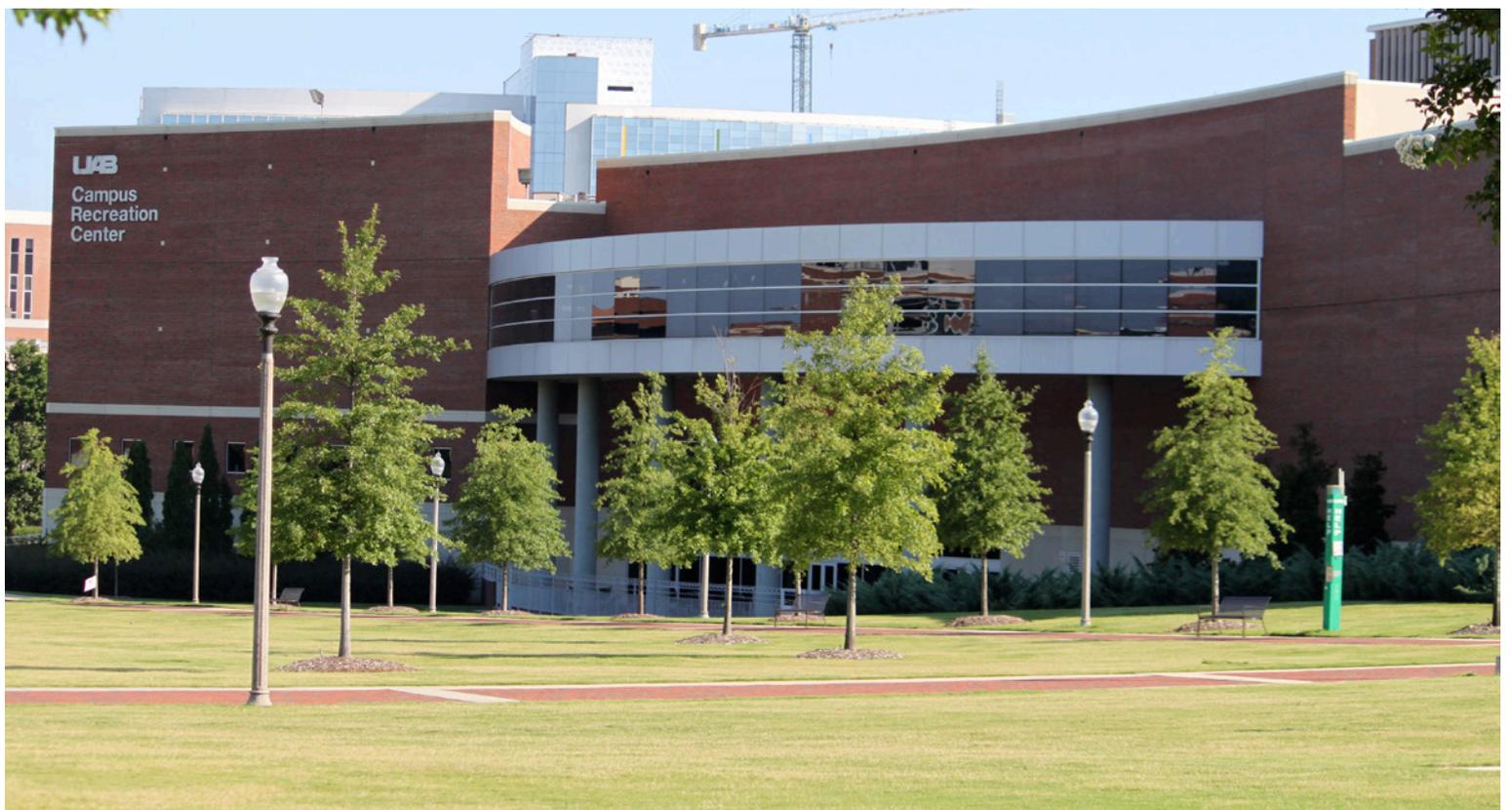




2011 Financial Report

The University of Alabama at Birmingham



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

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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 three consecutive years, with the total reaching a high of 17,575 students in fall 2011, and is recognized among the top 20% of all U.S. undergraduate institutions by Forbes. The Princeton Review has ranked UAB among the 10 universities nationally for diversity for three consecutive years.

UAB receives more than \$460 million annually in external research funding and ranks 31st nationally in federal research funding and 21st in funding from the National Institutes of Health. Breakthroughs in 2011 included the development of a novel bio-coating for cardiac stents that significantly reduces the need for follow-up surgery (this technology also spun-off a promising start-up company) and the use of satellite technology to uncover more than 31,000 ancient settlements in Egypt (both the BBC and the Discovery Channel produced recent documentaries featuring this research).

UAB Hospital is the largest hospital in Alabama and houses the state's only level 1 adult trauma center, and UAB Health System treated more than a million patients in 2011.

In the immediate aftermath of the April 27th tornadoes, UAB physicians, nurses, and staff worked around the clock, treating 134 patients. Scores of faculty, students and staff volunteered in devastated areas and various UAB departments provided support and services. With more than \$250,000 collected by the UAB Educational Foundation, students from the School of Business (in partnership with Regions Bank and the law firm of Balch and Bingham) created and conducted the UAB Tornado Relief Forgivable Loan Program for families in affected communities.

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.

2011 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 (22 straight years as of 2011) of U.S. News & World Report's "America's Best Hospitals," which recognizes only 3 percent of hospitals nationwide, and ranked 1st locally for patient satisfaction in HHS surveys.

UAB faculty served as President of the American Cancer Society (Dr. Ed Partridge, Director of UAB Comprehensive Cancer Center) and President-elect of the American Heart Association (Donna Arnett, chair of epidemiology).

Post-baccalaureate degree programs are coordinated through the Graduate School and consistently rank highly in the U.S. News & World Report "Best Graduate

Schools” issue. In the 2011 issue, UAB has 13 programs in the top 25 and five in the top 10: Master’s in health administration, 5th; AIDS, 6th; primary care, 10th; nurse practitioner (adult), 10th; and nursing service administration, 10th.

The Scientist online magazine ranks UAB 22nd nationally (and 6th among public universities) in its “Best Places to Work as a Postdoctoral Fellow.”

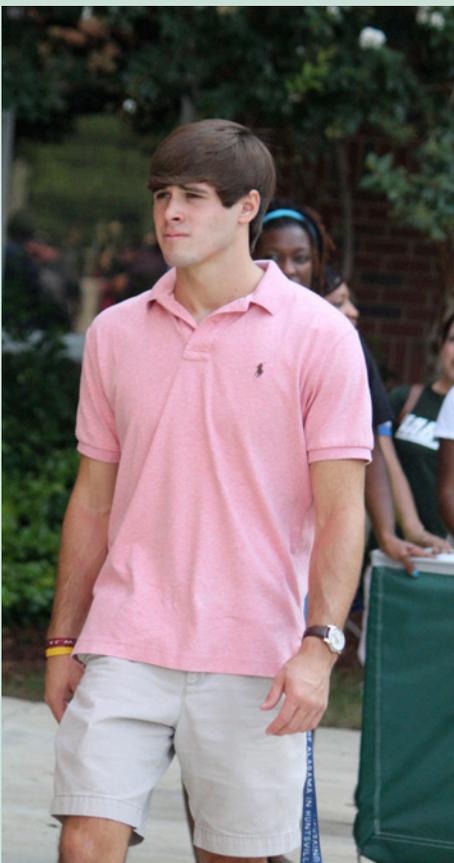
UAB’s Comprehensive Cancer Center, among the first eight such centers to be designated by the National Cancer Institute (NCI) in the early 1970s, remains the only one in Alabama and a six-state region. UAB is one of an elite group of such cancer centers nationally with four NCI SPORE (Specialized Program of Research Excellence) programs – for brain, breast and pancreatic cancers and a shared grant with Johns Hopkins for cervical cancer.

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 2011 alone, UAB students have won, among other awards, a Rhodes Scholar designation; three Fulbright Scholarships (seven in the past three years); a Goldwater Scholarship (eight in the past three years); a Truman Scholarship (UAB’s sixth), one of 50 nationally; and a Jack Cooke Graduate Arts Fellowship, one of 10 nationally.

The latest UAB Economic Impact Study (published November 2010) reveals that UAB has a \$4.6 billion annual economic impact on Alabama, which is projected to grow over a decade to \$6.6 billion. Additional highlights from the study include:

- UAB supports 61,025 jobs state-wide—that’s one of every 33 jobs.
- \$1 in every \$25 in the state’s budget is generated by UAB.
- For every dollar invested by the state, UAB returns \$16.23.

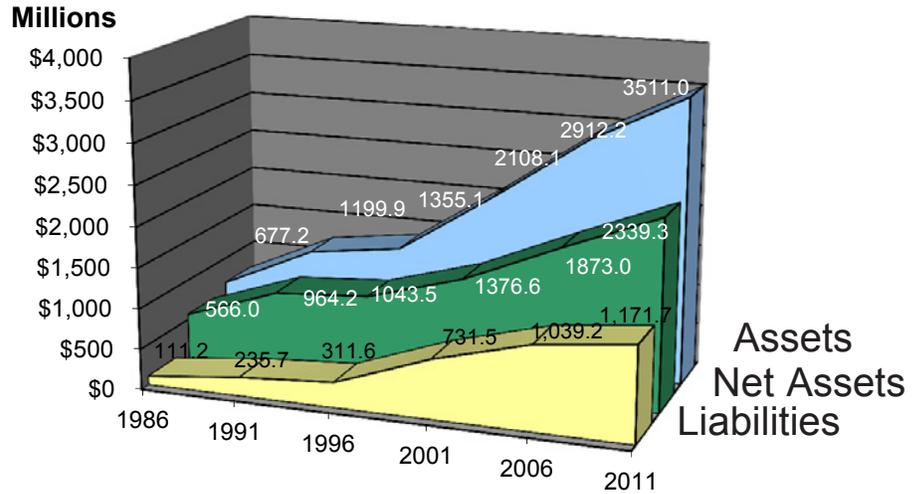


Financial Highlights

(Unaudited)

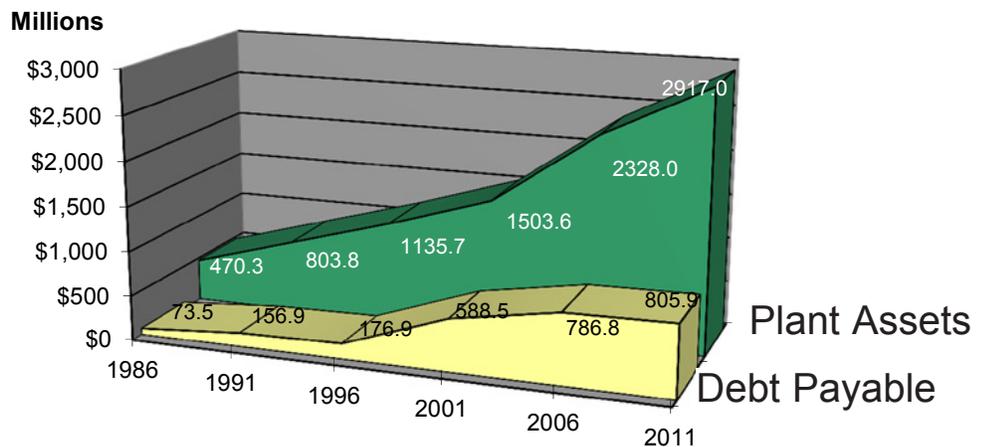
Assets and Liabilities

Since 1986 UAB's assets have increased by \$2.8 billion, while liabilities increased by only \$1.1 billion. Net assets grew during this time period by \$1.8 billion.



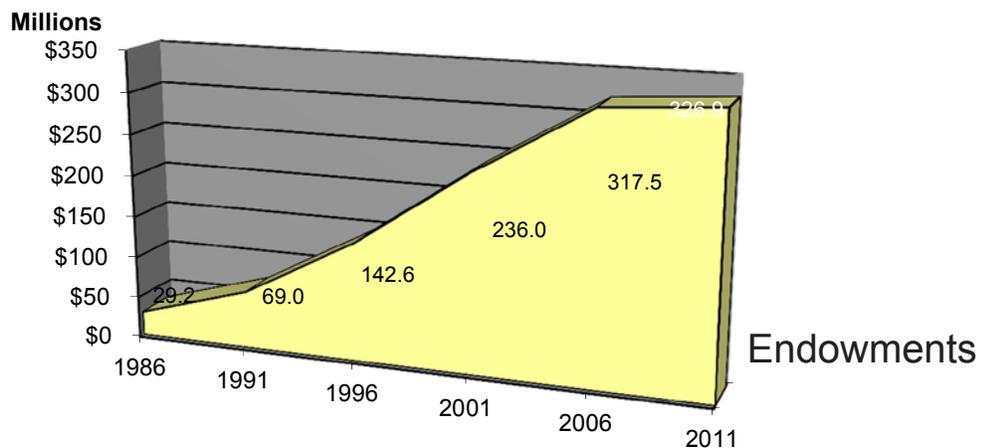
Capital Expansion

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 1986 and the associated increase in long-term debt. The investment in plant figures do not include the effect of accumulated depreciation.



Endowment Growth

The increase in the pure endowment and quasi-endowment assets from \$29.2 million to \$326.9 million over the past 25 years reflects the commitment of the community to UAB's ongoing success and sound investment program.



