



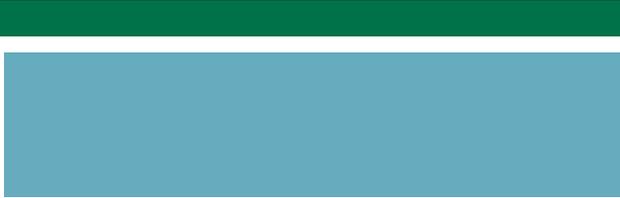
# 2012 Financial Report

The University of Alabama at Birmingham



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

This report is published by the UAB  
Vice President for Financial Affairs and Administration.  
Obtain additional copies by writing:  
Vice President for Financial Affairs and Administration  
The University of Alabama at Birmingham  
Birmingham, Alabama 35294



# Contents

## 2 Introduction to UAB

Overview/Vision/Mission

Highlights

Student Profile

Student Financial Aid

Student Headcount

Faculty Profile

Staff Profile

State Appropriations

Sponsored Grants and Contracts

Hospital

## 12 Financial Statements

Management's Responsibility for

Financial Reporting

Report of Independent Auditors

Management's Discussion and Analysis

Statements of Net Assets

Statements of Revenues, Expenses,  
and Changes in Net Assets

Statements of Cash Flows

Notes to Financial Statements

## 56 UAB Administration

## 57 The Board of Trustees of

The University of Alabama

# 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 decades since, has grown into a world-renowned research university and medical center, occupying 86 city blocks in Alabama's largest metropolitan area.

UAB is the state's largest single-site employer with more than 23,000 employees. The university has seen record enrollment for four consecutive years, with the total reaching a high of 17,999 students in fall 2012, and is recognized among the top 100 universities in the world for life sciences (Academic Ranking of World Universities 2012). The Princeton Review has ranked UAB among the 10 universities nationally for diversity for four consecutive years.

UAB attracted more than \$503 million in research funding in FY2011 and currently ranks 32nd nationally in federal research funding and 20th in funding from the National Institutes of Health. Researchers and physicians continue earning prestigious national honors in their fields, including inductions into the National Academy of Sciences and the National Institute of Medicine, and are serving in top national posts—UAB is currently home to the president of the American Heart Association, president of the National Society for Gynecologic Cancer, and immediate past president of the American Cancer Society.

Faculty research in the College of Arts and Sciences has been the subject of major prime-time documentaries on national and international media over the past year, including Discovery Channel, NPR, NBC, and BBC.

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

The information included in this introduction (pages 2-11) does not include data related to component units of UAB that are discussed in the notes to the financial statements.

## 2012 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 (23 straight years as of 2012) of U.S. News & World Report's "America's Best Hospitals," which recognizes only three percent of hospitals nationwide, and ranks first locally for patient satisfaction in HHS surveys.

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. Through its new Cancer Care Network, UAB is bringing quality, patient-centered cancer care to 10 affiliate community hospitals across Alabama, Mississippi, Georgia, Tennessee and Florida. UAB is also leading efforts to make cancer care more affordable, by way of a \$15 million Health Care Innovation Challenge Grant that will create a national model for reducing the cost of cancer care.

Students are active participants in a robust research enterprise beginning in their freshman year. UAB was among only 11

universities nationally in 2012 to receive the coveted Beckman Award, given to universities that have demonstrated exceptional mentoring and training of undergraduate researchers.

Graduate programs also continue to garner national recognition. In the latest U.S. News & World Report “Best Graduate Schools” issue, UAB has 14 programs in the top 25 and four in the top 10, including its master’s in health administration that ranks fifth in the nation.

The Scientist online magazine ranks UAB first nationally among public universities in its “Best Places to Work as a Postdoctoral Fellow.”

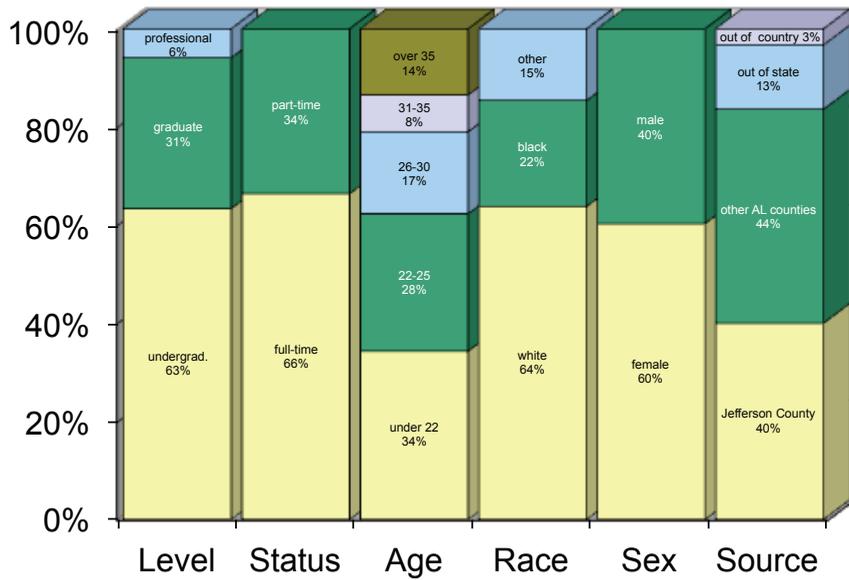
Students continue to earn prestigious national honors and scholarships: In 2012, UAB students won, among other awards, a Rhodes Scholarship; two Goldwater Scholarships (making 11 in the past three years); two U.S. State department Critical Languages Scholarships; two United Negro College Fund/Merck Research Scholarships (of only 15 awarded nationally); and a National Science Foundation Graduate Fellowship.

Civic engagement is key in UAB’s academic programs and its acclaimed Honors College. UAB is among 51 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.

UAB has an economic impact on Alabama that now exceeds \$5 billion annually (projected to reach \$6.6 billion within eight years) and supports more than 61,000 jobs state-wide—that’s one of every 33 jobs. For every dollar invested by the state, UAB returns \$20. The Innovation Depot, in which UAB is a founding partner, is the largest business incubator in the Southeast, with 92 start-up companies, 500 employees and a \$1.4 billion sales impact over the past five years.



# Highlights



Excludes Advanced Professionals

## Student Profile

Total 17,575  
As of Fall 2011

## Student Financial Aid

In fiscal year 2012, 68.6% of UAB's students received student financial aid from UAB. Financial aid disbursements of \$201.0 million were provided from the following sources:

Federal Government	
Student Loans	\$ 132,334,273
Grants	17,722,021
Work-Study	<u>1,420,089</u>
Subtotal Federal	\$ 151,476,383
State Government	\$ 272,573
University	
Loans	\$ 559,853
Scholarships	<u>48,651,829</u>
Subtotal University	\$ 49,211,682
Total	\$ <u>200,960,638</u>



## Student Headcount

Enrollment for the fall semester of the 2011-2012 school year is outlined in the table at right.

