL UNIVERSITY DEBT, NONCURRENT</b>				<b>\$ 213,510,754</b>

<b>HOSPITAL</b>				
Leases Payable, 3.75% due monthly at through 2019	\$ 7,403,396	\$ 162,458	\$ 1,285,465	\$ 6,280,389
Birmingham General Revenue Bonds Series 2001, 5.00% due annually through 2027	2,221,360		176,611	2,044,749
Birmingham General Revenue Bonds Series 2003B, 2.5% to 3% due annually through 2009	497,791		245,703	252,088
Birmingham Hospital Revenue Bonds Series 2004A, 5% due annually through 2014	27,825,000		4,120,000	23,705,000
Birmingham Hospital Revenue Bonds Series 2006A, 4% due annually through 2041	245,000,000		580,000	244,420,000
Highlands Bond	40,000,000			40,000,000
Birmingham Hospital Revenue Bonds Series 2008A, 4% to 5.75% due annually through 2025	107,700,000		1,545,000	106,155,000
Birmingham Hospital Revenue Bonds Series 2008B, variable interest rate (1.60% at September 30, 2009), due annually through 2031	109,930,000			109,930,000
	<b>\$ 540,577,547</b>	<b>\$ 162,458</b>	<b>\$ 7,952,779</b>	<b>532,787,226</b>
Less: unamortized bond discount				9,655,464
<b>TOTAL HOSPITAL DEBT</b>				<b>\$ 523,131,762</b>
Less: current portion				8,311,398
<b>TOTAL HOSPITAL DEBT, NONCURRENT</b>				<b>\$ 514,820,364</b>

<b>COMPONENT UNITS</b>				
Leases Payable for purchase of equipment, 3.75% to 5.04%, due various dates through 2010	\$ 189,977	\$	\$ 75,551	\$ 114,426
	<b>\$ 189,977</b>	<b>\$</b>	<b>\$ 75,551</b>	<b>\$ 114,426</b>
Less: unamortized bond discount				
<b>TOTAL COMPONENT UNITS DEBT</b>				<b>\$ 114,426</b>
Less: current portion				63,754
<b>TOTAL COMPONENT UNITS DEBT, NONCURRENT</b>				<b>\$ 50,672</b>
<b>TOTAL UAB</b>	<b>\$ 786,918,690</b>	<b>\$ 162,458</b>	<b>\$ 23,805,681</b>	<b>\$ 763,275,467</b>
Less: unamortized bond discount				10,310,522
<b>TOTAL UAB DEBT</b>				<b>\$ 752,964,945</b>
Less: current portion				24,583,155
<b>TOTAL UAB DEBT, NONCURRENT</b>				<b>\$ 728,381,790</b>



Maturities and interest on notes, leases, and bonds payable for the next five years and in the subsequent five-year incremental periods are presented in the table below. Future interest payments for variable rate debt are computed by applying the rate in effect at September 30, 2011.

<b>UNIVERSITY</b>				
YEAR	PRINCIPAL	INTEREST	TOTAL	
2011	\$ 14,638,234	\$ 8,399,534	\$ 23,037,768	
2012	14,603,014	7,873,658	22,476,672	
2013	15,240,295	7,288,889	22,529,184	
2014	15,859,463	6,673,388	22,532,851	
2015	14,133,126	6,078,717	20,211,843	
2016-2020	64,436,133	21,467,583	85,903,716	
2021-2025	48,185,000	9,637,100	57,822,100	
2026-2030	27,720,000	2,042,505	29,762,505	
2031-2033	-	-	-	
<b>TOTAL UNIVERSITY</b>	<b>\$ 214,815,265</b>	<b>\$ 69,461,374</b>	<b>\$ 284,276,639</b>	
<b>HOSPITAL</b>				
YEAR	PRINCIPAL	INTEREST	TOTAL	
2011	\$ 7,896,026	\$ 23,428,059	\$ 31,324,085	
2012	48,211,180	23,075,118	71,286,298	
2013	8,606,579	22,268,106	30,874,685	
2014	9,008,965	21,864,774	30,873,739	
2015	9,426,353	21,446,665	30,873,018	
2016-2020	52,577,341	100,005,013	152,582,354	
2021-2025	66,465,000	84,438,585	150,903,585	
2026-2030	82,695,000	68,194,751	150,889,751	
2031-2035	94,240,000	50,497,123	144,737,123	
2036-2040	118,095,000	25,109,000	143,204,000	
2041-2045	27,275,000	1,363,750	28,638,750	
<b>TOTAL HOSPITAL</b>	<b>\$ 524,496,444</b>	<b>\$ 441,690,944</b>	<b>\$ 966,187,388</b>	
<b>COMPONENT UNITS</b>				
YEAR	PRINCIPAL	INTEREST	TOTAL	
2011	\$ 49,502	\$ 1,581	\$ 51,083	
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 49,502</b>	<b>\$ 1,581</b>	<b>\$ 51,083</b>	
<b>TOTAL UAB</b>				
YEAR	PRINCIPAL	INTEREST	TOTAL	
2011	\$ 22,583,762	\$ 31,829,174	\$ 54,412,936	
2012	62,814,194	30,948,776	93,762,970	
2013	23,846,874	29,556,995	53,403,869	
2014	24,868,428	28,538,162	53,406,590	
2015	23,559,479	27,525,382	51,084,861	
2016-2020	117,013,474	121,472,596	238,486,070	
2021-2025	114,650,000	94,075,685	208,725,685	
2026-2030	110,415,000	70,237,256	180,652,256	
2031-2035	94,240,000	50,497,123	144,737,123	
2036-2040	118,095,000	25,109,000	143,204,000	
2041-2045	27,275,000	1,363,750	28,638,750	
<b>TOTAL UAB</b>	<b>\$ 739,361,211</b>	<b>\$ 511,153,899</b>	<b>\$ 1,250,515,110</b>	