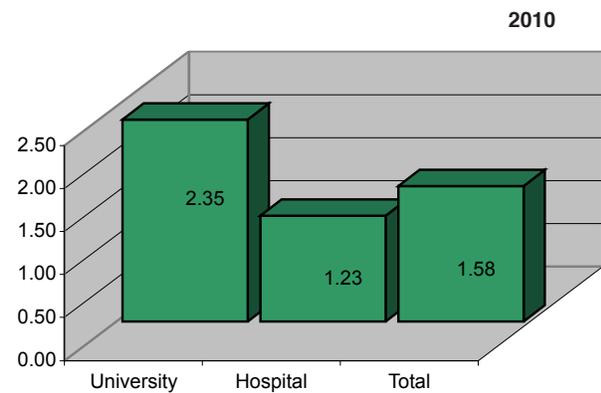
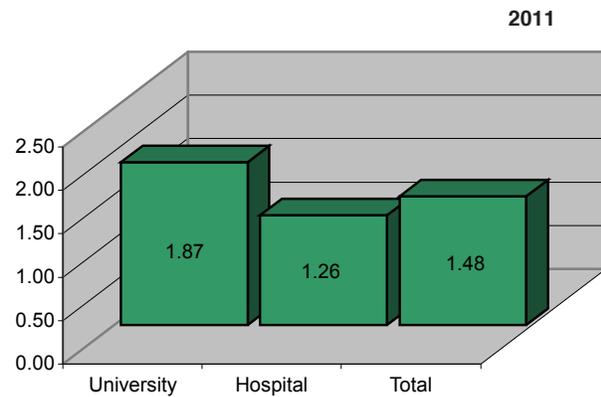
Financial Ratios* (Unaudited)

The following selected ratios, calculated for the years ended September 30, 2011 and 2010, 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

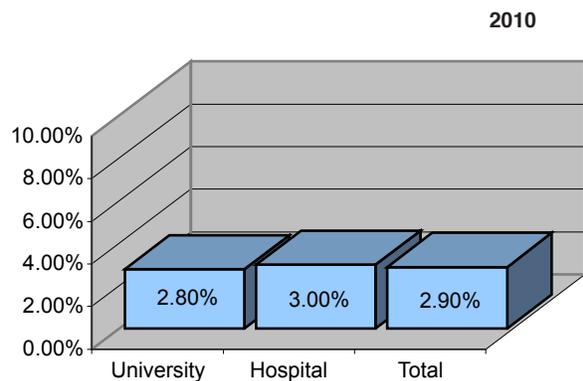
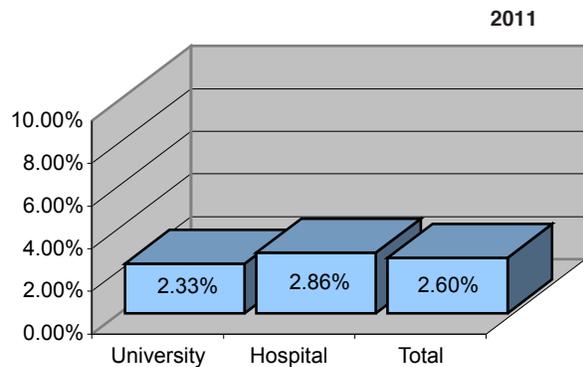
This ratio indicates the relative liquidity of the institution. A ratio of 1:1 or greater indicates that an institution has sufficient liquid assets to satisfy all related liabilities. A ratio of less than 1:1 means that there would not be sufficient liquid assets to satisfy all debts as of the reporting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



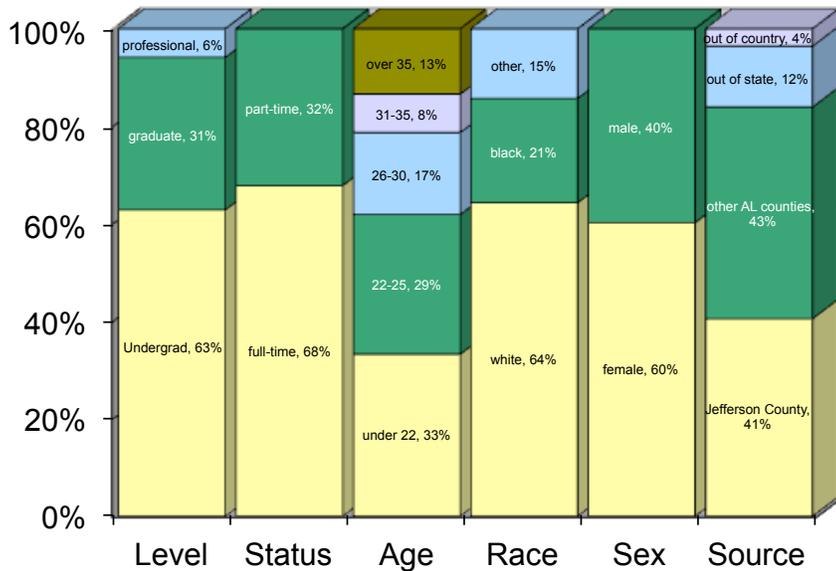
Ratio of Actual Debt Service to Operations

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 17,543
As of Fall 2010

Excludes Advanced Professionals

Student Financial Aid

In fiscal year 2011, 66.1% of UAB's students received student financial aid from UAB. Financial aid disbursements of \$199.0 million were provided from the following sources:

Federal Government	
Student Loans	\$ 129,035,528
Grants	19,969,309
Work-Study	<u>1,343,752</u>
Subtotal Federal	\$ 150,348,589
State Government	\$ 277,677
University	
Loans	\$ 415,838
Scholarships	<u>47,942,471</u>
Subtotal University	\$ 48,358,309
Total	\$ <u>198,984,575</u>



Student Headcount

Enrollment for the fall semester of the 2010-2011 school year is outlined in the table at right.

FALL 2010	UNDERGRADUATE	GRADUATE	FIRST PROFESSIONAL/ ADVANCED PROFESSIONAL*	TOTAL
SCHOOL OF ARTS AND SCIENCES	4,535	499	9	5,043
SCHOOL OF BUSINESS	1,668	351		2,019
SCHOOL OF EDUCATION	972	894		1,866
SCHOOL OF ENGINEERING	814	355	3	1,172
UNCLASSIFIED	1,477	397		1,874
SUBTOTAL	9,466	2,496	12	11,974
ADACEMIC HEALTH CENTER:				
SCHOOL OF MEDICINE			1,613	1,613
SCHOOL OF DENTISTRY	27		346	373
SCHOOL OF OPTOMETRY		23	190	213
SCHOOL OF NURSING	552	1,260		1,812
SCHOOL OF HEALTH PROFESSIONS	983	939	12	1,934
SCHOOL OF PUBLIC HEALTH		343	19	362
JOINT HEALTH SCIENCES		422		422
SUBTOTAL, ACADEMIC HEALTH CENTER	1,562	2,987	2,180	6,729
TOTAL ENROLLMENT	11,028	5,483	2,192	18,703

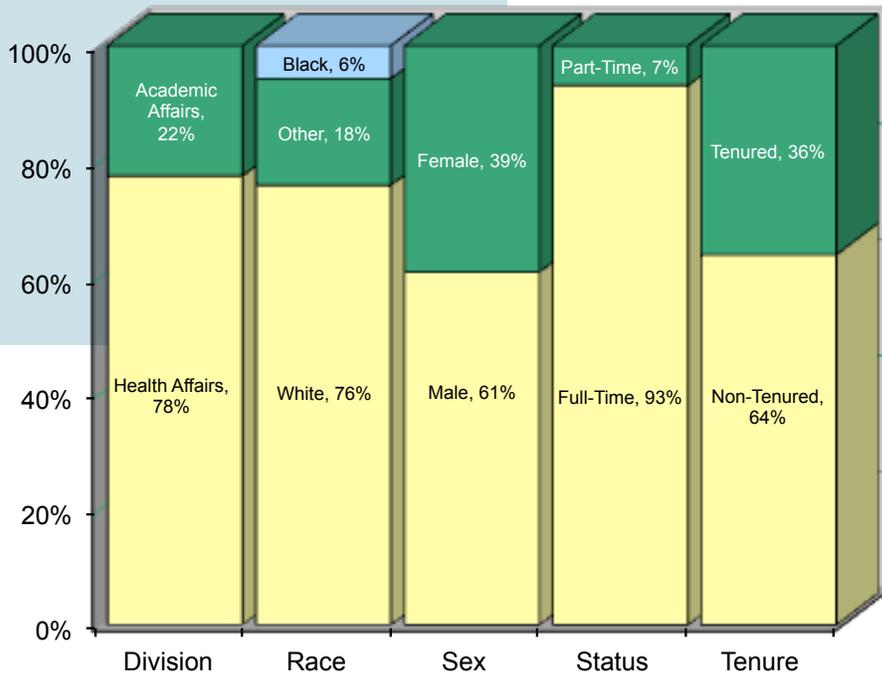
*Includes 1,032 first professionals and 1,160 advanced professionals.



Faculty Profile

Total 2,244

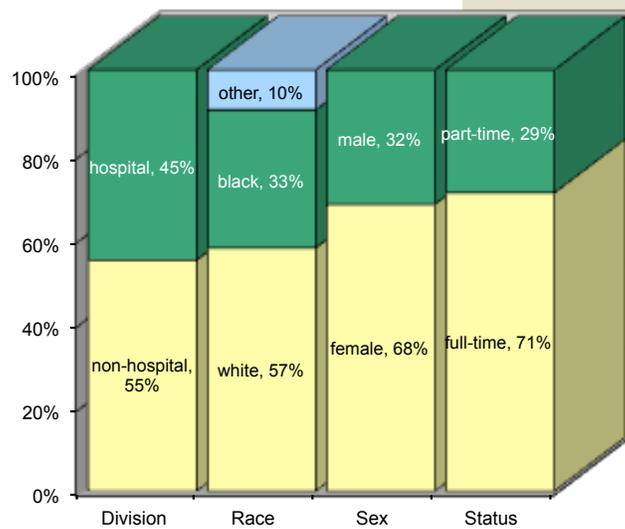
As of Fall 2010



Staff Profile

Total 16,375

As of Fall 2010



State Appropriations

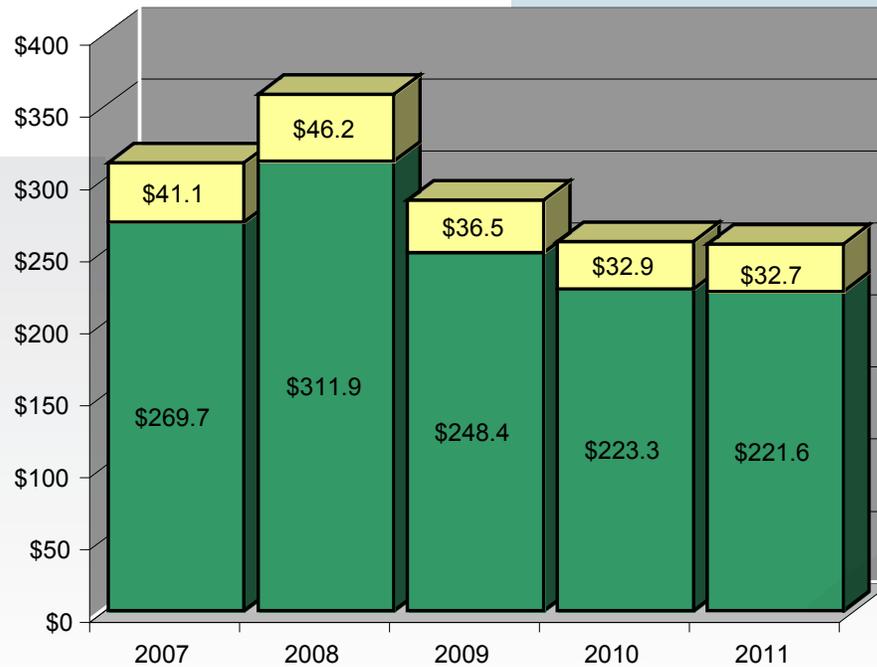
The State appropriations for UAB are made by the Alabama State Legislature based upon a process which involves requests from the Board of Trustees of The University of Alabama, and budget recommendations by the Alabama Commission on Higher Education and the Governor. State funds are appropriated annually from the Educational Trust Fund (ETF) to UAB. For the fiscal year ended September 30, 2011, UAB received direct funding from the ETF in the amount of \$254,288,538. In addition, for the fiscal year ended September 30, 2011, UAB received \$26,819,385 of State Fiscal Stabilization Funds.