FALL 2011				
	UNDERGRADUATE	GRADUATE	FIRST PROFESSIONAL / ADVANCED PROFESSIONAL*	TOTAL
SCHOOL OF ARTS AND SCIENCES	4,589	541	11	5,141
SCHOOL OF BUSINESS	1,675	361		2,036
SCHOOL OF EDUCATION	975	839		1,814
SCHOOL OF ENGINEERING	858	382	2	1,242
UNCLASSIFIED	1,493	271		1,764
<b>SUBTOTAL</b>	<b>9,590</b>	<b>2,394</b>	<b>13</b>	<b>11,997</b>
<b>ADACEMIC HEALTH CENTER:</b>				
SCHOOL OF MEDICINE			1,678	1,678
SCHOOL OF DENTISTRY	25	2	333	360
SCHOOL OF OPTOMETRY		23	189	212
SCHOOL OF NURSING	546	1,334	1	1,881
SCHOOL OF HEALTH PROFESSIONS	967	940	11	1,918
SCHOOL OF PUBLIC HEALTH		310	22	332
JOINT HEALTH SCIENCES		399		399
<b>SUBTOTAL, ACADEMIC HEALTH CENTER</b>	<b>1,538</b>	<b>3,008</b>	<b>2,234</b>	<b>6,780</b>
<b>TOTAL ENROLLMENT</b>	<b>11,128</b>	<b>5,402</b>	<b>2,247</b>	<b>18,777</b>

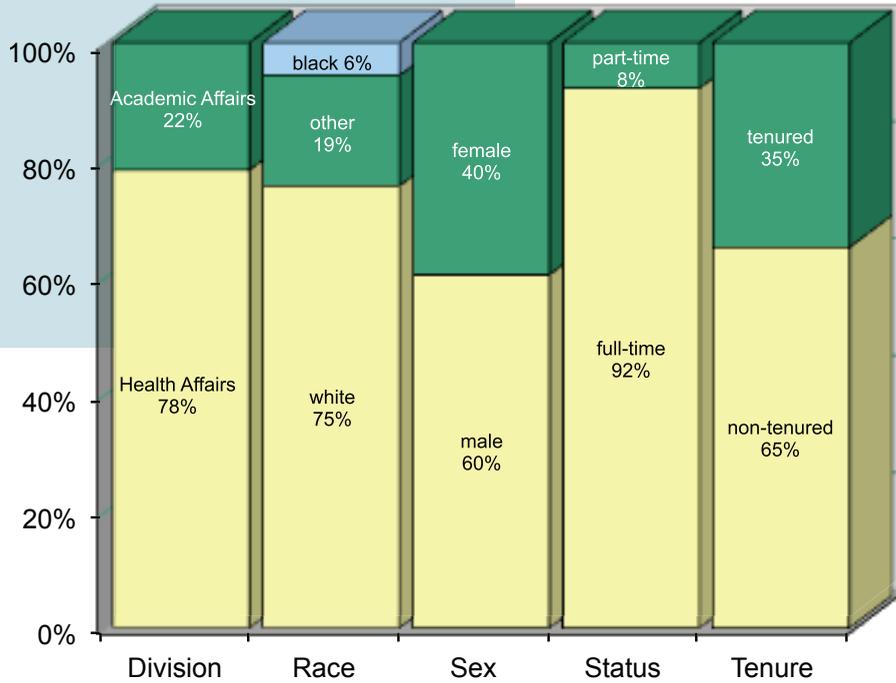
\*Includes 1,045 first professionals and 1,202 advanced professionals.