The University defeased certain indebtedness by depositing funds in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreements, all funds deposited in the trust accounts are invested in obligations of the U.S. government. Neither the assets of the trust accounts nor the defeased indebtedness are included in the accompanying statement of net assets as of September 30, 2010 and 2009. The principal outstanding on the defeased indebtedness at September 30, 2010 and 2009, respectively, was approximately \$0 and \$183,425,000 (\$0 and \$48,725,000 related to University and \$0 and \$134,700,000 related to Hospital, respectively).

The Series 2008B Hospital Revenue Bonds include a demand obligation feature that allows the bondholder to tender the bonds back to the Hospital at any date. The Hospital has obtained a letter of credit (LOC) in the aggregate amount of the bonds to repay any tendered amounts in the event the remarketing agent is unable to resell the bonds in the allotted time (7 days from the notice of intent to tender). Amounts outstanding under the LOC are due within 367 days of the draw. As a result, these bonds have been classified as noncurrent at September 30, 2010 and 2009. No bonds were tendered and no amounts were outstanding under the LOC as of September 30, 2010 and 2009.

In November 2010, the University issued \$54,650,000 in Series 2010A General Revenue Bonds. The bonds pay interest at varying rates 2% to 4.25% with principal due annually through October 1, 2034. The proceeds of this offering are being used for the purposes of constructing facilities, additions, and improvements at UAB; funding capitalized interest on a portion of the Series 2010A Bonds through April 1, 2013; and paying costs and expenses associated with this issue. In November 2010, the University issued \$52,975,000 in Series 2010B General Revenue Bonds. The bonds pay interest at varying rates 1% to 5.2% with principal due annually through October 1, 2030. The proceeds of this offering are being used for the purposes of constructing facilities, additions, and improvements at UAB; funding capitalized interest on a portion of the Series 2010B Bonds through April 1, 2013; and paying costs and expenses associated with this issue. In November 2010, the University issued \$34,550,000 in Series 2010C General Revenue Bonds. The bonds pay interest at varying rates 2% to 4% with principal due annually through October 1, 2027. The proceeds of this offering are being used for the purposes of advance refunding Series

2001 General Revenue Bonds; and paying costs and expenses associated with this issue.

The Hospital Series 2004A, 2006A, 2008A and 2008B Revenue Trust Indentures contain certain restrictive financial covenants. The Hospital's man-

agement believes that it was in compliance with respect to these covenants at September 30, 2010 and 2009.

## (10) Other Noncurrent Liabilities

The activity with respect to other noncurrent liabilities not presented as part of Note 19 for the year ended September 30, 2010 and 2009, is as follows for UAB:

### September 30, 2010

	BEGINNING BALANCE (Restated)	ADDITIONS	DEDUCTIONS	ENDING BALANCE
Advances federal loans	\$ 16,261,897	\$ 334,781	\$ (684,359)	\$ 15,912,319
Deferred revenue	14,051,428		(1,116,945)	12,934,483
Other noncurrent liabilities	406,116	241,582	(55,308)	592,390
<b>Total advances federal loans and other noncurrent liabilities</b>	<b>\$ 30,719,441</b>	<b>\$ 576,363</b>	<b>\$ (1,856,612)</b>	<b>\$ 29,439,192</b>

### September 30, 2009

	BEGINNING BALANCE (Restated)	ADDITIONS (Restated)	DEDUCTIONS (Restated)	ENDING BALANCE (Restated)
Advances federal loans	\$ 16,309,098	\$ 643,104	\$ (690,305)	\$ 16,261,897
Deferred revenue (note 2)	606,443	13,444,985		14,051,428
Other noncurrent liabilities	309,631	316,304	(219,819)	406,116
<b>Total advances federal loans and other noncurrent liabilities</b>	<b>\$ 17,225,172</b>	<b>\$ 14,404,393</b>	<b>\$ (910,124)</b>	<b>\$ 30,719,441</b>

## (11) Pledged Revenues

Pledged revenues for 2010 and 2009, as defined by the Series 2000A, 2000B, 2000C, 2000D, 2004A, 2008A and 2008B Hospital Revenue Trust Indentures, are as follows:

HOSPITAL BONDS	2010	2009 (Restated)
Total pledged revenues	\$ 1,038,762,489	\$ 963,153,572

Pledged revenues for 2010 and 2009, as defined by the Series 1993B, 2001, 2002, 2003A, 2003B, 2005A and 2005B General Revenue Trust Indentures, are as follows:

UNIVERSITY BONDS	2010	2009
Tuition fees	\$ 139,441,181	\$ 121,375,233
Indirect cost recovery	88,532,679	81,136,651
Sales and service of educational activities	49,681,864	50,831,174
Auxiliary sales and service	19,565,363	19,442,032
Endowment and investment income (loss)	39,051,939	23,880,352
Other sources	51,035,952	51,381,996
<b>TOTAL PLEDGED REVENUES</b>	<b>\$ 387,308,978</b>	<b>\$ 348,047,438</b>

# (12) Employee Benefits

## Retirement and Pension Plans

Most employees of UAB participate in the Teachers' Retirement System of Alabama (TRS), a cost-sharing, multiple-employer public retirement system. Certain employees also participate in an optional 403(b) plan (403(b) Plan). TRS is a defined benefit plan and the 403(b) Plan programs are defined contribution plans. The TRS was established as of September 15, 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 for the general administration and operation of the TRS is vested in its Board of Control.

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

Covered employees are required by statute to contribute to TRS. UAB, as the employer, contributes to TRS. The contribution requirements for fiscal years 2010, 2009, and 2008, respectively, were approximately \$127,433,000, \$124,574,000, and \$121,847,000, which consisted of \$91,017,000, \$88,060,000, and \$85,454,000 from UAB and \$36,416,000, \$36,514,000, and \$36,093,000 from employees. UAB's contribution was 12.51%, 12.07%, and 11.75% of salaries and wages for covered employees in 2010, 2009, and 2008, respectively. Covered employees (except for law enforcement employees) are required by statute to contribute 5% of earned compensation to TRS. The contribution by law enforcement employees is 6% of earned compen-

sation. All regular employees of UAB 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 10-year historical trend information shows TRS's progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases, and postretirement benefit increases presented in the September 30, 2009, annual financial report of the TRS. That report is publicly available and may be obtained by contacting TRS.

As previously noted, some employees participate in the optional 403(b) Plan programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All full-time regular monthly employees are eligible to participate from the date of employment. UAB contributes a matching amount of up to 5% of total salaries for participating employees. UAB's contribution is funded as it accrues and, along with that of the employee, is immediately and fully vested. The contributions for 2010 and 2009, respectively, excluding employee amounts not eligible for matching, were approximately \$29,676,000 and \$29,986,000 which included approximately \$14,838,000 and \$14,993,000 each from UAB and its employees.

UAB's total salaries and wages for fiscal year 2010 and 2009, respectively, were approximately \$838,331,000 and \$838,659,000. Total salaries and wages during fiscal years 2010 and 2009 for covered employees participating in TRS were approximately \$727,552,000 and \$729,576,000, respectively. Total salaries and wages during fiscal years 2010 and 2009 for covered employees participating in the 403(b) Plan were approximately \$308,388,000 and \$311,992,000, respectively.

SRI sponsors a defined contribution retirement plan available to all employees after they have attained certain age and service requirements. Information regarding this benefit is presented in SRI's annual report.

Triton sponsors a 401(k) plan covering substantially all employees who have completed at least six months of service. Information regarding this benefit is presented in Triton's annual report.

During the year ended September 30, 2009 and up to September 30, 2010, Highlands sponsored the

UAB Highlands 457(b) Retirement Plan (“the 457(b) Plan”) and the UAB Highlands Retirement Matching Plan (“the 401(a) Plan”).

The 457(b) Plan and 401(a) Plan were terminated effective September 30, 2010. As a result of the plan terminations, benefits under the 457(b) Plan and/or the 401(a) Plan may be paid directly to individuals or paid in a direct rollover into another qualified plan. Due to the elimination of the plans, all “matching funds” were 100% vested for all participants, regardless of length of service.

### **Compensated Absences**

Certain UAB employees accumulate vacation and sick leave at varying rates depending upon their years of continuous service and their 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. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the financial statements include accruals of approximately \$40,316,000 and \$48,109,100 as of September 30, 2010 and 2009, respectively, for accrued vacation pay and salary-related payments associated with vacation pay. There is no such accrual recognized for sick leave benefits because there is no terminal cash benefit available to employees for accumulated sick leave.

## **(13) Other Postemployment Benefits**

UAB offers other postemployment health care benefits (OPEB) to all employees who officially retire from UAB. Health care benefits are offered through the Alabama Retired Education Employees Health Core Trust Plan (PEEHIP) with TRS or certain retired employees may elect to continue to participate in UAB’s group health plan until they are eligible for Medicare by paying the full cost of the plan premium. Retired employees age 65 or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer and UAB’s health care plan becomes the secondary insurer. Despite the availability of the UAB plan, most retirees elect to participate in the PEEHIP with TRS, in which case the retirees pay a portion of the PEEHIP premium, with UAB paying an allocation towards 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 not eligible for tuition assistance benefits themselves. However, their unmarried dependent children may qualify in some cases.

UAB adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB Statement No. 45) during fiscal year 2008. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The adoption of this statement had no material impact on UAB’s financial statements.