Appropriations Received

Fiscal years ended September 30

(Dollars in millions)

■ University ■ Hospital



Sponsored Grants and Contracts

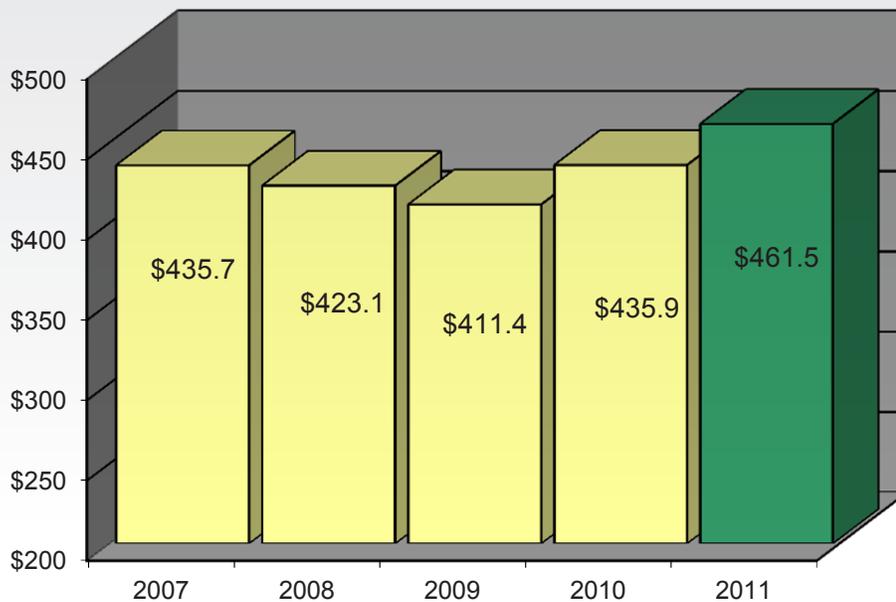
During fiscal year 2011, UAB received \$461.5 million in sponsored grants and contracts revenues (including \$91.8 million of indirect cost recovery). Various federal agencies provided the majority of support for these projects, with the National Institutes of Health (NIH) being the primary sponsor. 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 \$435.9 million during 2010 to \$461.5 million during 2011, an increase of 5.9% 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 1,157-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, 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 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

Nine Hospital specialties are among the nation's top 50 in the 16 categories evaluated at 5,000 U.S. hospitals this year by U.S. News and World Report. The rankings appear in the 2011-12 magazines' annual "America's Best Hospitals" issue. The Hospital was also one of five Alabama healthcare institutions to make Women-Certified's top 100 hospitals based on female patient satisfaction. The hospitals selected were cited for demonstrat-

ing extraordinary service in meeting the needs of women and their families. The Hospital has been granted recognition as a Magnet hospital for the third time from the American Nurses Credentialing Center, signifying the hospital's place in an elite group of fewer than 400 hospitals around the world acknowledged as centers for nursing excellence. The Hospital was the first hospital in Alabama to earn Magnet status and is one of only two hospitals in the state currently holding the designation.

Operations

On April 27 2011, the Hospital's staff responded in the aftermath of the deadly tornado outbreak that pounded Central Alabama. A total of 134 patients came through the emergency department; 40 were major trauma injuries and 23 were

admitted to the intensive-care unit. An auxiliary ICU unit was created with 14 additional beds in order to provide the needed care during this historical event. The Hospital's commitment to providing the highest quality of patient care continues with the first full fiscal year of operations completed in the new UAB Women and Infant Center (WIC). This 430,000 square foot freestanding facility includes the neonatology, obstetrics and gynecology services of the Hospital.



Selected Hospital operating statistics are outlined below:

	2011	2010
Beds in service	1,157	1,146
Patient discharges	47,383	47,065
Adjusted patient discharges	66,781	62,420
Patient days	304,257	304,719
Adjusted patient days	428,918	404,220
Operating room cases	32,909	31,844
Emergency department visits	78,225	76,085
Patient origin:		
Jefferson County	45.5%	45.3%
Other Alabama counties	47.9%	47.6%
Out of state	6.6%	7.1%



Management's Responsibility for Financial Reporting

The accompanying financial statements of the University of Alabama at Birmingham (UAB) for the years ended September 30, 2011 and 2010, 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



Report of Independent Auditors

To the Board of Trustees of The University of Alabama:

In our opinion, based on our audits and the reports of other auditors, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of The University of Alabama at Birmingham (the "UAB"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, present fairly, in all material respects, the respective financial position of UAB at September 30, 2011 and 2010, and the respective changes in financial position of UAB, and the cash flows of UAB 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 2011, we did not audit the financial statements of Southern Research Institute, which statements collectively represent 5%, 6%, and 4%, respectively, of the assets, net assets, and revenues of UAB at September 30, 2011 and for the year then ended. 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. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to amounts included for Southern Research Institute for fiscal year 2011 and 2010, is based solely on the report of 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 audits and the report of other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of UAB are intended to present the financial position, the changes in financial position, and, where applicable, the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of UAB. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2011 and 2010, its changes in financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 15 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming our opinions on UAB's financial statements. The introductory information on pages 2 through 13 and the management's 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 25, 2012

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, 2011 and 2010. 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 component units, 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). 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 \$3.51, \$3.33, and \$3.13 billion at September 30, 2011, 2010, and 2009. Increases of \$185 million or 5.6% from 2010 to 2011 were primarily due to cash increases related to the bonds issued during the year, as well as increases in investment assets and the continued growth in accounts receivable. 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.

Total liabilities increased \$82.8 million or 7.6% from September 30, 2010 to September 30, 2011. The increase results primarily from the issuance of bonds during fiscal year 2011, offset by the refunding of a portion of debt outstanding from the prior year.

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.

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, 2011, 2010, and 2009, as follows:

	2011	2010	2009
TOTAL OPERATING REVENUES	\$2,254,589,884	\$2,061,631,540	\$1,950,751,888
TOTAL OPERATING EXPENSES	\$2,480,060,070	\$2,306,995,732	\$2,271,644,423
NET OPERATING LOSS	\$(225,470,186)	\$(245,364,192)	\$(320,892,535)
TOTAL NONOPERATING INCOME, CAPITAL, ENDOWMENT AND OTHER ACTIVITIES	327,785,264	427,248,099	340,227,544
INCREASE (DECREASE) IN NET ASSETS	\$102,315,078	\$181,883,907	\$19,335,009

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, 2011, 2010, and 2009, is as follows:

	2011	2010	2009
ASSETS			
Capital Assets	\$1,478,968,981	\$1,503,730,507	\$1,483,581,715
Other Assets	2,031,992,194	1,822,150,380	1,643,811,816
TOTAL ASSETS	\$3,510,961,175	\$3,325,880,887	\$3,127,393,531
LIABILITIES AND NET ASSETS			
Current Liabilities	\$345,753,167	\$352,336,577	\$313,199,021
Noncurrent Liabilities	825,915,744	736,567,124	759,101,231
TOTAL LIABILITIES	\$1,171,668,911	\$1,088,903,701	\$1,072,300,252
Net Assets	\$2,339,292,264	\$2,236,977,186	\$2,055,093,279
TOTAL LIABILITIES AND NET ASSETS	\$3,510,961,175	\$3,325,880,887	\$3,127,393,531

At September 30, 2011, the major categories of current assets consist primarily of cash and cash equivalents, short-term investments, and accounts receivable, which totaled \$829.4 million of the \$873.3 million and increased \$105.1 million or 14.5% from 2010. The increase is a result primarily of growth in short term investments.

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, 2011, total current liabilities of \$345.8 million consisted primarily of accounts payable, accrued payroll and related benefits, and deferred revenue, which totaled \$316.2 million, compared to \$326.7 million at September 30, 2010, a decrease of \$10.6 million or 3.2% from 2010.

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.

UAB's endowment and life income investments decreased \$7.0 million to \$328.1 million from September 30, 2010 to September 30, 2011. 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.

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.

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

At September 30, 2011, 2010, and 2009 respectively, UAB's investment in the Professional Liability Trust Fund (PLTF) totaled approximately \$29.1, \$38.3, and \$27.6 million. The \$9.2 million decrease is a result of a drop in investment values at September 30, 2011. The \$10.7 million increase from September 30, 2009 to September 30, 2010 is a result of growth in investment values at September 30, 2010.

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 \$93.2 million and \$110.4 million from September 30, 2010 to September 30, 2011 and from September 30, 2009 to September 30, 2010, respectively. This increase consists primarily of capital expenditures and capital additions totaling \$100.3 million (offset primarily by \$9.9 million in disposals) and \$143.3 million (offset primarily by \$32.9 million in disposals) in 2011 and 2010. 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 \$17.2 million and \$37.5 million, debt proceeds of \$24.1 million and \$0.3 million, and the remainder by UAB funds designated for capital purchases in 2011 and 2010, respectively.

Capital projects in process at September 30, 2011 include renovation of the Health Professions Building and construction of the Steam Plant. Capital projects in process at September 30, 2010 include renovation of the Wallace Tumor Institute.

UAB's long-term debt related to capital assets, consisting of bonds and capital leases, totaled \$818.5, \$729.7, and \$753.0 million at September 30, 2011, 2010, and 2009, respectively. The increase in debt during 2011 consisted primarily of the bonds issued during the year, partially offset by the refunding of debt outstanding. The decrease in debt during 2010 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, 2011, 2010, and 2009, are summarized as follows:

	2011	2010	2009
INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT	\$754,025,143	\$793,998,349	\$739,600,715
RESTRICTED			
Nonexpendable	228,120,369	233,211,681	223,772,637
Expendable	208,990,274	203,485,691	197,833,455
UNRESTRICTED	1,148,156,478	1,006,281,465	893,886,472
TOTAL NET ASSETS	\$2,339,292,264	\$2,236,977,186	\$2,055,093,279

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 \$40.0 million decrease in 2011 reflects the increase in debt related to the bonds issued during the year. The \$54.4 million increase in 2010 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 \$5.1 million decrease in 2011 results primarily from the decrease in fair values of investments offset by contributions. The \$9.4 million increase in 2010 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 \$5.5 million increase in 2011 results primarily from gifts, offset by the decline in investment value. The \$5.7 increase in 2010 results primarily from the increase in fair values of investments and contributions.

Unrestricted net assets include UAB's assets whose use is not restricted by an external entity. Unrestricted net assets increased \$141.9 million and \$112.4 million or 14.1% and 12.6% in 2011 and 2010, respectively.

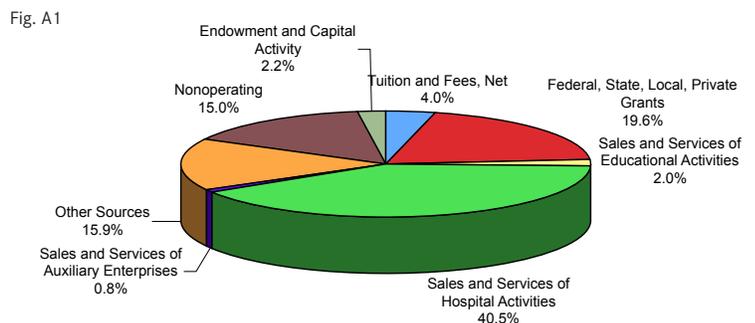
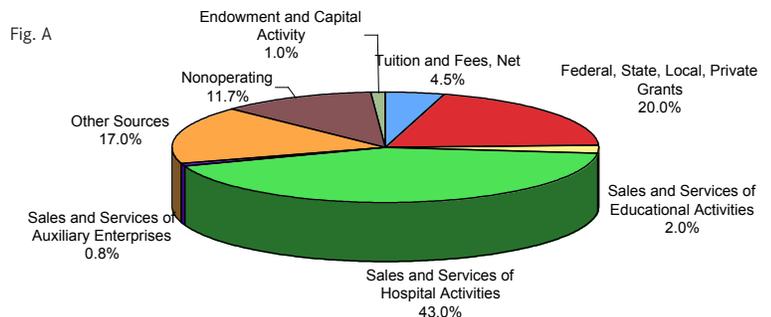
Although unrestricted net assets are not subject to externally imposed restrictions, UAB has designated available unrestricted net assets to be used for academic and research programs as well as capital projects.

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 educational 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, 2011, 2010, and 2009 is presented as follows:

	2011	2010	2009
OPERATING REVENUES			
Student tuition and fees, net	\$115,886,758	\$99,073,136	\$89,433,793
Grants and contracts	516,898,869	487,674,404	460,473,482
Sales and services	1,182,907,476	1,078,137,192	1,023,526,012
Other revenues	438,896,781	396,746,808	377,318,601
REVENUES SUPPORTING CORE ACTIVITIES	\$2,254,589,884	\$2,061,631,540	\$1,950,751,888
OPERATING EXPENSES			
Operating Expenses	\$2,480,060,070	\$2,306,995,732	\$2,271,644,423
OPERATING LOSS	\$(225,470,186)	\$(245,364,192)	\$(320,892,535)
NONOPERATING REVENUES (EXPENSES) AND OTHER CHANGES			
State educational appropriations	\$254,288,538	\$256,190,587	\$284,944,757
Grants and contracts	20,248,827	19,208,346	21,440,588
State stimulus	26,819,385	22,469,522	
Private gifts	28,975,297	32,879,702	31,085,870
Net investment income (loss)	(5,406,868)	74,943,746	8,130,506
Interest expense	(29,551,054)	(31,670,287)	(28,023,682)
Gain (loss) of disposal of capital assets	(434,835)	(2,639,740)	(1,832,641)
State capital funds	9,863,264	26,709,760	4,131,110
Capital gifts and grants	7,301,347	10,831,502	11,560,345
Permanent endowments	9,561,889	6,680,465	5,704,258
Net nonoperating revenues (loss)	1,299,229	(894,286)	1,349,684
Other changes	4,820,245	12,538,782	1,736,749
NET NONOPERATING REVENUES AND OTHER CHANGES	\$327,785,264	\$427,248,099	\$340,227,544
INCREASE IN NET ASSETS	\$102,315,078	\$181,883,907	\$19,335,009
Net assets, beginning of year	\$2,236,977,186	\$2,055,093,279	\$2,035,758,270
NET ASSETS, END OF YEAR	\$2,339,292,264	\$2,236,977,186	\$2,055,093,279

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, 2011 and 2010, respectively.



Gross tuition and fees revenue increased by \$22.3 million and \$18.1 million in 2011 and 2010, respectively, due to continued growth in enrollment and increases in tuition rates. Total student headcount of 18,703 and 18,047 increased by 656 and 766 or 3.6% and 4.4% in 2011 and 2010, respectively.

UAB recognized \$39.1, \$52.9, and \$40.5 million in gift revenue (composed partially of \$0.5, \$3.9, and \$3.7 million and \$9.6, \$6.7, and \$5.7 million in capital and endowment gifts, respectively) for the years ended September 30, 2011, 2010, and 2009, respectively.