## Faculty Profile

Total 2,289

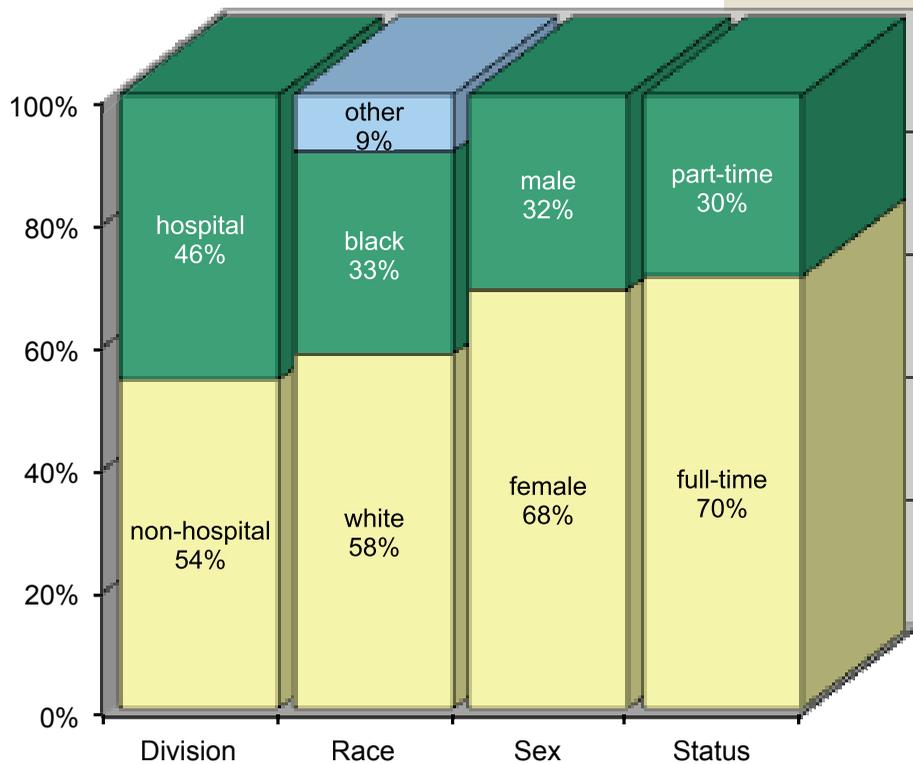
As of Fall 2011



## Staff Profile

Total 16,695

As of Fall 2011



# State Appropriations

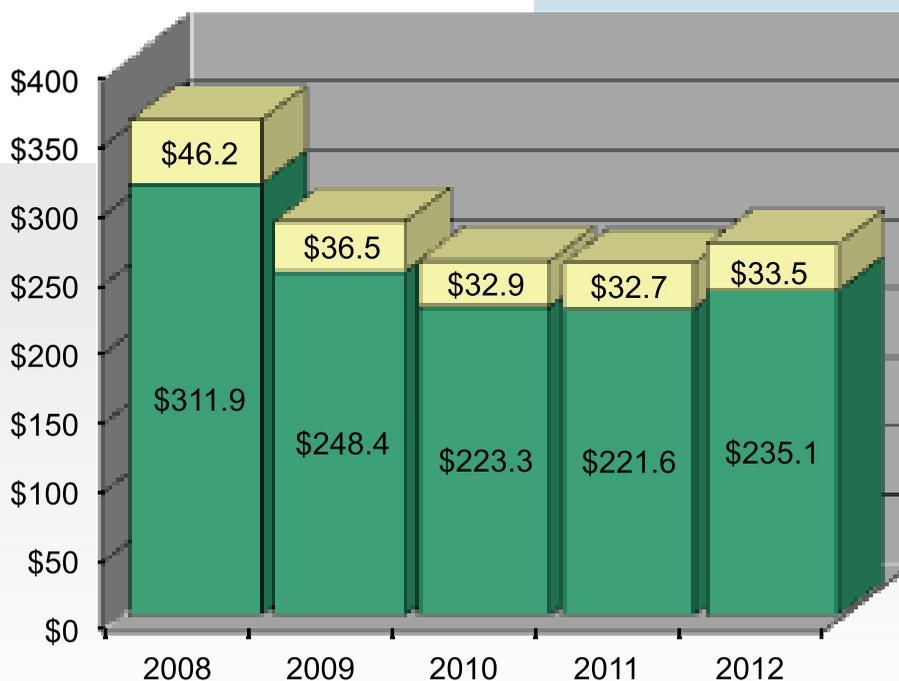
The State appropriations for UAB are made by the Alabama State Legislature based upon a process which involves requests from the Board of Trustees of The University of Alabama, and budget recommendations by the Alabama Commission on Higher Education and the Governor. State funds are appropriated annually from the Educational Trust Fund (ETF) to UAB. For the fiscal year ended September 30, 2012, UAB received direct funding from the ETF in the amount of \$268,640,355. In addition, for the fiscal year ended September 30, 2012, UAB received \$534,136 of State Fiscal Stabilization Funds.

## Appropriations Received

Fiscal years ended September 30

(Dollars in millions)

■ University   ■ Hospital



# Sponsored Grants and Contracts

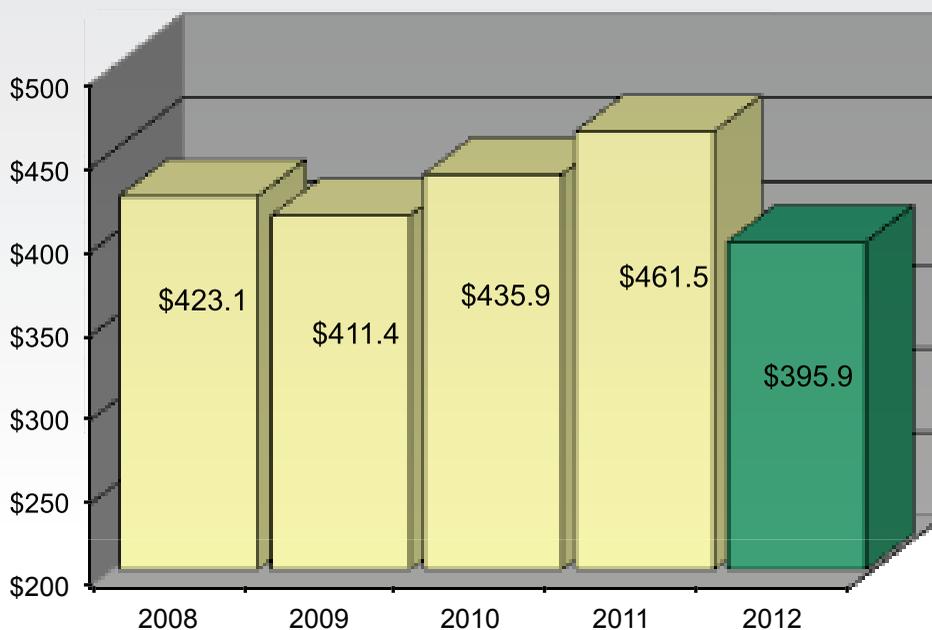
During fiscal year 2012, UAB received \$395.9 million in sponsored grants and contracts revenues (including \$80.9 million of indirect cost recovery). Various federal agencies provided the majority of support for these projects, with the National Institutes of Health (NIH) being the primary sponsor. 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) decreased from \$461.5 million during 2011 to \$395.9 million during 2012, a decrease of 14% for the period. Federal funding under the American Recovery and Reinvestment Act (ARRA) greatly decreased during 2012 and is the primary cause of this change for the period.

## Grants and Contracts Revenues

Fiscal years ended September 30

(Dollars in millions)



## Hospital

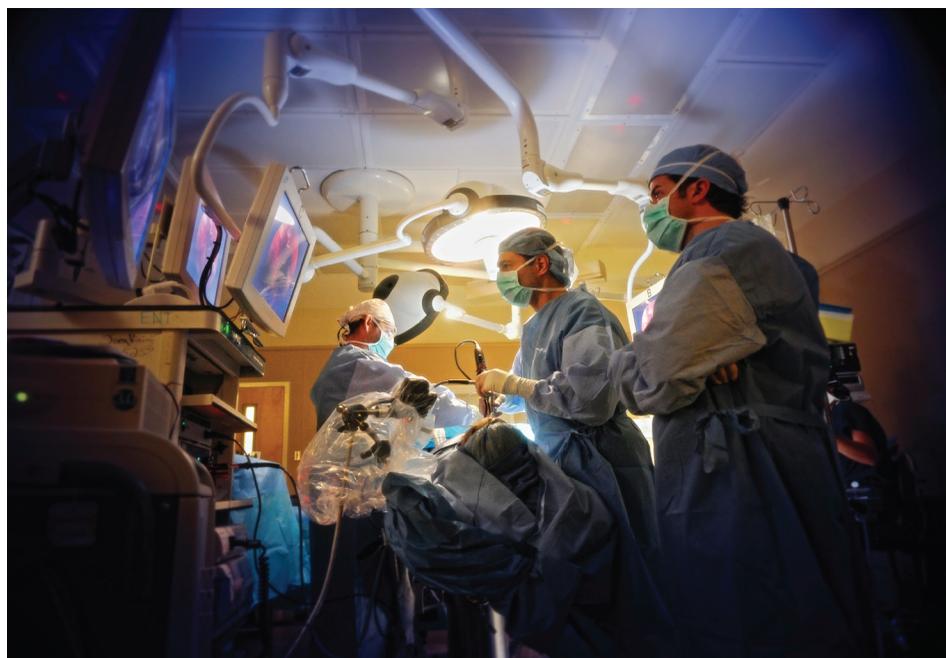
The University of Alabama Hospital (the "Hospital") is a 1,157-bed quaternary and tertiary care medical facility and part of the UAB Health System. The Hospital includes North Pavilion, Women and Infant Center, Jefferson Tower, Hillman Building, Spain Wallace Building, Quarterback Tower, North Wing, 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 and Children's 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).

## Hospital Awards and Accolades

Four UAB Medicine 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 2012-13 annual "America's Best Hospitals" special edition issue. In the 2012 annual peer review survey, 325 UAB Medicine physicians were listed as "Best Doctors" in America. UAB 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. UAB Hospital was the first hospital in Alabama to earn Magnet status and is the only hospital in the state currently holding the designation. In July 2012, the Hospital underwent its triennial survey by the Joint Commission. The Hospital was granted full accreditation for another three years.