PEEHIP is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Public Education Employees 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 financial report for PEEHIP can be obtained by contacting TRS. The Code of Alabama 1975, Section 16-25-A-8 provides authority to set the contribution requirements for retirees and employers. The required contribution rates of retirees are as follows as of September 30, 2010 and 2009:

### **Retired Member Rates**

- Individual Coverage/Non-Medicare Eligible - \$97.54
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)-\$284.94
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible-\$188.54
- Individual Coverage/Medicare Eligible Retired Member-\$1.14
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)-\$188.54



- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible-\$92.14

The required contribution rates of the employer were \$382 per employee per month in both the years ended September 30, 2010 and 2009. 100% of 2010 and 2009 contributions were paid in 2010 and 2009, respectively. UAB contributed \$15,631,863 and \$14,788,351 to PEEHIP in 2010 and 2009, respectively. The required contribution rate is determined by PEEHIP in accordance with State statute.

The UAB Plan is considered a single-employer plan and consists of hospital benefits, major medical benefits, a prescription drug program and a basic term life insurance up to an established maximum policy limit. The health care benefits cover medical and hospitalization costs for retirees and their dependents. The portion of the UAB plan related to health care may be amended by the approval of the President of UAB upon recommendation from the

Benefits Committee. The portion of the UAB plan related to the life insurance may be amended by the System.

Employees included in the actuarial valuation include active employees, retirees and disabled employees enrolled in the medical plan and retirees not enrolled in the medical plan with retiree life insurance. Expenditures for postretirement health care benefits are paid monthly on a pay-as-you-go basis.

In accordance with GASB Statement No. 45, UAB accrued an additional \$1,831,625 and \$2,827,119 in retiree healthcare and benefit expense during the years ended September 30, 2010 and 2009, respectively.

The UAB Plan does not issue a stand-alone financial report.

UAB's annual retiree health and life insurance benefit expense and related information for the years ended September 30, 2010 and 2009 is as follows:

		2010		2009		2008
Annual required contribution	\$	5,887,768	\$	6,286,225	\$	5,767,855
Interest on obligations for retiree benefits		372,327		174,429		403,750
Adjustment to annual required contribution		(261,789)		(114,620)		
Annual retiree benefit costs		5,998,306		6,346,034		6,171,605
UAB Contributions		(4,166,681)		(3,518,915)		(3,679,760)
Increase in obligations for retiree benefits		1,831,625		2,827,119		2,491,845
Obligations for retiree benefits, beginning of year		5,318,964		2,491,845		
<b>Total obligations for retiree benefits, end of year</b>	<b>\$</b>	<b>7,150,589</b>	<b>\$</b>	<b>5,318,964</b>	<b>\$</b>	<b>2,491,845</b>

The annual retiree benefit cost, percentage of the annual retiree benefit cost contributed to the retiree

benefit plan and the net obligation for retiree benefits for UAB for year ended September 30, 2010 and 2009 are as follows:

		2010		2009		2008
Annual retiree benefit cost	\$	5,998,306	\$	6,346,034	\$	6,171,605
Percentage of annual cost contributed		69.5%		55.5%		59.6%
Net obligation to the retiree benefit plan	\$	7,150,589	\$	5,318,964	\$	2,491,845

### Funded Status

Actuarial valuations represent a long-perspective and involve estimates of the value of report amounts and assumptions about the probability of occurrence of events into the future. Examples include assumptions about future employment, mortality, investment return and health care cost trends.

Actuarially determined amounts are subject to periodic revisions as actual rates are compared with past expectations and new estimates are made about the future.

The funded status of the plan as of October 1, 2008 and 2009 was as follows:

		2010		2009		2008
Actuarial accrued liability	\$	51,649,871	\$	53,920,021	\$	53,739,237
Actuarial value of plan assets						
Unfunded actuarial accrued liability	\$	51,649,871	\$	53,920,021	\$	53,739,237
Funded ratio		Zero		Zero		Zero
Covered payroll	\$	838,331,004	\$	838,658,508	\$	837,241,519
Unfunded actuarial accrued liability as a percentage of covered payroll		6.16%		6.43%		6.42%

### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based upon the plan as understood by UAB and plan members, and include types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between UAB and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations:

Significant actuarial methods and assumptions used in the valuation were:

- actuarial valuation date, October 1, 2009
- actuarial cost method-projected unit cost method;
- assumed return on investment of 7% per year, based on the estimated return on UAB's assets expected to be used to finance benefits;
- health care cost trend rate 8% for the year ended September 30, 2010 reduced by increments to an ultimate rate of 4.5% over years through 2027;
- amortization of the initial unfunded actuarial liability over 30 years on a level percent of pay method with payroll growth rate of 4.5%

SRI provides postretirement life insurance and medical benefit coverage to certain eligible employees. The details of this postretirement benefit are presented in SRI's annual report.

### (14) Federal Direct Student Loan Program

The Federal Direct Student Loan Program (FDSLPL) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the university rather than through private lenders. UAB began participation in the FDSLPL on July 1, 1994. As a university qualified to originate loans, UAB is responsible for handling the complete loan process, including funds management, as well as promissory note functions. UAB is not responsible for collection of these loans. During the years ended September 30, 2010 and

2009, respectively, UAB disbursed approximately \$116,666,000 and \$103,271,000 under the FDSLPL.