UAB receives state educational appropriations and capital funding from the State of Alabama. UAB recognized educational appropriations and capital funding from the State of Alabama totaling \$264.2, \$282.9, and \$289.0 million, of which \$254.3, \$256.2, and \$284.9 million was from the ETF, which is included as nonoperating revenue in 2011, 2010, and 2009, respectively. The remaining \$9.9, \$26.7, and \$4.1 million represents Public School and College Authority funds and other state capital funding in 2011, 2010 and 2009, respectively. In addition, UAB re-

ceived \$26.8 million and \$22.5 million in State Fiscal Stabilization Funds in 2011 and 2010, respectively.

Net hospital sales and service revenue totaled \$1.11 billion, \$1.01 billion, and \$953.2 million, an increase of 10.0% and 5.8% from 2010 to 2011 and 2009 to 2010, 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 \$6.8, \$6.9, and \$7.9 million in 2011, 2010, and 2009, 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 2011 and 2010, respectively.

Fig. B Grants and Contract Revenue

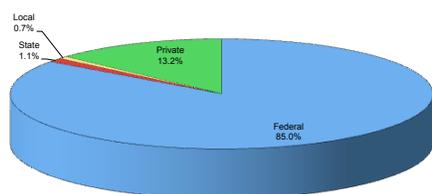
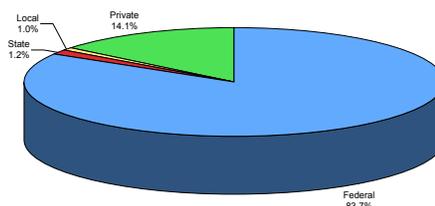


Fig. B1 Grants and Contract Revenue



Net investment income decreased \$80.4 million from 2010 to 2011 to result in a net investment loss of \$5.4 million for the year ended September 30, 2011. The decrease is primarily a result of losses in the fair value of investments. 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 for the years ended September 30, 2011, 2010, and 2009, consist of the following components:

	2011	2010	2009
Interest and dividends	\$57,169,183	\$52,063,127	\$33,499,430
Net (decrease) increase in the fair value of investments	(53,902,311)	18,489,298	(31,677,208)
Return on equity investments	(8,673,740)	4,391,321	6,308,284
	\$(5,406,868)	\$74,943,746	\$8,130,506

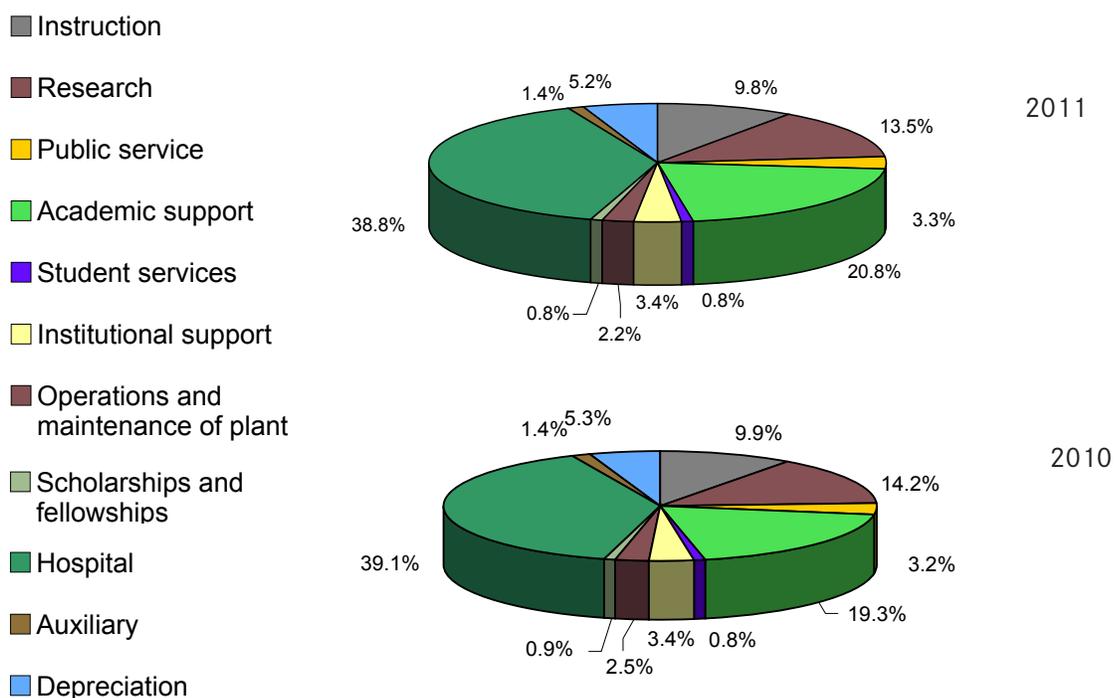
A comparative summary of UAB's operating expenses for the years ended September 30, 2011, 2010, and 2009, is as follows:

	2011	2010	2009
Salaries, wages, and benefits	\$1,226,729,759	\$1,185,398,724	\$1,188,947,815
Supplies and services	1,106,569,166	978,817,716	943,485,696
Depreciation	127,748,781	121,398,525	118,477,145
Scholarships and fellowships	19,012,364	21,380,767	20,733,767
	\$2,480,060,070	\$2,306,995,732	\$2,271,644,423

Salaries, wages, and benefits increased \$41.3 million or 3.49% during 2011 and decreased \$3.5 million or 0.3% during 2010. This increase in 2011 is due primarily to UAB's growth in salary base and benefit costs. This decrease in 2010 is a result of reductions in workforce due to the economic downturn. In addition, supplies and services expenses increased \$127.8 million and \$35.3 million or 13.1% and 3.7%

during 2011 and 2010, 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, 2011 and 2010, 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.

	2011	2010	2009
Net cash used in operating activities	\$(119,904,828)	\$(96,612,053)	\$(221,976,118)
Net cash used in capital and related financing activities	(22,546,554)	(158,003,248)	(169,761,394)
Net cash provided by noncapital financing activities	346,847,844	334,784,300	351,539,902
Net cash (used in) provided by investing activities	(160,924,738)	30,516,776	169,536,020
Net increase in cash and cash equivalents	\$43,471,724	\$110,685,775	\$129,338,410
Cash and cash equivalents, beginning of year	\$303,982,272	\$193,296,497	\$63,958,087
Cash and cash equivalents, end of year	\$347,453,996	\$303,982,272	\$193,296,497

UAB used \$119.9, \$96.6, and \$222.0 million of cash for operating activities, offset by \$346.8, \$334.8, and \$351.5 million of cash provided by non-capital financing activities in 2011, 2010 and 2009, 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 \$22.5, \$158.0, and \$170.0 million in 2011, 2010 and 2009, 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 used in investing activities totaled \$160.9 million in 2011. Cash provided by investing activities totaled \$30.5 million in 2010 and \$169.5 million in 2009.

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 2011, 2010 and 2009, the State implemented proration. UAB is currently implementing 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, 2011 and 2010

	2011	2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 195,228,772	\$ 285,518,288
Short term investments	388,310,390	212,470,504
Accounts receivable, net	245,825,883	226,321,479
Loans receivable, current portion	2,323,656	2,601,448
Pledges receivable, current portion	7,000,416	8,054,996
Inventories	15,618,350	14,375,743
Other current assets	18,972,782	25,610,720
Total current assets	\$ 873,280,249	\$ 774,953,178
Noncurrent Assets:		
Cash designated for capital activities	\$ 152,063,494	\$ 18,259,168
Restricted cash and cash equivalents	161,730	204,816
Investments for capital activities	599,810,323	615,499,939
Endowment and life income investments	328,050,714	335,006,502
Investment in Professional Liability Trust Fund	29,149,334	38,285,607
Other long-term investments	15,283,303	5,057,439
Loans receivable, net	17,003,158	16,998,857
Pledges receivable	14,236,330	15,159,587
Capital assets, net	1,478,968,981	1,503,730,507
Other noncurrent assets	2,953,559	2,725,287
Total noncurrent assets	\$ 2,637,680,926	\$ 2,550,927,709
Total Assets	\$ 3,510,961,175	\$ 3,325,880,887
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 215,916,720	\$ 233,867,398
Deposits	6,056,980	3,037,407
Deferred revenue-grants	27,144,638	27,329,847
Deferred revenue-other	73,089,124	65,518,163
Long-term debt, current portion	23,545,705	22,583,762
Total current liabilities	\$ 345,753,167	\$ 352,336,577
Noncurrent Liabilities		
Federal advances-loan funds	\$ 15,425,453	\$ 15,912,319
Long-term debt, noncurrent portion	794,950,360	707,127,932
Other noncurrent liabilities	15,539,931	13,526,873
Total noncurrent liabilities	\$ 825,915,744	\$ 736,567,124
Total Liabilities	\$ 1,171,668,911	\$ 1,088,903,701
NET ASSETS		
Invested in capital assets, net of related debt	\$ 754,025,143	\$ 783,002,097
Restricted		
Nonexpendable	228,120,369	233,211,681
Expendable	208,990,274	203,485,691
Unrestricted	1,148,156,478	1,017,277,717
Total Net Assets	\$ 2,339,292,264	\$ 2,236,977,186

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, 2011 and 2010

	2011	2010
Operating Revenues		
Tuition and fees	\$ 161,719,588	\$ 139,441,181
Less: scholarship allowance	(45,695,165)	(39,854,513)
Less: bad debt expense	(137,665)	(513,532)
Tuition and fees, net	115,886,758	99,073,136
Grants and contracts:		
Federal	436,279,233	406,525,237
State	6,160,229	5,638,724
Local	2,923,958	3,606,873
Private	71,535,449	71,903,570
Sales and services:		
Educational activities	53,034,123	49,681,864
Hospital, net of bad debt expense of \$196,167,535 and \$171,617,926	1,109,661,547	1,008,889,965
Auxiliary enterprises, net of scholarship allowance of \$3,422,902 and \$3,661,470	20,211,806	19,565,363
Other operating revenues	438,896,781	396,746,808
Total operating revenues	\$ 2,254,589,884	\$ 2,061,631,540
Operating Expenses		
Salaries, wages and benefits	\$ 1,226,729,759	\$ 1,185,398,724
Supplies and services	1,106,569,166	978,817,716
Depreciation and amortization	127,748,781	121,398,525
Scholarships and fellowships	19,012,364	21,380,767
Total operating expenses	\$ 2,480,060,070	\$ 2,306,995,732
Operating loss	\$ (225,470,186)	\$ (245,364,192)
Nonoperating Revenues (Expenses)		
Gains and losses		
State educational appropriations	\$ 254,288,538	\$ 256,190,587
Federal grants and contracts	20,043,440	18,452,330
State grants and contracts	105,179	108,405
Private grants and contracts	100,208	647,611
State fiscal stabilization funds	26,819,385	22,469,522
Gifts	28,975,297	32,879,702
Investment (loss) income	(5,406,868)	74,943,746
Interest expense	(29,551,054)	(31,670,287)
Loss on asset disposition, net	(434,835)	(2,639,740)
Gain on sale of discontinued operations (Note 1)	4,820,245	3,088,615
Net other nonoperating revenue (expense)	1,299,229	(894,286)
Net nonoperating revenues	\$ 301,058,764	\$ 373,576,205
Income before other revenues, expenses, gains, losses, and transfers	\$ 75,588,578	\$ 128,212,013
Other Changes in Net Assets		
Capital and endowment activities		
State capital funds	\$ 9,863,264	\$ 26,709,760
Capital grants and contracts	6,767,122	6,893,758
Capital gifts	534,225	3,937,744
Endowment gifts	9,561,889	6,680,465
Other revenue		9,450,167
Net other changes in net assets	\$ 26,726,500	\$ 53,671,894
Increase in net assets	\$ 102,315,078	\$ 181,883,907
Net Assets, beginning of year	\$ 2,236,977,186	\$ 2,055,093,279
Net Assets, end of year	\$ 2,339,292,264	\$ 2,236,977,186

See accompanying notes to financial statements.