## Operations

The Hospital has continued to experience strong growth from operations in fiscal year 2012. Inpatient discharges increased 1.5% with an increase in adjusted patient discharges of 2.1%. Emergency room visits increased 6.7% during fiscal year 2012. As a result of volume increases, as well as contract improvements and ongoing revenue cycle improvements, patient service revenue net of allowances for contractual discounts, charity care and bad debt expense, increased \$74 million or 7.5% in fiscal year 2012. The Hospital had an increase in net assets of \$57 million in fiscal year 2012.



Selected Hospital operating statistics are outlined below:

	2012	2011
Beds in service	1,157	1,157
Patient discharges	48,090	47,383
Adjusted patient discharges	68,205	66,781
Patient days	317,534	304,257
Adjusted patient days	450,422	428,918
Operating room cases	32,605	32,909
Emergency department visits	83,467	78,225
Patient origin:		
Jefferson County	46.5%	45.5%
Other Alabama counties	47.3%	47.9%
Out of state	6.2%	6.6%



# Management's Responsibility for Financial Reporting

The accompanying financial statements of the University of Alabama at Birmingham (UAB) for the years ended September 30, 2012 and 2011, 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 report 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 ("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, 2012 and 2011, and the respective changes in financial position and 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 2012, we did not audit the financial statements of Southern Research Institute, which statements collectively represent 5%, 5%, and 3%, respectively, of the assets, net assets, and revenues of UAB at September 30, 2012 and for the year then ended. 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. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to amounts included for Southern Research Institute for fiscal year 2012 and 2011, 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, 2012 and 2011, 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 accompanying management's discussion and analysis for the years ended September 30, 2012 and 2011 on pages 13 through 19 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on UAB's financial statements. The introductory information on pages 2 through 11 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 nor provide any assurance on it.



January 25, 2013

# 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, 2012 and 2011. 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 22. 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 UAB Hospital Management, L.L.C. (LLC), 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 \$3.72, \$3.51, and \$3.33 billion at September 30, 2012, 2011, and 2010. Increases of \$206 million or 5.9% from 2011 to 2012 were primarily due to increases in investment assets. In 2012, UAB continued to increase their investment assets in response to the uncertain economy and impending health care reform. 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.

Total liabilities decreased \$12 million or 1.0% from September 30, 2011 to September 30, 2012. The decrease results primarily from reductions in bonds payable related to annual principal payments offset by increases in accounts payable and accrued liabilities.

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.

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, 2012, 2011, and 2010, as follows:

	2012	2011	2010
<b>TOTAL OPERATING REVENUES</b>	\$2,402,911,947	\$2,254,589,884	\$2,061,631,540
<b>TOTAL OPERATING EXPENSES</b>	\$2,625,670,734	\$2,480,060,070	\$2,306,995,732
<b>NET OPERATING LOSS</b>	\$(222,758,787)	\$(225,470,186)	\$(245,364,192)
<b>TOTAL NONOPERATING INCOME, CAPITAL, ENDOWMENT AND OTHER ACTIVITIES</b>	440,762,780	327,785,264	427,248,099
<b>INCREASE (DECREASE) IN NET ASSETS</b>	\$218,003,993	\$102,315,078	\$181,883,907

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, 2012, 2011, and 2010, is as follows:

	2012	2011	2010
<b>ASSETS</b>			
<b>Capital Assets, Net</b>	\$1,494,224,059	\$1,478,968,981	\$1,503,730,507
<b>Other Assets</b>	2,222,613,218	2,031,992,194	1,822,150,380
<b>TOTAL ASSETS</b>	\$3,716,837,277	\$3,510,961,175	\$3,325,880,887
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current Liabilities</b>	\$358,846,062	\$345,753,167	\$352,336,577
<b>Noncurrent Liabilities</b>	800,694,958	825,915,744	736,567,124
<b>TOTAL LIABILITIES</b>	\$1,159,541,020	\$1,171,668,911	\$1,088,903,701
<b>Net Assets</b>	\$2,557,296,257	\$2,339,292,264	\$2,236,977,186
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$3,716,837,277	\$3,510,961,175	\$3,325,880,887

At September 30, 2012, the major categories of current assets consist primarily of cash and cash equivalents, short term investments, and accounts receivable, which totaled \$955.8 million of the \$1 billion and increased \$126.4 million or 15.2% from 2011. The increase is a result primarily of growth in short term investments in response to the uncertain economy and impending health care reform.

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 in response to the continued uncertainty regarding the economy and impending health care reform.

At September 30, 2012, total current liabilities of \$358.8 million consist primarily of accounts payable, accrued payroll and related benefits, and deferred revenue, which totaled \$325.1 million, compared to \$316.2 million at September 30, 2011, an increase of \$9.0 million or 2.8% from 2011.

At September 30, 2011, total current liabilities of \$345.8 million consist 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.

UAB's endowment and life income investments increased \$39.6 million to \$367.7 million from September 30, 2011 to September 30, 2012. This increase resulted from net investment gains and by the establishment of new endowment funds through gifts and the creation of Board-designated quasi-endowments. UAB's endowment funds consist of both permanent and quasi-endowments.

UAB's endowment and life income investments decreased \$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.

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, 2012, 2011, and 2010 respectively, UAB's investment in the Professional Liability Trust Fund (PLTF) and other long-term investments totaled approximately \$38.9, \$29.1, and \$38.3 million. The \$9.8 million increase from September 30, 2011 to September 30, 2012 is a result of growth in investment values at September 30, 2012. The \$9.2 million decrease is a result of a drop in investment values at September 30, 2011.

## 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 \$121.6 million and \$93.2 million from September 30, 2011 to September 30, 2012 and from September 30, 2010 to September 30, 2011, respectively. This increase consists primarily of capital expenditures and capital additions totaling \$147.0 million (offset primarily by \$25.4 million in disposals) and \$103.4 million (offset primarily by \$9.9 million in disposals) in 2012 and 2011, respectively. 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 \$14.7 million and \$17.2 million, debt proceeds of \$41.3 million and \$24.1 million, and the remainder by UAB funds designated for capital purchases in 2012 and 2011, respectively.

Capital projects in process at September 30, 2012 include renovation of Wallace Tumor Institute, renovation of the Health Professions Building and construction of the Steam Plant. Capital projects in process at September 30, 2011 include renovation of Bartow Arena, renovation of the Health Professions Building and construction of the Steam Plant.

UAB's long-term debt related to capital assets, consisting of bonds and capital leases, totaled \$795.3, \$818.5, and \$729.7 million at September 30, 2012, 2011, and 2010, respectively. The decrease in debt during 2012 consisted primarily of the principal payments made in accordance with the debt instruments. The increase in debt during 2011 consisted primarily of the bonds issued during the year, partially offset by the refunding of debt outstanding.