### (15) Grants and Contracts

At September 30, 2010 and 2009, UAB had been awarded approximately \$392,695,000 (unaudited) and \$411,913,000 (unaudited) in grants and contracts which had 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.

In addition, during fiscal year 2009, the University began receiving and expending federal funding under the American Recovery and Reinvestment Act (ARRA), primarily in the form of sponsored research grants and State Fiscal Stabilization Funds. At September 30, 2010 and 2009, UAB had been awarded approximately \$63,420,000 (unaudited) and \$36,835,000 (unaudited) in ARRA funding which had not been expended. These awards have not been reflected in the financial statements

### (16) Net Patient Service Revenue

The Hospital has agreements with governmental and other third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with major third-party payors follows:

**Medicare**—Substantially all acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, the Hospital is reimbursed for both its direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Hospital generally is reimbursed for certain retroactively settled items at tentative rates

with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. The Hospital's cost reports have been audited and settled for all fiscal years through 2006. Revenue from the Medicare program accounted for approximately 24% and 27% of the Hospital's net patient service revenue for the years ended September 30, 2010 and 2009, respectively.

**Blue Cross**—Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed at a prospectively determined rate or under a cost reimbursement methodology. The method of reimbursement is determined by the procedures that are performed. For outpatient services reimbursed under a cost reimbursement methodology, the Hospital is reimbursed at a tentative rate with a final settlement determined after submission of annual cost reports by the Hospital and audits thereof by Blue Cross. The Hospital's Blue Cross cost reports have been audited and settled for all fiscal years through 2008. Revenue from the Blue Cross program accounted for approximately 31% of the Hospital's net patient service revenue for each of the years ended September 30, 2010 and 2009.

**Medicaid**—Inpatient services rendered to Medicaid program beneficiaries are reimbursed at all-inclusive prospectively determined per diem rates. Outpatient services are reimbursed based on an established fee schedule. The Hospital qualifies as a Medicaid essential provider and therefore also receives supplement-

tal payments based on formulas established by the Alabama Medicaid Agency. As a Medicaid essential provider, the Hospital is required to make an intragovernmental transfer of funds to the State Treasurer's Office and receives corresponding supplemental payments in excess of the amounts transferred. The Hospital anticipates it will continue to be a Medicaid essential provider hospital based on the present formulas provided by the Agency and the State of Alabama. The net benefit associated with the Hospital's essential provider designation, totaling approximately \$44,335,000 and \$11,753,000 in 2010 and 2009, respectively, is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net assets. There can be no assurance that the Hospital will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Revenue from the Medicaid program accounted for approximately 15% and 14% of the Hospital's net patient service revenue for years ended September 30, 2010 and 2009, respectively.

**Other**—The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The bases for payments to the Hospital under these agreements include discounts from established charges, capitation, and prospectively determined daily and case rates.

The composition of Hospital operating revenue follows:

	2010	2009 (Restated)
Gross Patient Service Revenue	\$ 3,381,023,418	\$ 3,163,697,794
Less provision for contractual and other adjustments	(2,322,719,449)	(2,108,810,577)
Less provision for bad debts	(171,617,926)	(214,337,495)
Total Net Patient Service Revenue	\$ 886,686,043	\$ 840,549,722
Capitation Revenue	56,690,545	52,984,872
Other Revenue	67,304,208	66,006,279
<b>TOTAL HOSPITAL SALES REVENUE</b>	<b>\$ 1,010,680,796</b>	<b>\$ 959,540,873</b>

## (17) Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These

records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services, and supplies and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30, 2010 and 2009:

	2010	2009 (Restated)
Approximate charges forgone, based on established rates	\$ 210,158,000	\$ 169,619,000
Percentage of charity charges to total charges	6.2%	5.4%

## (18) Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors

at September 30, 2010 and 2009 follows:

	2010	2009 (Restated)
Other	39%	36%
Medicare	19	20
Blue Cross	32	33
Medicaid	10	11
	<b>100%</b>	<b>100%</b>

## (19) Construction Commitments and Financing

UAB has contracted for the construction and renovation of several facilities. At September 30, 2010 and 2009, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$68,621,000 (unaudited) and \$133,359,000 (unaudited), respectively, which is expected to be financed from private gifts, grants, bond proceeds, and UAB reserves.

liability coverage provided by independent insurers to protect participants against losses should a claim arise that exceeds PLTF coverage limits. Although UAB is the sponsor of PLTF, it is not the predominant participant in the fund.

The PLTF's policy committee establishes the premium rate of participants based on recommendations from consulting actuaries and considering the assumption of risk from the PLTF's date of inception. Premiums paid to the PLTF are provided by UAB, HSF, and other participants. In addition, certain legal and administrative services are provided to the PLTF by the University of Alabama System.

The PLTF agreement requires 10% of all PLTF assets to be held in liquid assets. At September 30, 2010 and 2009, the liquid assets of the PLTF, as defined by the agreement, were in compliance with the agreement.

## (20) Risk Management and Self-Insurance

UAB manages risks related to medical malpractice, general liability, and employee health care through a combination of self-insurance, risk pooling arrangements, and commercial insurance coverage.