The University of Alabama at Birmingham

Statements of Cash Flows

Years Ended September 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Student tuition and fees	\$ 120,905,667	\$ 103,088,885
Grants and contracts	518,749,597	483,508,254
Receipts from sales and services of:		
Educational activities	52,979,290	48,823,818
Patient services	1,099,740,755	1,005,072,479
Auxiliary enterprises, net	24,000,613	22,925,037
Premium and administrative fees collected	411,981,105	355,417,685
Payment to employees and related benefits	(1,259,969,352)	(1,170,836,110)
Payment to suppliers	(1,114,485,761)	(985,141,556)
Payment for scholarships and fellowships	(19,012,364)	(21,380,767)
Other receipts (disbursements)	45,205,622	61,910,222
Net cash (used in) operating activities	\$ (119,904,828)	\$ (96,612,053)
Cash flows from capital and related financing activities		
Proceeds from issuance of capital debt	\$ 166,263,752	\$ 26,709,760
State capital funds	9,863,264	5,445,628
Federal grants and contracts	5,936,501	863,186
Local grants and contracts	6,536	3,924,900
Private gifts	2,072,220	265,821
Proceeds from sale of capital assets	265,821	145,661
Purchases of capital assets	(99,369,800)	(139,676,137)
Principal payments on capital debt	(75,788,908)	(24,022,770)
Interest payments on capital debt	(31,795,940)	(31,393,476)
Net cash (used in) capital and related financing activities	\$ (22,546,554)	\$ (158,003,248)
Cash flows from noncapital financing activities		
State educational appropriations	\$ 254,288,538	\$ 256,190,587
Private gifts	38,977,028	35,170,119
Student direct lending receipts	128,064,966	115,266,095
Student direct lending disbursements	(126,454,411)	(116,666,083)
Other deposits (disbursements)	49,439,016	45,246,729
Deposits from (to) affiliates	2,532,707	(423,147)
Net cash provided by noncapital financing activities	\$ 346,847,844	\$ 334,784,300
Cash flows from investing activities		
Interest and dividends from investments, net	\$ 50,975,026	\$ 47,527,337
Payments for intangibles	(725,976)	163,822
Collections on note receivable	133,357	(6,307,703)
Cash distributions (to) equity investments	4,836,439	61,522,707
Proceeds from sales and maturities of investments	(178,393,231)	(73,507,541)
(Investments in) system pooled investment funds	(39,004,150)	(1,244,485)
Purchases of investments	527,821	3,088,615
Proceeds from sale of discontinued operations	527,821	3,088,615
Net cash (used in) provided by investing activities	\$ (160,924,738)	\$ 30,516,776
Net increase in cash and cash equivalents	\$ 43,471,724	\$ 110,685,775
Cash, beginning of year	\$ 303,982,272	\$ 193,296,497
Cash, end of year	\$ 347,453,996	\$ 303,982,272
Reconciliation of operating (loss) to net cash used in operating activities		
Operating (loss)	\$ (225,470,186)	\$ (245,364,192)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation and amortization expense	\$ 127,748,781	\$ 121,398,523
Changes in assets and liabilities:		
Accounts receivable, net	\$ (14,111,974)	\$ (12,363,556)
Prepaid expenses and other assets	(311,600)	91,098
Accounts payable and accrued liabilities	(18,862,153)	31,242,803
Deferred revenue	\$ 11,102,304	\$ 8,383,271
Net cash (used in) operating activities	\$ (119,904,828)	\$ (96,612,053)

See accompanying notes to financial statements.

The University of Alabama at Birmingham

Statements of Cash Flows (continued)

Years Ended September 30, 2011 and 2010

	2011	2010
Supplemental noncash activities information		
Capital assets acquired included in accounts payable	\$ 11,034,687	\$ 6,401,585
Capital assets acquired through capital lease	\$ 124,850	\$ 108,515
Interest capitalized	\$ 2,685,653	\$ 1,746,222

See accompanying notes to financial statements.

The University of Alabama at Birmingham Notes to Financial Statements

September 30, 2011

(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. Under the accrual basis, revenues are recorded when earned, and expenses are recorded when an obligation has been incurred.

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 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 an 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 20 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 4). 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 4). 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 4 and Note 19. 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 medical supplies and pharmaceuticals.

Accounts Receivable: Accounts receivable consist primarily of tuition charged to students and amounts due from Federal, state, and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to UAB's contracts and grants.

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, 2011 and 2010 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 4 and 19.

Nonoperating revenues (expenses): Nonoperating revenues and expenses include State educational appropriations, Federal Pell grants, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense, loss on asset dispositions and gain on sale of discontinued operations.

(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 has 13 board members, including seven outside members not affiliated with UAB. UABEF leases certain facilities to UAB, with annual rental expense of approximately \$1,949,000 and \$1,932,000 for 2011 and 2010, respectively. UABEF made contributions to UAB which totaled approximately \$4,985,000 and \$4,365,000 in 2011 and 2010, respectively. UABEF's total assets were approximately \$51,727,000 and \$48,697,000 at September 30, 2011 and 2010, respectively. UABEF's total liabilities were approximately \$19,105,000 and \$17,117,000 at September 30, 2011 and 2010, 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 \$24,382,000 and \$39,668,000 of funding from HSF in 2011 and 2010, 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 \$1,657,000 and \$1,162,000 in 2011 and 2010, respectively, and the Hospital purchases various services from HSF, aggregating approximately \$27,599,000 and \$23,979,000 for the years ended September 30, 2011 and 2010, respectively. As a result of these transactions, the Hospital had a net receivable from HSF of approximately \$77,000 at September 30, 2011 and a net payable to HSF of approximately \$5,105,000 at September 30, 2010.

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 \$14,658,000 and \$0, which is included in the accompanying statement of net assets as deferred revenue-other for the years ended September 30, 2011 and 2010, respectively. Approximately \$175,000 and \$97,000 was recognized as rent revenue during the years ended September 30, 2011 and 2010, respectively.

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, 2011 and 2010, respectively, UAB contributed approximately \$6,762,000 and \$6,313,000 to the UAB Health System Board to support Health System administrative functions. In addition, at September 30, 2011 and 2010, respectively, the Hospital had a net payable from the Health System of approximately \$420,000 and \$60,000.

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 \$7,873,000 (unaudited) and \$7,736,000 (unaudited) and total liabilities were approximately \$1,012,000 (unaudited) and \$1,213,000 (unaudited) at September 30, 2011 and 2010, respectively.

The Hospital received premium revenue (capitation fees) of approximately \$57,684,000 and \$56,691,000 from Triton during the years ended September 30, 2011 and 2010.

(3) 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, 2011, the University, within the Short-Term Fund, had approximately \$53,400,000, all of which was invested in the money market fund. 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, 2011 and 2010, respectively, UAB had cash and cash equivalents totaling \$347,453,996 and \$303,982,272.

(4) Investments

The Board has the responsibility for the establishment of the investment policy and the oversight of the investments for the various System and related entities. In order to facilitate System-wide investment 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.

The following disclosures relate to both the System Pools, which include the investments of other System entities and other affiliated entities, and the UAB-specific investment portfolio.

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 Funds are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support to the endowment beneficiaries. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocation targets are established to meet the return objectives while providing adequate diversification in order to minimize investment volatility. As discussed in Note 1, certain investments within the Endowment Fund are valued at cost, unless impaired. UAB’s portion of investments in the Endowment Fund which are measured at cost totaled approximately \$35,800,000 and \$31,700,000 at September 30, 2011 and 2010, respectively.

Prime Fund

The Prime Fund is a longer-term pool used as an investment vehicle to manage operating reserves with a time horizon of seven to ten years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid and semi-liquid securities. This fund is not currently invested in long-term lockup funds with illiquid assets. As discussed in Note 1, certain investments in the Prime Fund are valued at cost, unless impaired. UAB’s portion of investments which are measured at cost totaled approximately \$7,600,000 at September 30, 2011 and \$8,200,000 at September 30, 2010.

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 objectives of stability of principal and liquid-

ity. 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 3 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, 2011 and 2010 is as follows:

September 30, 2011

	ENDOWMENT FUND	PRIME FUND	INTERMEDIATE FUND	SHORT TERM FUND
Receivables:				
Accrued Income Receivables	\$ 1,107,419	\$ 650,770	\$ 4,991,584	\$
TOTAL RECEIVABLES	\$ 1,107,419	\$ 650,770	\$ 4,991,584	\$
Cash Equivalents:				
Certificates Of Deposit	\$	\$	\$ 9,083,787	\$
Commercial Paper			16,200,000	
Money Market Funds	32,523,163	27,318,415	67,192,267	119,243,909
TOTAL CASH EQUIVALENTS	\$ 32,523,163	\$ 27,318,415	\$ 92,476,054	\$ 119,243,909
Equities:				
U.S. Common Stock	\$ 61,441,298	\$ 47,156,571	\$	\$
Foreign Stock	3,693,290	2,813,145		
TOTAL EQUITIES	\$ 65,134,588	\$ 49,969,716	\$	\$
Fixed Income Securities:				
U.S. Government Obligations	\$ 32,642,178	\$ 11,255,896	\$ 237,375,819	\$
Municipal Government Obligations			5,348,375	
Mortgage Backed Securities			47,674,103	
Collateralized Mortgage Obligations	824,701	1,616,040	80,738,496	
Corporate Bonds	45,242,909	20,786,125	349,240,996	
Non-U.S. Bonds			20,105,488	
TOTAL FIXED INCOME SECURITIES	\$ 78,709,788	\$ 33,658,061	\$ 740,483,277	\$
Commingled Funds:				
U.S. Equity Funds	\$ 97,341,436	\$ 95,624,301	\$	\$
Non-U.S. Equity Funds	204,708,799	190,506,910		
U.S. Bond Funds	19,459,731	48,810,114	106,131,493	
Non-U.S. Bond Funds	56,083,738	48,033,757		
Hedge Funds	141,883,144	109,604,285		
Private Equity Funds	53,444,269			
Timberland Funds	5,624,452			
Real Estate Funds	111,363,986	87,120,952		
TOTAL COMMINGLED FUNDS	\$ 689,909,555	\$ 579,700,319	\$ 106,131,493	\$
TOTAL FUND INVESTMENTS	\$ 866,277,094	\$ 690,646,511	\$ 939,090,824	\$ 119,243,909
TOTAL FUND ASSETS	\$ 867,384,513	\$ 691,297,281	\$ 944,082,408	\$ 119,243,909
TOTAL FUND LIABILITIES	\$ (141,349)	\$ (96,905)	\$ (431,667)	\$
AFFILIATED ENTITY INVESTMENTS IN FUNDS	\$ (108,310,387)	\$ (46,104,160)	\$ (63,559,098)	\$
TOTAL NET ASSET VALUE	\$ 758,932,777	\$ 645,096,216	\$ 880,091,643	\$ 119,243,909

September 30, 2010

	ENDOWMENT FUND	PRIME FUND	INTERMEDIATE FUND	SHORT TERM FUND
Receivables:				
Accrued Income Receivables	\$ 1,022,703	\$ 730,638	\$ 3,394,772	\$
TOTAL RECEIVABLES	\$ 1,022,703	\$ 730,638	\$ 3,394,772	\$
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
TOTAL CASH EQUIVALENTS	\$ 20,090,042	\$ 15,547,782	\$ 45,095,632	\$ 168,718,531
Equities:				
U S Common Stock	\$ 63,959,778	\$ 46,906,064	\$	\$
Non-U S Stock	3,734,348	2,708,329		
TOTAL EQUITIES	\$ 67,694,126	\$ 49,614,393	\$	\$
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	
TOTAL FIXED INCOME SECURITIES	\$ 68,113,081	\$ 43,568,715	\$ 508,857,787	\$
Commingled Funds:				
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		
TOTAL COMMINGLED FUNDS	\$ 721,276,569	\$ 540,360,327	\$ 108,159,733	\$
TOTAL FUND INVESTMENTS	\$ 877,173,818	\$ 649,091,217	\$ 662,113,152	\$ 168,718,531
TOTAL FUND ASSETS	\$ 878,196,521	\$ 649,821,855	\$ 665,507,924	\$ 168,718,531
TOTAL FUND LIABILITIES	\$ (108,538)	\$ (78,054)	\$ (253,747)	\$
AFFILIATED ENTITY INVESTMENT IN FUNDS	\$ (109,872,550)	\$ (1,891,880)	\$ (8,165,066)	\$
TOTAL NET ASSET VALUE	\$ 768,215,433	\$ 647,851,921	\$ 657,089,111	\$ 168,718,531

The composition of investments, by investment type, of UAB's separately held investments, and UAB's interest in the System Pools, at September 30, 2011 and 2010 is as follows:

	2011	2010
Cash and equivalents:		
Commerical paper	\$ 100,000	\$ 100,000
Money market funds	1,164,026	616,479
TOTAL CASH AND EQUIVALENTS	\$ 1,264,026	\$ 716,479
Equities:		
Common stock	\$ 476,013	\$ 141,439
Equity investment in partnerships	29,149,334	38,285,607
TOTAL EQUITIES	\$ 29,625,347	\$ 38,427,046
Fixed Income Securities:		
US government obligations	\$ 24,993,850	\$
Corporate bonds	10,506,510	
Foreign bonds	355,449	1,884,945
TOTAL FIXED INCOME SECURITIES	\$ 35,855,809	\$ 1,884,945
Commingled Funds:		
US equity funds	\$ 32,229,668	\$ 31,981,850
Non-US equity funds	7,854,100	9,896,763
US bond funds	35,978,470	35,262,639
Liquid Alternatives	4,474,668	5,711,998
Private equity funds	2,396,752	1,437,272
Real estate funds	4,101,665	1,987,352
TOTAL COMMINGLED FUNDS	\$ 87,035,323	\$ 86,277,874
REAL ESTATE	\$ 4,852,000	\$ 4,852,000
Portion of System Pooled Investments:		
Endowment Fund	\$ 296,706,240	\$ 298,070,846
Prime Fund	452,494,134	468,412,627
Intermediate Fund	452,771,185	307,678,174
Short-Term Fund	53,379,956	150,048,060
Total Portion of System Pooled Investments	\$ 1,255,351,515	\$ 1,224,209,707
Total Cash and Investments	\$ 1,413,984,020	\$ 1,356,368,051
Less Short-Term Fund	\$ 53,379,956	\$ 150,048,060
TOTAL INVESTMENTS	\$ 1,360,604,064	\$ 1,206,319,991

Investment Risk Factors

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

Credit Risk

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

significant credit risk.

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

Board policy recognizes that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark. Credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. Fixed income holdings in a single entity (excluding obligations of the U.S. government and its agencies) may not exceed 5% of a manager's

portfolio measured at market value. At least 95% of these fixed income investments must be in investment grade securities (securities with ratings of BBB- or Baa3) or higher. However, multi-strategy fixed income managers may have up to 20% of their investments in non-investment grade securities. Securities of foreign entities denominated in U.S. dollars are limited to 10% of a manager's portfolio. Securities denominated in currencies other than U.S. dollars are not permissible unless part of a multi-strategy fixed income account where the limitation is 20% of the manager's portfolio.