## Net Assets

Net assets represent the residual interest in UAB's assets after liabilities are deducted. UAB's net assets at September 30, 2012, 2011, and 2010, are summarized as follows:

	2012	2011	2010
<b>INVESTED IN CAPITAL ASSETS, NET OF RELATED DEBT</b>	<b>\$741,376,219</b>	<b>\$754,025,143</b>	<b>\$793,998,349</b>
<b>RESTRICTED</b>			
<b>Nonexpendable</b>	<b>252,844,971</b>	<b>228,120,369</b>	<b>233,211,681</b>
<b>Expendable</b>	<b>221,215,840</b>	<b>208,990,274</b>	<b>203,485,691</b>
<b>UNRESTRICTED</b>	<b>1,341,859,227</b>	<b>1,148,156,478</b>	<b>1,006,281,465</b>
<b>TOTAL NET ASSETS</b>	<b>\$2,557,296,257</b>	<b>\$2,339,292,264</b>	<b>\$2,236,977,186</b>

Net assets invested in capital assets, net of related debt, represent UAB's capital assets, net of accumulated depreciation and outstanding principal of debt in excess of related bond proceeds attributable to the acquisition, construction, or improvement of those assets. The \$12.6 million decrease in 2012 reflects the continued capital asset development in accordance with UAB's long-range capital plan and decrease in debt due to principal payments made offset of use of bond proceeds attributable to the acquisition, construction of capital assets. The \$40.0 million decrease in 2011 reflects the increase in debt related to the bonds issued during the year.

Restricted nonexpendable net assets include UAB's permanent endowment funds and annuity and life income assets that will ultimately become pure endowment funds. The \$24.7 million increase in 2012 results primarily from the increase in fair values of investments and contributions. The \$5.1 million decrease in 2011 results primarily from the decrease 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 \$12.2 million increase in 2012 results primarily from gifts. The \$5.5 million increase in 2011 results primarily from gifts.

Unrestricted net assets include UAB's assets whose use is not restricted by an external entity. Unrestricted net assets increased \$193.7 million and \$141.9 million or 16.9% and 14.1% in 2012 and 2011, respectively.

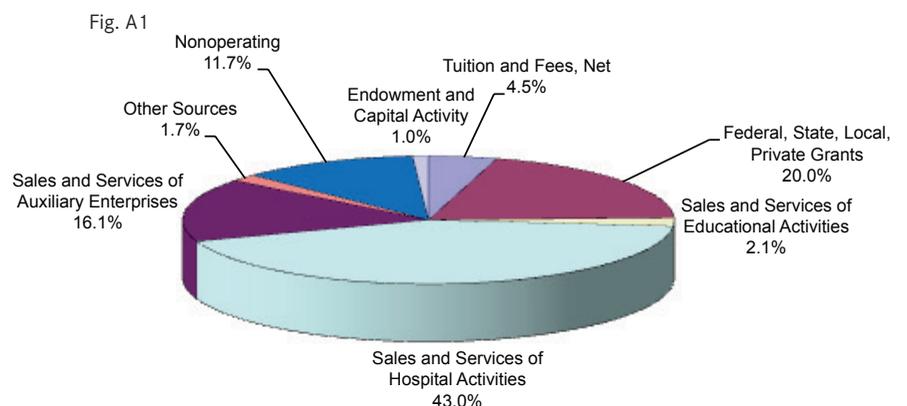
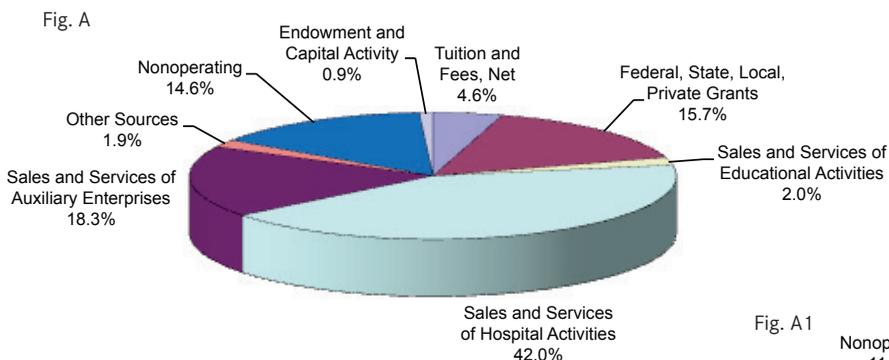
Although unrestricted net assets are not subject to externally imposed restrictions, UAB has designated available unrestricted net assets to be used for academic and research programs as well as capital projects.

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

The statement of revenues, expenses, and changes in net assets presents UAB's results of operations, as well as the nonoperating revenues and expenses. Annual state appropriations are classified as nonoperating revenues according to governmental accounting standards, even though the state-appropriated funds are used to support the operations of UAB. Without the nonoperating revenues, in particular the state appropriations and private gifts, UAB would not be able to cover its costs of operations. A summarized comparison of UAB's revenues, expenses and changes in net assets for the years ended September 30, 2012, 2011, and 2010 is presented on the following page:

	2012	2011	2010
<b>OPERATING REVENUES</b>			
Student tuition and fees, net	\$130,569,653	\$115,886,758	\$99,073,136
Grants and contracts	446,956,098	516,898,869	487,674,404
Sales and services	1,771,143,308	1,577,376,014	1,411,445,850
Other revenues	54,242,888	44,428,243	63,438,150
<b>REVENUES SUPPORTING CORE ACTIVITIES</b>	<b>\$2,402,911,947</b>	<b>\$2,254,589,884</b>	<b>\$2,061,631,540</b>
<b>OPERATING EXPENSES</b>			
Operating expenses	\$2,625,670,734	\$2,480,060,070	\$2,306,995,732
<b>OPERATING LOSS</b>	<b>\$(222,758,787)</b>	<b>\$(225,470,186)</b>	<b>\$(245,364,192)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
State educational appropriations	\$268,640,355	\$254,288,538	\$256,190,587
Grants and contracts	25,399,912	20,248,827	19,208,346
State fiscal stabilization funds	534,136	26,819,385	22,469,522
Gifts	33,091,837	28,975,297	32,879,702
Investment income (loss)	128,209,982	(5,406,868)	74,943,746
Interest expense	(27,942,694)	(29,551,054)	(31,670,287)
Loss on asset disposition, net	(786,935)	(434,835)	(2,639,740)
Capital state appropriations	11,076,675	9,863,264	26,709,760
Capital gifts and grants	3,602,784	7,301,347	10,831,502
Endowment gifts	11,009,612	9,561,889	6,680,465
Net other nonoperating (expense) revenue	(11,311,594)	1,299,229	(894,286)
Other changes	(761,290)	4,820,245	12,538,782
<b>NET NONOPERATING REVENUES AND OTHER CHANGES</b>	<b>\$440,762,780</b>	<b>\$327,785,264</b>	<b>\$427,248,099</b>
<b>INCREASE IN NET ASSETS</b>	<b>\$218,003,993</b>	<b>\$102,315,078</b>	<b>\$181,883,907</b>
Net assets, beginning of year	\$2,339,292,264	\$2,236,977,186	\$2,055,093,279
<b>NET ASSETS, END OF YEAR</b>	<b>\$2,557,296,257</b>	<b>\$2,339,292,264</b>	<b>\$2,236,977,186</b>

Figures A and A1 are graphic illustrations of revenues by source (both operating and nonoperating), which are used to fund UAB's operating activities for the years ended September 30, 2012 and 2011, respectively.