UAB's medical malpractice liability is managed by PLTF, a professional liability trust fund. PLTF functions as a risk-sharing vehicle for UAB and more than ten nongovernmental organizations. PLTF covers liabilities of the covered parties, including UAB, arising from reported claims, claims that are incurred but not reported, and future costs of handling these claims. The liabilities are generally based on present value actuarial valuations discounted using interest rates from 2% to 5%. The discount rate used in both 2010 and 2009 was 2%. The associated risks of claims are subject to aggregate limits, with excess

General liability is subject to various claims and aggregate limits, with excess liability coverage provided by an independent insurer. General liability and employee health care claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. The general liability liabilities are generally based on actuarial valuations and are reported at present value. The discount rate used for the general liability was 2% in both 2010 and 2009.

In addition, SRI is self-insured for active employees health care and dental coverage.

Changes in the total self-insured liabilities for the years ended September 30, 2010 and 2009 are presented as follows for UAB:

SELF INSURED LIABILITIES	2010	2009
Balance, beginning of year	\$ 14,852,161	\$ 14,660,239
Claims incurred and changes in estimates	55,696,904	56,707,927
Claim payments	(61,240,427)	(56,516,005)
<b>BALANCE, END OF YEAR</b>	<b>\$ 9,308,638</b>	<b>\$ 14,852,161</b>

## (21) Contingencies

UAB has sovereign immunity and is, therefore, in the opinion of UAB counsel, immune to ordinary tort actions including those based on medical malpractice or general injury to patients. Consequently, while UAB is sometimes named as defendant in malpractice actions and other actions for injuries arising in the Hospital, it has consistently been dismissed from those lawsuits on the basis of the sovereign immunity doctrine. That doctrine also protects UAB from vicarious liability arising from the negligence of its employees. To the extent that UAB employees are sued in their individual capacity for action related to their official duties within the line and scope of their employment, UAB has defended those actions and paid for any resulting costs through its self-insured trust fund. While UAB is not aware of any impending threat to this doctrine, UAB is a named insured under the terms of the PLTF and GLTF and excess insurance purchased from commercial companies (Note 20). There are some exceptions to the sovereign immunity doctrine, most notably federal court cases arising under the federal constitution or federal statutes.

UAB is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of these actions will have a material adverse effect on the financial statements.

Amounts received or receivable from grantor agencies are subject to audit and adjustments by such agencies, principally the United States Government. Any disallowed claims, including amounts already collected, may constitute a liability of UAB. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although UAB expects any such amounts to be immaterial.

SRI is involved in an environmental remediation site where SRI voluntarily elected to clean up the site in accordance with applicable federal and state laws. Additionally, SRI has voluntarily elected to decommission a laboratory facility formerly used for projects involving toxic agents. Uncertainties about the status of laws and regulations, technology, the magnitude of possible contamination and the extent of the correction actions make it difficult to develop estimates of probable future remediation and decommissioning costs. While the actual costs of remediation and decommissioning may vary from manage-

ment's estimates because of these uncertainties, SRI has accrued \$161,000 at September 30, 2010 and \$181,000 at September 30, 2009, respectively, included in accounts payable and accrued liabilities in the accompanying statement of net assets, based on management's best estimate of the exposures.

Effective July 31, 2007, SRI sold all of the capital stock of its wholly owned subsidiary, Brookwood Pharmaceuticals, Inc. (Brookwood), to Surmodics, Inc. (Surmodics) pursuant to the terms of a stock purchase agreement between SRI and Surmodics (the Purchase Agreement). Surmodics paid to SRI \$40 million in cash at the closing of the transaction and agreed to pay SRI up to \$22 million of additional consideration (the Contingent Consideration), of which SRI received approximately \$3,100,000 during 2010 and \$1,700,000 during 2009, based on the achievement of certain revenue and project milestones by certain dates in the future. The last of these milestones must be achieved on or before December 31, 2011. Approximately 12.7% of any Contingent Consideration received by SRI will be owed to individuals who were employed by Brookwood as of the date of the Purchase Agreement.

The University and UABRF entered into a services agreement in November 2009. The agreement requires UABRF to undertake and manage the University's interest in a joint venture for the purposes of implementing a drug development program (DDP) through investigation and evaluation of promising proteins and chemical compounds. The University will provide payment of up to \$10 million over a period of ten years to participate in the DDP. In exchange for UABRF's services, UABRF will retain 15% of any revenue received from the joint venture.

In addition, in November 2009, UABRF (in behalf of UAB), SRI and Jubilant Organosys, Ltd. (Jubilant) entered into a joint venture to implement a drug development program to discover new pharmaceutical compounds for human and veterinary use (drug development program). The capital requirement for this DDP is expected to not exceed \$40 million, of which UABRF, through its service agreement with UAB, and SRI will contribute \$10 million each and Jubilant will contribute \$20 million.