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Government Credit Index for U.S. investments and the Citigroup WGBI Index for international investments 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 \$1,600,000 and \$3,800,000 in the Endowment and Prime Funds, at September 30, 2011 and 2010, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$232,200,000 and \$293,500,000 in the Endowment and Prime Funds, at September 30, 2011 and 2010, respectively.

The Intermediate Fund is benchmarked against the 1-3 Year Barclays Government Credit Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For September 30, 2011 and 2010, approximately \$59,200,000 and \$62,000,000, 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 \$189,500,000 and \$150,600,000 at September 30, 2011 and 2010, respectively. For September 30, 2011 and 2010, \$9,100,000 and \$2,700,000, respectively, was invested by the Intermediate Fund in certificates of deposit.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the System campuses and the Hospital. The Short-Term Fund is invested in a money market fund, which in turn invests mostly in U.S. Treasury Securities and repurchase agreements that are collateralized by U.S. Treasury Securities. These funds are all commingled with funds of other investors. Refer to Note 3 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, 2011 and 2010 are as follows:

September 30, 2011 and 2010

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2011	2010	2011	2010	2011	2010	2011	2010
Fixed or Variable Income Securities								
U.S. Government Obligations	\$ 32,642,178	\$ 33,786,763	\$ 11,255,896	\$ 19,534,274	\$ 237,375,819	\$ 192,236,728	\$	
Municipal Government Obligations					\$5,348,375	2,093,673		
Other U.S. Denominated:								
AAA	601,838	1,352,251	259,069	1,180,794	82,551,910	60,795,483		
AA	9,442,755	3,644,101	4,280,773	2,393,581	82,527,357	58,634,075		
A	20,810,897	16,695,249	10,696,427	11,416,560	155,173,567	87,821,004		
BBB	14,989,257	10,994,544	5,808,925	6,919,747	\$93,358,572	38,692,339		
BB					19,361,524	5,937,675		
B					1,357,676	436,225		
C and < C					4,257,867	197,792		
Unrated	222,863	1,640,173	1,356,971	2,123,759	59,170,610	62,012,793		
Commingled Funds:								
U.S. Bond Funds: Unrated	19,459,731	74,155,378	48,810,114	93,914,279	106,131,492	108,159,733		
Non-U.S. Bond Funds: Unrated	56,083,738	51,744,077	48,033,757	38,096,317				
Money Market Funds: Unrated	32,523,163	20,090,042	27,318,415	15,547,782	67,192,267	15,395,632	119,243,909	168,718,531
Commercial Paper: Unrated					16,200,000	27,000,000		
Certificate of Deposits					9,083,787	2,700,000		
TOTAL	\$ 186,776,420	\$ 214,102,578	\$ 157,820,347	\$ 191,127,093	\$ 939,090,823	\$ 662,113,152	\$ 119,243,909	\$ 168,718,531

The credit risk for fixed and variable income securities for UAB's separately held investments at September 30, 2011 and 2010 is as follows:

September 30, 2011 and 2010		
	2011	2010
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$ 24,993,850	\$
Other U.S. Denominated:		
AAA	10,506,510	
AA		
A		
BBB		
BB		
B		
CCC		
CC		
Unrated		
Commingled Funds:		
U.S. Bond Funds: Unrated	35,978,470	35,262,639
Non-U.S. Bond Funds: Unrated	355,449	1,884,945
Money Market Funds: Unrated	9,200	8,302
Commercial Paper: Unrated	100,000	100,000
TOTAL	\$ 71,943,479	\$ 37,255,886

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 and UAB's separately held investments 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, money market funds) represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification, such as having substantial investments in a few individual issuers, thereby

exposing the organization to greater risks resulting from adverse economic, political, regulatory, geographic, or credit developments.

As previously mentioned, credit risk in each investment pool and UAB's separately held investment portfolio is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2011 and 2010, 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 investment portfolio except for investments issued by the U.S. government and money market investments held by the Short Term Fund.

Interest Rate Risk

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

The 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, 2011 and 2010 are as follows:

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2011	2010	2011	2010	2011	2010
U S government obligations	4.1	3.4	4.9	3.3	2.3	3.0
Corporate bonds	5.8	6.4	5.8	6.0	2.6	2.0
Commingled bond funds	4.2	5.8	3.8	5.2	2.2	2.4

There are no fixed or variable income securities in the Short-Term Fund at September 30, 2011 and 2010.

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, 2011 and 2010 are as follows:

September 30, 2011 and 2010		
	2011	2010
Commingled bond funds	4.1	4.7

Investments may also include mortgage pass through securities and collateralized mortgage obligations that may be considered to be highly sensitive to

changes in interest rates due to the existence of prepayment or conversion features. At September 30,

2011 and 2010, the fair market values of these investments in the System Pools are as follows:

September 30, 2011 and 2010

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2011	2010	2011	2010	2011	2010
Mortgage backed securities	\$ 824,701	\$ 911,352	\$ 1,616,040	\$ 566,328	\$ 47,674,103	\$ 19,764,250
Collateralized mortgage obligations	824,701	1,525,678	1,616,040	1,900,449	80,738,496	30,978,826
TOTAL	\$ 824,701	\$ 2,437,030	\$ 1,616,040	\$ 2,466,777	\$ 128,412,599	\$ 50,743,076

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

Collateralized Mortgage Obligations. Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or 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, 2011 and 2010, the effective durations for these securities held in the System Pools are as follows:

September 30, 2011 and 2010

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2011	2010	2011	2010	2011	2010
Mortgage backed securities		2.3		2.2	2.7	2.9
Collateralized mortgage obligations	2.4	2.2	1.2	1.6	0.9	1.6

There are no mortgage backed securities or CMOs in the Short Term Fund at September 30, 2011 and 2010.

There are no mortgage backed securities or CMOs in UAB's separately held investments at September 30, 2011 and 2010.

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 and fixed income securities. Each international equity manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager's portfolio, measured at market value. Currency hedging of foreign bonds and stocks is allowed under System policy. As of September 30, 2011 and 2010, all foreign investments in the System Pools and UAB's separately held investments are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$20.1 million and \$7.8 million of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2011 and 2010, 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, 2011 and 2010, 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 \$29,149,000 and \$38,286,000 at September 30, 2011 and 2010, respectively. See Note 19 for further discussion of the PLTF.

(5) Accounts Receivable

The composition of accounts receivable at September 30, 2011 and 2010 is summarized as follows:

	2011	2010
Patient care	\$ 277,487,859	\$ 278,950,893
Receivables from sponsoring agencies	57,654,933	57,580,022
Student accounts	10,617,786	12,517,073
Other	45,833,928	33,336,749
	\$ 391,594,506	\$ 382,384,737
Less: Provision for doubtful accounts from patient care	142,155,867	153,332,274
Less: Provision for doubtful accounts from student accounts	1,677,118	2,333,310
Less: Provision for doubtful accounts Other	1,935,638	397,674
Total accounts receivable	\$ 245,825,883	\$ 226,321,479

(6) Loans and Pledges Receivable

The composition of loans and pledges receivable at September 30, 2011 and 2010, is summarized in the table.

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.

	2011	2010
LOANS RECEIVABLE:		
Federal loan program	\$ 18,183,964	\$ 18,643,488
University loan funds	1,815,804	1,730,635
Other	1,134,543	1,252,969
Total loans receivable	\$ 21,134,311	\$ 21,627,092
Less allowance for doubtful accounts	1,807,497	2,026,787
Total loans receivable, net	\$ 19,326,814	\$ 19,600,305
Less: current portion	2,323,656	2,601,448
Total loans receivable outstanding, noncurrent	\$ 17,003,158	\$ 16,998,857
GIFT PLEDGES OUTSTANDING:		
Operations	\$ 13,779,435	\$ 14,219,277
Capital	7,457,311	8,995,306
Total gift pledges	\$ 21,236,746	\$ 23,214,583
Less: current portion	7,000,416	8,054,996
Total gift pledges, noncurrent	\$ 14,236,330	\$ 15,159,587

(7) Capital Assets

Capital assets activity for the years ended September 30, 2011 and 2010 is summarized below:

Net interest costs capitalized for the University and Component Units in 2011 and 2010, respectively, were approximately \$2,685,000 and \$0 (net of \$856,000 and \$0 investment earnings in 2011 and 2010, respectively). Net interest costs capitalized in 2011 and 2010, respectively, were approximately \$0 and \$1,746,000 (net of \$0 investments earnings each year) for the Hospital.

September 30, 2011

	BEGINNING BALANCE		ADDITIONS		SALES/RETIREMENTS/ TRANSFERS		ENDING BALANCE
UNIVERSITY AND COMPONENT UNITS							
Capital assets not being depreciated							
Land	\$	52,096,366	\$	2,001,900	\$		\$ 54,098,266
Construction in progress		40,911,020		15,270,887		15,892,466	40,289,441
	\$	93,007,386	\$	17,272,787	\$	15,892,466	\$ 94,387,707
Capital assets being depreciated							
Land Improvements	\$	22,924,108	\$	215,800	\$		\$ 23,139,908
Buildings		1,126,769,352		38,403,689			1,165,173,041
Fixed Equipment Systems		84,604,680		2,355,517			86,960,197
Equipment		359,265,763		25,658,556		4,877,126	380,047,193
Library Materials		87,084,650		3,046,980			90,131,630
	\$	1,680,648,553	\$	69,680,542	\$	4,877,126	\$ 1,745,451,969
Total Capital Assets	\$	1,773,655,939	\$	86,953,329	\$	20,769,592	1,839,839,676
Less: Accumulated Depreciation		945,211,256		74,471,578		4,596,558	1,015,086,276
Total Net Capital Assets	\$	828,444,683	\$	12,481,751	\$	16,173,034	\$ 824,753,400
HOSPITAL							
Capital assets not being depreciated							
Land	\$	19,470,486	\$		\$		\$ 19,470,486
Construction in progress		7,588,258		4,082,987		2,518,691	9,152,554
	\$	27,058,744	\$	4,082,987	\$	2,518,691	\$ 28,623,040
Capital assets being depreciated							
Land Improvements	\$	221,059	\$	119,002	\$		\$ 340,061
Buildings		816,651,384		6,050,106		(466,014)	823,167,504
Fixed Equipment Systems		10,468,853				466,014	10,002,839
Equipment		315,306,931		24,309,137		5,020,554	334,595,514
	\$	1,142,648,227	\$	30,478,245	\$	5,020,554	\$ 1,168,105,918
Total Capital Assets	\$	1,169,706,971	\$	34,561,232	\$	7,539,245	1,196,728,958
Less: Accumulated Depreciation		494,421,147		53,012,613		4,920,383	542,513,377
Total Net Capital Assets	\$	675,285,824	\$	(18,451,381)	\$	2,618,862	\$ 654,215,581
TOTAL UAB							
Capital assets not being depreciated							
Land	\$	71,566,852	\$	2,001,900	\$		\$ 73,568,752
Construction in progress		48,499,278		19,353,874		18,411,157	49,441,995
	\$	120,066,130	\$	21,355,774	\$	18,411,157	\$ 123,010,747
Capital assets being depreciated							
Land Improvements	\$	23,145,167	\$	334,802	\$		\$ 23,479,969
Buildings		1,943,420,736		44,453,795		(466,014)	1,988,340,545
Fixed Equipment Systems		95,073,533		2,355,517		466,014	96,963,036
Equipment		674,572,694		49,967,693		9,897,680	714,642,707
Library Materials		87,084,650		3,046,980			90,131,630
	\$	2,823,296,780	\$	100,158,787	\$	9,897,680	\$ 2,913,557,887
Total Capital Assets	\$	2,943,362,910	\$	121,514,561	\$	28,308,837	3,036,568,634
Less: Accumulated Depreciation		1,439,632,403		127,484,191		9,516,941	1,557,599,653
Total Net Capital Assets	\$	1,503,730,507	\$	(5,969,630)	\$	18,791,896	\$ 1,478,968,981

September 30, 2010

	BEGINNING BALANCE		ADDITIONS		SALES/RETIREMENTS/ TRANSFERS		ENDING BALANCE
UNIVERSITY AND COMPONENT UNITS							
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
	\$	74,547,487	\$	35,996,543	\$	17,536,644	\$ 93,007,386
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
	\$	1,633,641,895	\$	64,166,435	\$	17,159,777	\$ 1,680,648,553
Total Capital Assets	\$	1,708,189,382	\$	100,162,978	\$	34,696,421	\$ 1,773,655,939
Less: Accumulated Depreciation		887,963,579		72,400,493		15,152,816	945,211,256
Total Net Capital Assets	\$	820,225,803	\$	27,762,485	\$	19,543,605	\$ 828,444,683
HOSPITAL							
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
	\$	194,034,365	\$	3,574,071	\$	170,549,692	\$ 27,058,744
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
	\$	930,725,574	\$	227,604,475	\$	15,681,822	\$ 1,142,648,227
Total Capital Assets	\$	1,124,759,939	\$	231,178,546	\$	186,231,514	\$ 1,169,706,971
Less: Accumulated Depreciation		461,404,027		48,548,056		15,530,936	494,421,147
Total Net Capital Assets	\$	663,355,912	\$	182,630,490	\$	170,700,578	\$ 675,285,824
TOTAL UAB							
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
	\$	268,581,852	\$	39,570,614	\$	188,086,336	\$ 120,066,130
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
	\$	2,564,367,469	\$	291,770,910	\$	32,841,599	\$ 2,823,296,780
Total Capital Assets	\$	2,832,949,321	\$	331,341,524	\$	220,927,935	\$ 2,943,362,910
Less: Accumulated Depreciation		1,349,367,606		120,948,549		30,683,752	1,439,632,403
Total Net Capital Assets	\$	1,483,581,715	\$	210,392,975	\$	190,244,183	\$ 1,503,730,507

(8) Long-Term Debt

Long-term debt activity for the years ended September 30, 2011 and 2010 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 10 for information regarding the pledged revenues, which collateralize certain outstanding debt.