Gross tuition and fees revenue increased by \$13.5 million and \$22.3 million in 2012 and 2011, respectively. Tuition rates increased 8% in 2012 and 13% in 2011. Total student headcount of 18,777 and 18,703 increased by 74 and 656 or 0.4% and 3.6% in 2012 and 2011, respectively.

UAB recognized \$44.6, \$39.1, and \$52.9 million in gift revenue (composed partially of \$0.5, \$0.5, and \$3.9 million and \$11.0, \$9.6, and \$6.7 million in capital and endowment gifts, respectively) for the years ended September 30, 2012, 2011, and 2010, 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 \$279.7, \$264.2, and \$282.9 million, of which \$268.6, \$254.3, and \$256.2 million was from the ETF, which is included as nonoperating revenue in 2012, 2011, and 2010, respectively. The remaining \$11.1, \$9.9, and \$26.7 million represents Public School and College Authority funds and other state capital funds

in 2012, 2011 and 2010, respectively. In addition, UAB received \$0.5, \$26.8 million and \$22.5 million in State Fiscal Stabilization Funds in 2012, 2011 and 2010, respectively.

Net hospital sales and service revenue totaled \$1.2 billion, \$1.1 billion, and \$1.0 billion, an increase of 7.7% and 10.0% from 2011 to 2012 and 2010 to 2011, 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 \$3.2, \$6.8, and \$6.9 million in 2012, 2011, and 2010, 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 2012 and 2011, respectively.

Fig. B Grants and Contract Revenue

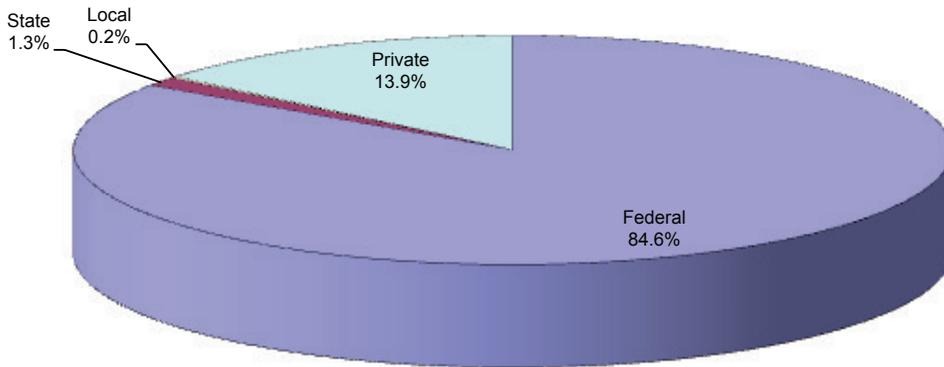
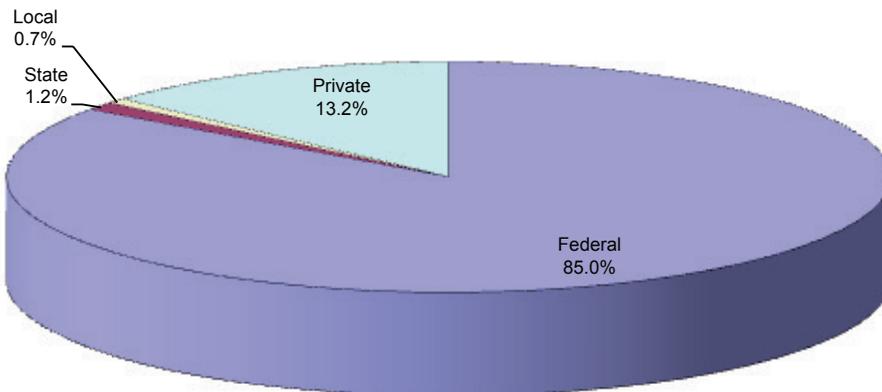


Fig. B1 Grants and Contract Revenue



Net investment income increased \$133.6 million from 2011 to 2012. The increase is primarily a result of growth in the fair value of investments. 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 decreases 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 invest-

ments. Net investment income for the years ended September 30, 2012, 2011, and 2010, consisted of the following components:

	2012	2011	2010
Interest and Dividends	\$46,094,500	\$57,169,183	\$52,063,127
Net Increase (decrease) In the Fair Value Of Investments	74,828,997	( 53,902,311)	18,489,298
Return on Equity Investments	7,286,485	(8,673,740)	4,391,321
	\$128,209,982	\$(5,406,868)	\$74,943,746

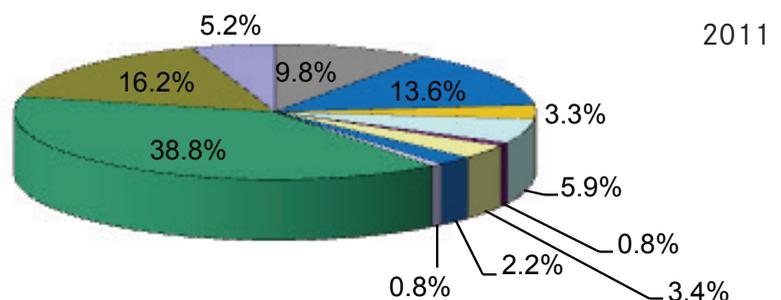
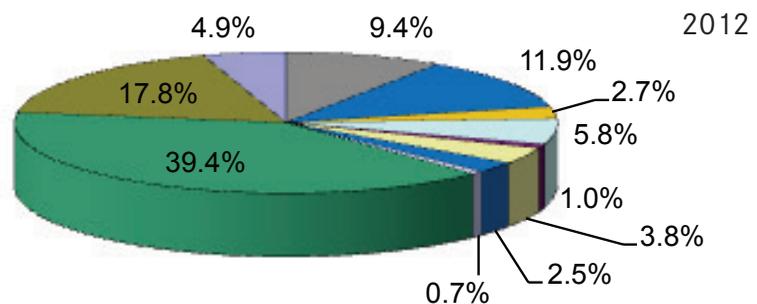
A comparative summary of UAB's operating expenses for the years ended September 30, 2012, 2011, and 2010, is as follows:

	2012	2011	2010
Salaries, Wages, and Benefits	\$1,286,871,937	\$1,226,729,759	\$1,185,398,724
Supplies and Services	1,190,679,387	1,106,569,166	978,817,716
Depreciation and Amortization	128,960,636	127,748,781	121,398,525
Scholarships and Fellowships	19,158,774	19,012,364	21,380,767
	\$2,625,670,734	\$2,480,060,070	\$2,306,995,732

Salaries, wages, and benefits increase \$60.1 and \$41.3 million or 4.9% or 3.5% during 2012 and 2011 respectively. This increase in 2012 and 2011 is due primarily to UAB's growth in salary base and benefit costs. In addition, supplies and services expenses increased \$84.1 million and \$127.8 million or 7.6% and 13.1% during 2012 and 2011, 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, 2012 and 2011, respectively, are presented as follows:

- Instruction
- Research
- Public service
- Academic support
- Student services
- Institutional support
- Operations and maintenance of plant
- Scholarships and fellowships
- Hospital
- Auxiliary
- Depreciation



## 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.

	2012	2011	2010
Net Cash Used In Operating Activities	\$(97,101,610)	\$(119,904,828)	\$(96,612,053)
Net Cash Used In Capital and Related Financing Activities	(181,985,715)	(22,546,554)	(158,003,248)
Net Cash Provided By Noncapital Financing Activities	348,775,996	346,847,844	334,784,300
Net Cash (Used In) Provided By Investing Activities	(128,826,360)	(160,924,738)	30,516,776
Net (Decrease) Increase In Cash And Cash Equivalents	\$(59,137,689)	\$43,471,724	\$110,685,775
Cash and Cash Equivalents, Beginning Of Year	\$347,453,996	\$303,982,272	\$193,296,497
Cash and Cash Equivalents, End Of Year	\$288,316,307	\$347,453,996	\$303,982,272

UAB used \$97.1, \$119.9, and \$96.6 million of cash for operating activities, offset by \$348.8, \$346.8, and \$334.8 million of cash provided by non-capital financing activities in 2012, 2011, and 2010, 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 \$182.0, \$22.5, and \$158.0 million in 2012, 2011, and 2010, 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 \$128.9 and \$160.9 million in 2012 and 2011, respectively. Cash provided by investing activities totaled \$30.5 million in 2010.

## 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 and 2010, 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, 2012 and 2011

	2012	2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 246,769,635	\$ 195,228,772
Short term investments	471,406,049	388,310,390
Accounts receivable, net	237,586,475	245,825,883
Loans receivable, current portion	2,403,659	2,323,656
Pledges receivable, current portion	7,429,210	7,000,416
Inventories	18,699,307	15,618,350
Other current assets	19,881,093	18,972,782
<b>Total current assets</b>	<b>\$ 1,004,175,428</b>	<b>\$ 873,280,249</b>
Noncurrent Assets:		
Cash and cash equivalents designated for capital activities	\$ 41,369,015	\$ 152,063,494
Restricted cash and cash equivalents	177,657	161,730
Investments for capital activities	722,605,340	599,810,323
Endowment and life income investments	367,682,509	328,050,714
Investment in Professional Liability Trust Fund	38,912,815	29,149,334
Other long-term investments	14,823,313	15,283,303
Loans receivable, net	16,293,742	17,003,158
Pledges receivable	12,121,941	14,236,330
Capital assets, net	1,494,224,059	1,478,968,981
Other noncurrent assets	4,451,458	2,953,559
<b>Total noncurrent assets</b>	<b>\$ 2,712,661,849</b>	<b>\$ 2,637,680,926</b>
<b>Total Assets</b>	<b>\$ 3,716,837,277</b>	<b>\$ 3,510,961,175</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 220,113,383	\$ 215,916,720
Deposits	8,002,251	6,056,980
Deferred revenue-grants	21,634,481	27,144,638
Deferred revenue-other	83,381,341	73,089,124
Long-term debt, current portion	25,714,606	23,545,705
<b>Total current liabilities</b>	<b>\$ 358,846,062</b>	<b>\$ 345,753,167</b>
Noncurrent Liabilities		
Federal advances-loan funds	\$ 14,925,390	\$ 15,425,453
Long-term debt, noncurrent portion	769,548,023	794,950,360
Other noncurrent liabilities	16,221,545	15,539,931
<b>Total noncurrent liabilities</b>	<b>\$ 800,694,958</b>	<b>\$ 825,915,744</b>
<b>Total Liabilities</b>	<b>\$ 1,159,541,020</b>	<b>\$ 1,171,668,911</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 741,376,219	\$ 754,025,143
Restricted		
Nonexpendable	252,844,971	228,120,369
Expendable	221,215,840	208,990,274
Unrestricted	1,341,859,227	1,148,156,478
<b>Total Net Assets</b>	<b>\$ 2,557,296,257</b>	<b>\$ 2,339,292,264</b>

See accompanying notes to financial statements.

# The University of Alabama at Birmingham Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended September 30, 2012 and 2011

	2012	2011
<b>Operating Revenues</b>		
Tuition and fees	\$ 175,184,111	\$ 161,719,588
Less: scholarship allowance	(44,449,656)	(45,695,165)
Less: bad debt expense	(164,802)	(137,665)
Tuition and fees, net	130,569,653	115,886,758
Grants and contracts:		
Federal	374,459,479	436,279,233
State	6,155,771	6,160,229
Local	314,715	2,923,958
Private	66,026,133	71,535,449
Sales and services:		
Educational activities	55,906,284	53,034,123
Hospital, net of bad debt expense of \$236,995,097 and \$196,167,535	1,194,615,262	1,109,661,547
Other auxiliary enterprises, net of scholarship allowance of \$2,979,415 and \$3,422,902	520,621,762	414,680,344
Other operating revenues	54,242,888	44,428,243
<b>Total operating revenues</b>	<b>\$ 2,402,911,947</b>	<b>\$ 2,254,589,884</b>
<b>Operating Expenses</b>		
Salaries, wages and benefits	\$ 1,286,871,937	\$ 1,226,729,759
Supplies and services	1,190,679,387	1,106,569,166
Depreciation and amortization	128,960,636	127,748,781
Scholarships and fellowships	19,158,774	19,012,364
<b>Total operating expenses</b>	<b>\$ 2,625,670,734</b>	<b>\$ 2,480,060,070</b>
<b>Operating loss</b>	<b>\$ (222,758,787)</b>	<b>\$ (225,470,186)</b>
<b>Nonoperating Revenues (Expenses)</b>		
Gains and losses		
State educational appropriations	\$ 268,640,355	\$ 254,288,538
Federal grants and contracts	25,128,105	20,043,440
State grants and contracts	106,859	105,179
Private grants and contracts	164,948	100,208
State fiscal stabilization funds	534,136	26,819,385
Gifts	33,091,837	28,975,297
Investment income (loss)	128,209,982	(5,406,868)
Interest expense	(27,942,694)	(29,551,054)
Loss on asset dispositions, net	(786,935)	(434,835)
(Loss) Gain on sale of discontinued operations (Note 1)	(761,290)	4,820,245
Net other nonoperating (expense) revenue	(11,311,594)	1,299,229
<b>Net nonoperating revenues</b>	<b>\$ 415,073,709</b>	<b>\$ 301,058,764</b>
<b>Income before other revenues, expenses, gains, and losses</b>	<b>\$ 192,314,922</b>	<b>\$ 75,588,578</b>
<b>Other Changes in Net Assets</b>		
Capital and endowment activities		
State capital funds	\$ 11,076,675	\$ 9,863,264
Capital grants and contracts	3,150,413	6,767,122
Capital gifts	452,371	534,225
Endowment gifts	11,009,612	9,561,889
<b>Net other changes in net assets</b>	<b>\$ 25,689,071</b>	<b>\$ 26,726,500</b>
<b>Increase in net assets</b>	<b>\$ 218,003,993</b>	<b>\$ 102,315,078</b>
<b>Net Assets, beginning of year</b>	<b>\$ 2,339,292,264</b>	<b>\$ 2,236,977,186</b>
<b>Net Assets, end of year</b>	<b>\$ 2,557,296,257</b>	<b>\$ 2,339,292,264</b>