## (22) Operating Expenses by Function

Total operating expenses by functional classification for the years ended September 30, 2010 and 2009 are as follow for UAB:

<b>September 30, 2010</b>	<b>SALARIES, WAGES, AND BENEFITS</b>	<b>SUPPLIES AND SERVICES</b>	<b>DEPRECIATION AND AMORTIZATION</b>	<b>SCHOLARSHIPS AND FELLOWSHIPS</b>	<b>TOTAL</b>
Instruction	\$ 204,109,386	\$ 25,398,121			\$ 229,507,507
Research	208,241,278	119,405,327			327,646,605
Public service	44,738,452	29,751,417			74,489,869
Academic support	123,811,190	322,247,619			446,058,809
Student services	11,473,345	6,528,261			18,001,606
Institutional support	59,286,557	19,569,454			78,856,011
Operations and maintenance of plant	27,148,852	28,505,963			55,654,815
Scholarships and fellowships				\$ 21,380,767	21,380,767
Hospital	491,004,302	410,480,082			901,484,384
Auxiliary	15,585,362	16,931,472			32,516,834
Depreciation			\$ 121,398,525		121,398,525
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,185,398,724</b>	<b>\$ 978,817,716</b>	<b>\$ 121,398,525</b>	<b>\$ 21,380,767</b>	<b>\$ 2,306,995,732</b>

<b>September 30, 2009</b>	<b>SALARIES, WAGES, AND BENEFITS (Restated)</b>	<b>SUPPLIES AND SERVICES (Restated)</b>	<b>DEPRECIATION AND AMORTIZATION (Restated)</b>	<b>SCHOLARSHIPS AND FELLOWSHIPS (Restated)</b>	<b>TOTAL (Restated)</b>
Instruction	\$ 204,730,310	\$ 27,190,092			\$ 231,920,402
Research	206,667,598	107,262,441			313,930,039
Public service	47,322,161	28,385,129			75,707,290
Academic support	109,548,674	305,557,956			415,106,630
Student services	14,167,763	7,876,959			22,044,722
Institutional support	67,864,263	20,749,663			88,613,926
Operations and maintenance of plant	27,944,655	35,919,329			63,863,984
Scholarships and fellowships				\$ 20,733,767	20,733,767
Hospital	495,199,094	395,336,591			890,535,685
Auxiliary	15,503,297	15,207,536			30,710,833
Depreciation			\$ 118,477,145		118,477,145
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,188,947,815</b>	<b>\$ 943,485,696</b>	<b>\$ 118,477,145</b>	<b>\$ 20,733,767</b>	<b>\$ 2,271,644,423</b>

# (23) Segment Reporting

As discussed at Note 1, UAB's two significant identifiable activities that have bonds outstanding where revenue is pledged in support of the bonds are the University and the Hospital.

Condensed financial statement information related to the University and Hospital for the years ended September 30, 2010 and 2009 is as follows:

UNIVERSITY	2010	2009
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
Current assets	\$ 362,338,366	\$ 321,556,315
Capital assets, net	770,157,878	766,648,239
Other assets	575,020,600	549,723,463
<b>TOTAL ASSETS</b>	<b>\$ 1,707,516,844</b>	<b>\$ 1,637,928,017</b>
Current liabilities	\$ 198,261,931	\$ 191,714,455
Long-term debt	199,729,112	213,510,754
Other noncurrent liabilities	15,912,319	16,261,898
<b>TOTAL LIABILITIES</b>	<b>\$ 413,903,362</b>	<b>\$ 421,487,107</b>
Invested in capital net of related debt	\$ 556,597,895	\$ 537,738,503
Restricted nonexpendable	232,983,582	223,544,538
Restricted expendable	168,263,632	164,740,433
Unrestricted	335,768,373	290,417,436
<b>TOTAL NET ASSETS</b>	<b>\$ 1,293,613,482</b>	<b>\$ 1,216,440,910</b>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>		
Tuition and fees, net	\$ 99,073,136	\$ 89,433,794
Grant and contract revenue	410,040,016	382,974,216
Sales and services, auxiliary	19,565,363	19,442,031
Other operating revenues	100,717,821	102,213,173
Salaries, wages, and benefits	(634,523,561)	(635,922,614)
Supplies and services	(244,278,053)	(238,041,047)
Depreciation expense	(66,353,724)	(66,452,790)
Scholarships and fellowships	(21,380,767)	(20,733,767)
<b>OPERATING LOSS</b>	<b>\$ (337,139,769)</b>	<b>\$ (367,087,004)</b>
State appropriations	\$ 223,339,515	\$ 248,446,253
Investment income (loss)	39,051,939	8,493,991
Interest expense	(11,423,547)	(9,795,868)
Gifts	32,499,624	30,500,828
Other nonoperating revenues(expenses)	40,402,426	23,771,587
<b>(LOSS) BEFORE OTHER CHANGES IN NET ASSETS</b>	<b>\$ (13,269,812)</b>	<b>\$ (65,670,213)</b>
Capital gifts	\$ 3,833,365	\$ 255,745
Endowment gifts	6,680,465	5,704,258
Other	28,126,940	11,151,649
Intergovernmental transfers	51,801,614	35,882,526
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ 77,172,572</b>	<b>\$ (12,676,035)</b>
Net assets, beginning of year	\$ 1,216,440,910	\$ 1,229,116,945
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,293,613,482</b>	<b>\$ 1,216,440,910</b>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided by (used in):		
Operating activities	\$ (268,672,258)	\$ (306,268,636)
Noncapital financing activities	350,312,934	352,252,060
Capital and related financing activities	(67,188,399)	(57,770,798)
Investing activities	(17,901,918)	62,339,910
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (3,449,641)</b>	<b>\$ 50,552,536</b>
Cash and cash equivalents, beginning of year	\$ 109,125,370	\$ 58,572,834
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 105,675,729</b>	<b>\$ 109,125,370</b>