September 30, 2011

	BEGINNING BALANCE	NEW DEBT	PRINCIPAL REPAYMENT	ENDING BALANCE
UNIVERSITY				
Leases Payable for purchase of equipment, 4.55% to 5.04%, due various dates through 2013	\$ 95,503	\$ 124,850	\$ 77,891	\$ 142,462
Lease Payable Medical Advancement Foundation, variable rate interest, (3.25% at September 30,2010) due annually through 2011	19,225,000		19,225,000	
Birmingham General Revenue Bonds Series 1993B, variable rate interest(0.31% at September 30, 2011), due annually through 2014	4,200,000		1,000,000	3,200,000
Birmingham General Revenue Bonds Series 2001, 5.0% due annually through 2011	35,849,762		35,849,762	
Birmingham General Revenue Bonds Series 2002, 3.0% to 3.8%, due annually through 2014	4,575,000		1,085,000	3,490,000
Birmingham General Revenue Bonds Series 2003A, 3.4% to 4.5% due annually through 2030	57,700,000		2,515,000	55,185,000
Birmingham General Revenue Bonds Series 2005A, 4.0% to 5.0% due annually from 2007 through 2021	44,405,000		4,340,000	40,065,000
Birmingham General Revenue Bonds Series 2005B, 4.0% to 4.5% due annually through 2028	48,765,000		2,095,000	46,670,000
Birmingham General Revenue Bonds Series 2010A, 2.0% to 4.5% due annually through 2041		54,650,000		54,650,000
Birmingham General Revenue Bonds Series 2010B, 1.0% to 5.8% due annually through 2041		52,975,000		52,975,000
Birmingham General Revenue Bonds Series 2010C, 2.0% to 4.0% due annually through 2028		32,902,942		32,902,942
	\$ 214,815,265	\$ 140,652,792	\$ 66,187,653	\$ 289,280,404
Less (Plus): unamortized bond discount (premium)				(1,263,203)
TOTAL UNIVERSITY DEBT				\$ 290,543,607
Less: current portion				15,219,892
TOTAL UNIVERSITY DEBT, NONCURRENT				\$ 275,323,715
HOSPITAL				
Lease Payable, 3.75% due monthly through 2020	\$ 4,971,206	\$	\$ 636,516	\$ 4,334,690
Birmingham General Revenue Bonds Series 2001, 5.0% due annually through 2011	1,850,238		1,850,238	
Birmingham Hospital Revenue Bonds Series 2004A, 5.0% due annually through 2014	19,375,000		4,500,000	14,875,000
Birmingham Hospital Revenue Bonds Series 2006A, 4.0% due annually through 2041	243,840,000		865,000	242,975,000
Highlands Bonds Series 2007A, variable rate interest (0.91% at September 30, 2011) due annually through 2013	40,000,000			40,000,000
Birmingham Hospital Revenue Bonds Series 2008A, 4% to 5.75% due annually through 2025	104,530,000		1,700,000	102,830,000
Birmingham Hospital Revenue Bonds Series 2008B, variable interest rate (0.22% at September 30, 2011), due annually through 2031	109,930,000			109,930,000
Birmingham General Revenue Bonds Series 2010C, 2.0% to 4.0% due annually through 2018		1,647,058		1,647,058
	\$ 524,496,444	\$ 1,647,058	\$ 9,551,754	\$ 516,591,748
Less (Plus): unamortized bond discount (premium)				8,639,290
TOTAL HOSPITAL DEBT				\$ 507,952,458
Less: current portion				8,205,813
TOTAL HOSPITAL DEBT, NONCURRENT				\$ 499,746,645
COMPONENT UNITS				
Leases Payable for purchase of equipment, 3.68% to 5.45%, due various dates through 2010	\$ 49,502	\$	\$ 49,502	\$
Recovery Zone Facility Bonds held by BBVA Compass, variable interest rate tied to LIBOR for initial 7-year term starting August 30, 2010		20,000,000		20,000,000
	\$ 49,502	\$ 20,000,000	\$ 49,502	\$ 20,000,000
Less (Plus): unamortized bond discount (premium)				
TOTAL COMPONENT UNITS DEBT				\$ 20,000,000
Less: current portion				\$ 120,000
TOTAL COMPONENT UNITS DEBT, NONCURRENT				\$ 19,880,000
TOTAL UAB	\$ 739,361,211	\$ 162,299,850	\$ 75,788,909	\$ 825,872,152
Less (Plus): unamortized bond discount (premium)				7,376,087
TOTAL UAB DEBT				\$ 818,496,065
Less: current portion				23,545,705
TOTAL UAB DEBT, NONCURRENT				\$ 794,950,360

September 30, 2010

	BEGINNING BALANCE	NEW DEBT	PRINCIPAL REPAYMENT	ENDING BALANCE
UNIVERSITY				
Leases Payable for purchase of equipment, 4.55% to 5.04%, due various dates through 2013	\$ 95,652	\$ 108,515	\$ 108,664	\$ 95,503
Lease Payable Medical Advancement Foundation, variable rate interest, (3.25% at September 30, 2010) due annually through 2030	19,225,000			19,225,000
Birmingham General Revenue Bonds Series 1993B, variable rate interest(0.26% at September 30, 2010), 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 2014	5,625,000		1,050,000	4,575,000
Birmingham General Revenue Bonds Series 2003A, 3.4% to 4.5% due annually through 2030	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% due annually through 2021	48,610,000		4,205,000	44,405,000
Birmingham General Revenue Bonds Series 2005B, 4.0% to 4.5% due annually through 2028	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
TOTAL UNIVERSITY DEBT				\$ 214,367,346
Less: current portion				14,638,234
TOTAL UNIVERSITY DEBT, NONCURRENT				\$ 199,729,112
HOSPITAL				
Lease Payable, 3.75% due monthly through 2020	\$ 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 Series 2007A, variable rate interest (1.02% at September 30, 2010) due annually through 2013	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 (1.08% at September 30, 2010), 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
TOTAL HOSPITAL DEBT				\$ 515,294,846
Less: current portion				7,896,026
TOTAL HOSPITAL DEBT, NONCURRENT				\$ 507,398,820
COMPONENT UNITS				
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				
TOTAL COMPONENT UNITS DEBT				\$ 49,502
Less: current portion				\$ 49,502
TOTAL COMPONENT UNITS DEBT, NONCURRENT				\$
TOTAL UAB	\$ 763,275,467	\$ 108,515	\$ 24,022,771	\$ 739,361,211
Less: unamortized bond discount				9,649,517
TOTAL UAB DEBT				\$ 729,711,694
Less: current portion				22,583,762
TOTAL UAB DEBT, NONCURRENT				\$ 707,127,932

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.

UNIVERSITY				
YEAR	PRINCIPAL	INTEREST	TOTAL	
2012	\$ 15,219,891	\$ 11,941,036	\$ 27,160,927	
2013	15,522,349	11,425,802	26,948,151	
2014	16,010,935	10,890,705	26,901,640	
2015	16,191,218	10,328,226	26,519,444	
2016	16,817,454	9,637,491	26,454,945	
2017-2021	73,433,558	38,275,171	111,708,729	
2022-2026	56,795,000	24,563,620	81,358,620	
2027-2031	39,020,000	13,960,343	52,980,343	
2032-2036	17,625,000	8,225,891	25,850,891	
2037-2041	22,645,000	3,074,650	25,719,650	
TOTAL UNIVERSITY	\$ 289,280,405	\$ 142,322,935	\$ 431,603,340	
HOSPITAL				
YEAR	PRINCIPAL	INTEREST	TOTAL	
2012	\$ 8,205,813	\$ 19,131,189	\$ 27,337,002	
2013	48,585,757	18,388,927	66,974,684	
2014	8,985,512	17,989,457	26,974,969	
2015	9,396,281	17,578,711	26,974,992	
2016	9,841,520	17,130,336	26,971,856	
2017-2021	54,706,865	77,936,893	132,643,758	
2022-2026	69,895,000	62,072,261	131,967,261	
2027-2031	85,820,000	56,070,089	141,890,089	
2032-2036	97,155,000	46,046,500	143,201,500	
2037-2041	124,000,000	19,204,250	143,204,250	
TOTAL HOSPITAL	\$ 516,591,748	\$ 351,548,613	\$ 868,140,361	
COMPONENT UNITS				
YEAR	PRINCIPAL	INTEREST	TOTAL	
2012	\$ 120,000	\$ 249,336	\$ 369,336	
2013	480,000	259,512	739,512	
2014	480,000	253,176	733,176	
2015	480,000	246,840	726,840	
2016	550,000	240,273	790,273	
2017	17,890,000	401,709	18,291,709	
TOTAL COMPONENT UNITS	\$ 20,000,000	\$ 1,650,846	\$ 21,650,846	
TOTAL UAB				
YEAR	PRINCIPAL	INTEREST	TOTAL	
2012	\$ 23,545,705	\$ 31,325,807	\$ 54,871,513	
2013	64,588,105	30,072,042	94,660,146	
2014	25,476,447	29,131,097	54,607,545	
2015	26,067,499	28,149,202	54,216,701	
2016	27,208,973	27,002,161	54,211,134	
2017-2021	146,030,423	116,600,987	262,631,410	
2022-2026	126,690,000	86,635,881	213,325,881	
2027-2031	124,840,000	70,030,432	194,870,432	
2032-2036	114,780,000	54,272,391	169,052,391	
2037-2041	146,645,000	22,278,900	168,923,900	
TOTAL UAB	\$ 825,872,152	\$ 495,498,899	\$ 1,321,371,052	

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, 2011 and 2010. The principal outstanding on the defeased indebtedness at September 30, 2011 and 2010, respectively, was approximately \$35,055,000 and \$0 (\$33,382,876 and \$0 related to University and \$1,672,124 and \$0 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, 2011 and 2010. No bonds were tendered and no amounts were outstanding under the LOC as of September 30, 2011 and 2010.

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.

In August 2010, SRI issued \$20,000,000 in Recovery Zone Facility Bonds. The bonds are held by BBVA Compass for an initial term of seven years and bear interest at a variable rate, tied to LIBOR. The bonds can be extended with maturities up to September 1, 2036 and, if renewed, would amortize over this period. The bond proceeds will be used primarily for upgrades to SRI's laboratory facilities and equipment.

UAB's general revenue bonds and the Hospital Series 2004A, 2006A, 2008A and 2008B Revenue Trust Indentures contain certain restrictive financial covenants. UAB's management believes that it was in compliance with respect to these covenants at September 30, 2011 and 2010.

(9) Other Noncurrent Liabilities

The activity with respect to other noncurrent liabilities not presented as part of Note 19 for the year ended September 30, 2011 and 2010, is as follows for UAB:

September 30, 2011

	BEGINNING BALANCE	ADDITIONS	DEDUCTIONS	ENDING BALANCE
Advances federal loans	\$ 15,912,319	\$ 307,550	\$ (794,416)	\$ 15,425,453
Deferred revenue	12,934,483	1,850,134	(206,836)	14,577,781
Other noncurrent liabilities	592,390	386,160	(16,400)	962,150
Total advances federal loans and other noncurrent liabilities	\$ 29,439,192	\$ 2,543,844	\$ (1,017,652)	\$ 30,965,384

September 30, 2010

	BEGINNING BALANCE	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
Total advances federal loans and other noncurrent liabilities	\$ 30,719,441	\$ 576,363	\$ (1,856,612)	\$ 29,439,192

(10) Pledged Revenues

Pledged revenues for 2011 and 2010, as defined by the Series 2000A, 2000B, 2000C, 2000D, 2004A, 2008A and 2008B Hospital Revenue Trust Indentures, are as follows:

HOSPITAL BONDS	2011	2010
Total pledged revenues	\$ 1,126,629,898	\$ 1,038,762,489

Pledged revenues for 2011 and 2010, as defined by the Series 1993B, 2001, 2002, 2003A, 2003B, 2005A, 2005B, 2010A, 2010B and 2010C General Revenue Trust Indentures, are as follows:

UNIVERSITY BONDS	2011	2010
Tuition fees	\$ 161,719,588	\$ 139,441,181
Indirect cost recovery	91,802,288	88,532,679
Sales and service of educational activities	53,034,123	49,681,864
Auxiliary sales and service	20,211,806	19,565,363
Endowment and investment income	34,144,703	39,051,939
Other sources	30,826,011	51,035,952
TOTAL PLEDGED REVENUES	\$ 391,738,519	\$ 387,308,978

(11) 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 2011, 2010, and 2009, respectively, were approximately \$134,826,000, \$127,433,000, and \$124,574,000, which consisted of \$96,297,000, \$91,017,000, and \$88,060,000 from UAB and \$38,529,000, \$36,416,000, and \$36,514,000 from employees. UAB's contribution was 12.51%, 12.51%, and 12.07% of salaries and wages for covered employees in 2011, 2010, and 2009, 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 compensation. 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, 2011, 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 2011 and 2010, respectively, excluding employee amounts not eligible for matching, were approximately \$30,444,000 and \$29,676,000 which included approximately \$15,222,000 and \$14,838,000 each from UAB and its employees.

UAB's total salaries and wages for fiscal year 2011 and 2010, respectively, were approximately \$887,356,000 and \$838,331,000. Total salaries and wages during fiscal years 2011 and 2010 for covered employees participating in TRS were approximately \$769,758,000 and \$727,552,000, respectively. Total salaries and wages during fiscal years 2011 and 2010 for covered employees participating in the 403(b) Plan were approximately \$316,527,000 and \$308,388,000, 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, 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 \$40,092,000 and \$40,316,000 as of September 30, 2011 and 2010, 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.

(12) 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.

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, 2011 and 2010, respectively:

Retired Member Rates

- Individual Coverage/Non-Medicare Eligible - \$146 and \$97.54
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$381 and \$284.94
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$245 and \$188.54
- Individual Coverage/Medicare Eligible Retired Member - \$10 and \$1.14
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$245 and \$188.54
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109 and \$92.14

The required contribution rates of the employer were \$420 and \$382 per employee per month in the years ended September 30, 2011 and 2010, respectively. 100% of 2011 and 2010 contributions were paid in 2011 and 2010, respectively. UAB contributed \$18,039,089 and \$15,631,863 to PEEHIP in 2011 and 2010, 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, *Accounting and Financial Reporting by Employers for*

Postemployment Benefits Other Than Pensions, UAB accrued an additional \$3,259,078 and \$1,831,625 in retiree healthcare and benefit expense during the years ended September 30, 2011 and 2010, 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, 2011 and 2010 is as follows:

	2011	2010	2009
Annual required contribution	\$ 6,539,591	\$ 5,887,768	\$ 6,286,225
Interest on obligations for retiree benefits	560,001	372,327	174,429
Adjustment to annual required contribution	(367,986)	(261,789)	(114,620)
Annual retiree benefit costs	6,731,606	5,998,306	6,346,034
UAB Contributions	(3,472,528)	(4,166,681)	(3,518,915)
Increase in obligations for retiree benefits	3,259,078	1,831,625	2,827,119
Obligations for retiree benefits, beginning of year	7,150,589	5,318,964	2,491,845
Total obligations for retiree benefits, end of year	\$ 10,409,667	\$ 7,150,589	\$ 5,318,964

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, 2011 and 2010 are as follows:

	2011	2010	2009
Annual retiree benefit cost	\$ 6,731,606	\$ 5,998,306	\$ 6,346,034
Percentage of annual cost contributed	51.6%	69.5%	55.5%
Net obligation to the retiree benefit plan	\$ 10,409,667	\$ 7,150,589	\$ 5,318,964

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, 2009 and 2010 was as follows:

	2011	2010	2009
Actuarial accrued liability	\$ 52,061,639	\$ 51,649,871	\$ 53,920,021
Actuarial value of plan assets			
Unfunded actuarial accrued liability	\$ 52,061,639	\$ 51,649,871	\$ 53,920,021
Funded ratio	Zero	Zero	Zero
Covered payroll	\$ 887,356,263	\$ 838,331,004	\$ 838,658,508
Unfunded actuarial accrued liability as a percentage of covered payroll	5.87%	6.16%	6.43%

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 7.8% and 8% for the years ended September 30, 2011 and September 30, 2010, respectively, 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.

(13) Federal Direct Student Loan Program

The Federal Direct Student Loan Program (FDSLP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the university rather than through private lenders. UAB began participation in the FDSLP 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, 2011 and 2010, respectively, UAB disbursed approximately \$126,454,000 and \$116,666,000 under the FDSLP.

(14) Grants and Contracts

At September 30, 2011 and 2010, UAB had been awarded approximately \$356,004,000 (unaudited) and \$392,695,000 (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, 2011 and 2010, UAB had been awarded approximately \$30,346,000 (unaudited) and \$63,420,000 (unaudited) in ARRA funding which had not been expended. These awards have not been reflected in the financial statements.

(15) 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 27% and 24% of the Hospital's net patient service revenue for the years ended September 30, 2011 and 2010, 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 33% and 31% of the Hospital's net patient service revenue for each of the years ended September 30, 2011 and 2010, respectively.

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 supplemental 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 \$46,390,000 and \$44,335,000 in 2011 and 2010, 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% of the Hospital's net patient service revenue for each of the years ended September 30, 2011 and 2010.

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:

	2011	2010
Gross Patient Service Revenue	\$ 3,752,515,964	\$ 3,381,023,418
Less provision for contractual and other adjustments	(2,575,163,689)	(2,322,719,449)
Less provision Bad Debts	(196,167,535)	(171,617,926)
Net Patient Service Revenue	\$ 981,184,740	\$ 886,686,043
Capitation Revenue	57,684,083	56,690,545
Other Operating Revenue	77,002,487	67,304,208
TOTAL HOSPITAL SALES REVENUE	\$ 1,115,871,310	\$ 1,010,680,796

(16) 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, 2011 and 2010:

	2011	2010
Approximate charges forgone, based on established rates	\$ 178,531,000	\$ 210,158,000
Percentage of charity charges to total charges	4.8%	6.2%

(17) 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, 2011 and 2010 follows:

	2011	2010
Other	41%	39%
Medicare	21	19
Blue Cross	28	32
Medicaid	10	10
	100%	100%

(18) Construction Commitments and Financing

UAB has contracted for the construction and renovation of several facilities. At September 30, 2011 and 2010, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$117,151,000 (unaudited) and \$68,621,000 (unaudited), respectively, which is expected to be financed from private gifts, grants, bond proceeds, and UAB reserves.

(19) 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 cov-

ers 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 2011 and 2010 was 2%. The associated risks of claims are subject to aggregate limits, with excess 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, 2011 and 2010, the liquid assets of the PLTF, as defined by the agreement, were in compliance with the agreement.

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 2011 and 2010.

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, 2011 and 2010 are presented as follows for UAB:

SELF INSURED LIABILITIES	2011	2010
Balance, beginning of year	\$ 9,308,638	\$ 14,852,161
Claims incurred and changes in estimates	66,937,421	55,696,904
Claim payments	(66,590,187)	(61,240,427)
BALANCE, END OF YEAR	\$ 9,655,872	\$ 9,308,638

(20) 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 19). 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. However, the settlement of legal actions is subject to inherent uncertainties and it is possible that such outcomes could differ materially from management's current expectations.

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 decommission-

ing costs. While the actual costs of remediation and decommissioning may vary from management's estimates because of these uncertainties, SRI has accrued \$144,000 at September 30, 2011 and \$161,000 at September 30, 2010, 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 \$4,800,000 during 2011 and \$3,100,000 during 2010, 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. The agreement has not been funded as of January 6th, 2012.

In addition, in November 2009, UABRF (on 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. The joint venture has not been funded as of January 6th, 2012.

(21) Operating Expenses by Function

Total operating expenses by functional classification for the years ended September 30, 2011 and 2010 are as follow for UAB:

September 30, 2011	SALARIES, WAGES, AND BENEFITS	SUPPLIES AND SERVICES	DEPRECIATION AND AMORTIZATION	SCHOLARSHIPS AND FELLOWSHIPS	TOTAL
Instruction	\$ 215,817,141	\$ 26,904,589			\$ 242,721,730
Research	211,942,373	125,798,574			337,740,947
Public service	46,136,525	34,997,551			81,134,076
Academic support	126,778,682	388,425,938			515,204,620
Student services	13,414,199	6,840,424			20,254,623
Institutional support	53,867,608	30,374,459			84,242,067
Operations and maintenance of plant	26,919,540	28,221,105			55,140,645
Scholarships and fellowships				\$ 19,012,364	19,012,364
Hospital	515,488,038	447,793,062			963,281,100
Auxiliary	16,365,653	17,213,464			33,579,117
Depreciation			\$ 127,748,781		127,748,781
TOTAL OPERATING EXPENSES	\$ 1,226,729,759	\$ 1,106,569,166	\$ 127,748,781	\$ 19,012,364	\$ 2,480,060,070

September 30, 2010	SALARIES, WAGES, AND BENEFITS	SUPPLIES AND SERVICES	DEPRECIATION AND AMORTIZATION	SCHOLARSHIPS AND FELLOWSHIPS	TOTAL
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
TOTAL OPERATING EXPENSES	\$ 1,185,398,724	\$ 978,817,716	\$ 121,398,525	\$ 21,380,767	\$ 2,306,995,732

(22) 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, 2011 and 2010 is as follows:

UNIVERSITY	2011	2010
CONDENSED STATEMENT OF NET ASSETS		
Current assets	\$ 386,904,874	\$ 362,338,366
Capital assets, net	765,965,497	770,157,878
Other assets	645,604,331	575,020,600
TOTAL ASSETS	\$ 1,798,474,702	\$ 1,707,516,844
Current liabilities	\$ 189,183,060	\$ 198,261,931
Long-term debt	275,323,715	199,729,112
Other noncurrent liabilities	15,425,453	15,912,319
TOTAL LIABILITIES	\$ 479,932,228	\$ 413,903,362
Invested in capital net of related debt	\$ 549,858,206	\$ 556,597,895
Restricted nonexpendable	227,892,270	232,983,582
Restricted expendable	174,373,059	168,263,632
Unrestricted	366,418,939	335,786,373
TOTAL NET ASSETS	\$ 1,318,542,474	\$ 1,293,613,482
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
Tuition and fees, net	\$ 115,886,758	\$ 99,073,136
Grant and contract revenue	434,244,970	410,040,016
Sales and services, auxiliary	20,211,806	19,565,363
Other operating revenues	83,860,134	100,717,821
Salaries, wages, and benefits	(648,503,741)	(634,523,561)
Supplies and services	(268,142,906)	(244,278,053)
Depreciation expense	(67,964,828)	(66,353,724)
Scholarships and fellowships	(19,012,364)	(21,380,767)
OPERATING LOSS	\$ (349,420,171)	\$ (337,139,769)
State appropriations	\$ 221,566,438	\$ 223,339,515
Investment income (loss)	332,402	39,051,939
Interest expense	(8,369,601)	(11,423,547)
Gifts	28,570,266	32,499,624
Other nonoperating revenues(expenses)	46,705,699	40,402,426
(LOSS) BEFORE OTHER CHANGES IN NET ASSETS	\$ (60,614,967)	\$ (13,269,812)
Capital gifts	\$ 7,215	\$ 3,833,365
Endowment gifts	9,561,889	6,680,465
Other	16,824,832	28,126,940
Intergovernmental transfers	59,150,023	51,801,614
INCREASE (DECREASE) IN NET ASSETS	\$ 24,928,992	\$ 77,172,572
Net assets, beginning of year	\$ 1,293,613,482	\$ 1,216,440,910
NET ASSETS, END OF YEAR	\$ 1,318,542,474	\$ 1,293,613,482
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided by (used in):		
Operating activities	\$ (292,091,526)	\$ (268,672,258)
Noncapital financing activities	369,568,997	350,312,934
Capital and related financing activities	24,315,590	(67,188,399)
Investing activities	(46,793,258)	(17,901,918)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 54,999,803	\$ (3,449,641)
Cash and cash equivalents, beginning of year	\$ 105,675,729	\$ 109,125,370
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 160,675,532	\$ 105,675,729

HOSPITAL	2011	2010
CONDENSED STATEMENT OF NET ASSETS		
Current assets	\$ 249,235,776	\$ 215,925,506
Capital assets, net	654,215,581	675,285,824
Other assets	480,271,156	468,849,456
TOTAL ASSETS	\$ 1,383,722,513	\$ 1,360,060,786
Current liabilities	\$ 70,338,159	\$ 86,941,586
Long-term debt	499,746,645	507,398,820
Other noncurrent liabilities	14,577,780	12,934,483
TOTAL LIABILITIES	\$ 584,662,584	607,274,889
Invested in capital net of related debt	\$ 146,263,124	\$ 168,165,899
Restricted nonexpendable	128,099	128,099
Restricted expendable	25,207,841	27,041,297
Unrestricted	627,460,865	557,450,602
TOTAL NET ASSETS	\$ 799,059,929	752,785,897
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
Operating revenues	\$ 1,109,666,682	1,010,680,796
Operating expenses	(963,281,100)	(901,484,384)
Depreciation expense	(53,012,613)	(48,548,056)
OPERATING INCOME	\$ 93,372,969	60,648,356
State appropriations	32,722,101	32,851,072
Investment Income	(11,701,057)	28,951,681
Interest Expense	(21,186,386)	(20,226,154)
Gifts	328,209	280,463
Other Nonoperating revenues (expenses)	3,207,397	2,127,285
INCOME BEFORE OTHER CHANGES IN NET ASSETS	\$ 96,743,233	104,632,703
Capital gifts	\$ 527,011	104,379
Other	(194,446)	14,926,739
Intergovernmental transfers	(50,801,766)	(46,774,284)
INCREASE IN NET ASSETS	\$ 46,274,032	72,889,537
Net assets, beginning of year	\$ 752,785,897	679,896,360
NET ASSETS, END OF YEAR	\$ 799,059,929	752,785,897
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided by (used in):		
Operating activities	\$ 117,016,207	\$ 107,374,410
Noncapital financing activities	(14,449,718)	(13,531,107)
Capital and related financing activities	(79,371,658)	(74,786,114)
Investing activities	(59,228,024)	664,241
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ (36,033,193)	\$ 19,721,430
Cash and cash equivalents, beginning of year	88,438,595	68,717,165
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 52,405,402	\$ 88,438,595

(23) Recently Issued Pronouncements

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 did not have a material impact on UAB's financial statements.

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

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, 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 Discus-*

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

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

The University of Alabama at Birmingham
Required Supplementary Information
September 30, 2011 and 2010

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 7.8% and 8% for the years ended September 30, 2011 and 2010, respectively, 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, 2010	None	\$ 52,061,639	\$ (52,061,639)	Zero	\$ 887,356,263	-5.9%
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%

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As of September 30, 2011



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