<b>HOSPITAL</b>	<b>2010</b>	<b>2009 (Restated)</b>
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
Current assets	\$ 215,925,506	\$ 199,358,939
Capital assets, net	675,285,824	663,355,912
Other assets	468,849,456	433,179,354
<b>TOTAL ASSETS</b>	<b>\$ 1,360,060,786</b>	<b>\$ 1,295,894,205</b>
<b>CONDENSED STATEMENT OF LIABILITIES</b>		
Current liabilities	\$ 86,941,586	\$ 87,126,054
Long-term debt	507,398,820	514,820,364
Other noncurrent liabilities	12,934,483	14,051,427
<b>TOTAL LIABILITIES</b>	<b>\$ 607,274,889</b>	<b>\$ 615,997,845</b>
<b>CONDENSED STATEMENT OF NET ASSETS BY TYPE</b>		
Invested in capital net of related debt	\$ 168,165,899	\$ 148,399,074
Restricted nonexpendable	128,099	128,099
Restricted expendable	27,041,297	26,232,057
Unrestricted	557,450,602	505,137,130
<b>TOTAL NET ASSETS</b>	<b>\$ 752,785,897</b>	<b>\$ 679,896,360</b>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>		
Operating revenues	\$ 1,010,680,796	\$ 959,540,873
Operating expenses	(901,484,384)	(890,535,685)
Depreciation expense	(48,548,056)	(46,168,969)
<b>OPERATING INCOME</b>	<b>\$ 60,648,356</b>	<b>\$ 22,836,219</b>
State appropriations	32,851,072	36,498,504
Investment Income	28,951,681	3,780,952
Interest Expense	(20,226,154)	(18,210,638)
Gifts	280,463	480,774
Other Nonoperating revenues (expenses)	2,127,285	(168,252)
<b>INCOME BEFORE OTHER CHANGES IN NET ASSETS</b>	<b>\$ 104,632,703</b>	<b>\$ 45,217,559</b>
Capital gifts	\$ 104,379	\$ 3,420,875
Other	14,926,739	863,186
Intergovernmental transfers	(46,774,284)	(31,454,999)
<b>INCREASE IN NET ASSETS</b>	<b>\$ 72,889,537</b>	<b>\$ 18,046,621</b>
Net assets, beginning of year	\$ 679,896,360	\$ 661,849,739
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 752,785,897</b>	<b>\$ 679,896,360</b>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided by (used in):		
Operating activities	\$ 107,374,410	\$ 19,198,987
Noncapital financing activities	(13,531,107)	(1,938,900)
Capital and related financing activities	(74,786,114)	(98,514,578)
Investing activities	664,241	114,299,829
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 19,721,430</b>	<b>\$ 33,045,338</b>
Cash and cash equivalents, beginning of year	68,717,165	35,671,827
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 88,438,595</b>	<b>\$ 68,717,165</b>



## (24) Recently Issued Pronouncements

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in June 2007. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement,

and amortization. The objective of this statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The statement is effective for financial statements for periods beginning after June 15, 2009. The provisions of this statement generally are required to be applied retroactively. The adoption of this statement had no material impact on UAB’s financial statements.

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



The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and 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. Also, additional reporting guidance is provided for blending a component unit if the primary government is a business-type entity that uses a single column presentation for financial reporting. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. UAB is currently evaluating the impact that this Statement will have on 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*, 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. UAB is currently evaluating the impact, if any, that this Statement will have on its financial statements.



**The University of Alabama at Birmingham**  
**Required Supplementary Information**  
**September 30, 2010 and 2009**

### Required Supplementary Information

The following required supplementary information relates to UAB's single-employer other postemployment benefit plan (OPEB).

#### Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based up the plan as understood by UAB and plan members, and include types of benefits provided at the time of each valuation and the historical cost pattern of sharing of benefit costs between UAB and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations:

Significant actuarial methods and assumptions used in the valuation were :

- actuarial valuation date, October 1, 2009
- actuarial cost method-projected unit cost method;
- assumed return on investment of 7% per year, representing the return on UAB's asset expected to be used to finance benefits;
- health care cost trend rate 8% for the year ended September 30, 2010 reduced by increments to an ultimate rate of 4.5% over years through 2027;
- amortization of the initial unfunded actuarial liability over 30 years on a level percent of pay method with payroll growth rate of 4.5%;

### Schedule of Funding Progress

RETIREE HEALTH AND LIFE INSURANCE PLAN							
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	(Deficit)	Funded Ratio	Annual Covered Payroll	(Deficit)/Covered Payroll	
October 1, 2009	None	\$ 51,649,871	\$ (51,649,871)	Zero	\$ 838,331,004	-6.2%	
October 1, 2008	None	\$ 53,920,021	\$ (53,920,021)	Zero	\$ 838,658,508	-6.4%	
October 1, 2007	None	\$ 53,739,237	\$ (53,739,237)	Zero	\$ 837,241,519	-6.4%	

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As of September 30, 2010



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