See accompanying notes to financial statements.

# The University of Alabama at Birmingham Statements of Cash Flows

Years Ended September 30, 2012 and 2011

	2012	2011
<b>Cash flows from operating activities</b>		
Student tuition and fees	\$ 134,063,440	\$ 120,905,667
Grants and contracts	439,787,217	518,749,597
Receipts from sales and services of:		
Educational activities	59,621,571	52,979,290
Patient services	1,204,402,577	1,099,740,755
Auxiliary enterprises, net	25,226,907	24,000,613
Premium and administrative fees collected	463,931,552	411,981,105
Payment to employees and related benefits	(1,283,557,719)	(1,259,969,352)
Payment to suppliers	(1,177,541,984)	(1,114,485,761)
Payment for scholarships and fellowships	(19,158,339)	(19,012,364)
Other receipts	56,123,168	45,205,622
<b>Net cash used in operating activities</b>	<b>\$ (97,101,610)</b>	<b>\$ (119,904,828)</b>
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of capital debt	\$ 150,364,622	\$ 166,263,752
State capital funds	11,076,675	9,863,264
Federal grants and contracts	2,758,943	5,936,501
Local grants and contracts	-	6,536
Private gifts	478,664	2,072,220
Proceeds from sale of capital assets	215,655	265,821
Purchases of capital assets	(141,694,540)	(99,369,800)
Principal payments on capital debt	(173,481,204)	(75,788,908)
Interest payments on capital debt	(31,704,530)	(31,795,940)
<b>Net cash used in capital and related financing activities</b>	<b>\$ (181,985,715)</b>	<b>\$ (22,546,554)</b>
<b>Cash flows from noncapital financing activities</b>		
State educational appropriations	\$ 268,640,355	\$ 254,288,539
Private gifts	45,950,752	38,977,028
Student direct lending receipts	129,785,462	128,064,966
Student direct lending disbursements	(130,038,922)	(126,454,411)
Other deposits	32,993,140	49,439,015
Deposits from affiliates	1,445,209	2,532,707
<b>Net cash provided by noncapital financing activities</b>	<b>\$ 348,775,996</b>	<b>\$ 346,847,844</b>
<b>Cash flows from investing activities</b>		
Interest and dividends from investments, net	\$ 46,591,410	\$ 50,975,026
Collections on note receivable	133,356	133,357
Proceeds from sales and maturities of investments	62,947,345	4,836,439
Investments in system pooled investment funds	(145,637,600)	(178,393,231)
Purchases of investments	(96,392,005)	(39,004,150)
Proceeds from sale of discontinued operations	3,531,134	527,821
<b>Net cash used in investing activities</b>	<b>\$ (128,826,360)</b>	<b>\$ (160,924,738)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>\$ (59,137,689)</b>	<b>\$ 43,471,724</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>\$ 347,453,996</b>	<b>\$ 303,982,272</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 288,316,307</b>	<b>\$ 347,453,996</b>
<b>Reconciliation of operating (loss) to net cash used in operating activities</b>		
Operating (loss)	\$ (222,758,787)	\$ (225,470,186)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization expense	\$ 128,960,636	\$ 127,748,781
Changes in assets and liabilities:		
Accounts receivable, net	\$ 6,863,641	\$ (14,111,974)
Prepaid expenses and other assets	(729,349)	(311,600)
Accounts payable and accrued liabilities	(14,038,721)	(18,862,153)
Deferred revenue	\$ 4,600,970	\$ 11,102,304
<b>Net cash used in operating activities</b>	<b>\$ (97,101,610)</b>	<b>\$ (119,904,828)</b>

See accompanying notes to financial statements.

# The University of Alabama at Birmingham

## Statements of Cash Flows (continued)

Years Ended September 30, 2012 and 2011

	2012	2011
<b>Supplemental noncash activities information</b>		
Capital assets acquired included in accounts payable	\$ 8,813,669	\$ 11,034,687
Capital assets acquired through capital lease	\$	\$ 124,850
Interest capitalized	\$ 3,048,851	\$ 2,685,653
Capital assets acquired through property exchange	\$ 8,445,450	\$

*See accompanying notes to financial statements.*

# The University of Alabama at Birmingham Notes to Financial Statements

September 30, 2012

## (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.

- **Reclassifications:**

Certain amounts in the financial statements for the prior period have been reclassified to conform to the current year presentation. UAB reclassified \$394,500,000 in 2011 of component unit revenue from other operating revenue to sales and services other auxiliary enterprises revenue in order to be consistent with accounting treatment utilized by other academic health centers.

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

UAB policy states that operating activities as reported by the statement of revenues, expenses, and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35.

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

### Scope of Statements

UAB is principally comprised of a university (the University) and the University of Alabama Hospital (the Hospital) which are UAB's reportable segments as defined by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis-For State and Local Governments: Omnibus an Amendment of GASB Statements No. 21 and No. 34*. UAB's financial statements present the financial posi-

tion, 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 22. 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) and UAB Hospital Management, L.L.C. (LLC) have governing bodies that are substantively the same as the governing body of UAB. Therefore, management has determined that SRI, UABRF, Triton, and LLC (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. Separate financial statements are available for SRI, Triton, and UABRF by contacting UAB. The LLC was organized for the exclusive purpose of supporting UAB in connection with the management, administration, and operation of the hospital, including, without limitation, providing management, administrative and staffing services to the hospital.

#### **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 discontin-

ued operations. Accordingly, the income or loss 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 is 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 textbooks, 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 (15-50 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 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.

UPMIFA 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, 2012 and 2011 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, including 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.

**Other auxiliary enterprise revenue:** Auxiliary enterprise revenues primarily represent revenues gener-

ated by intercollegiate athletics and parking as well as subscriber premiums.

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

**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 \$1,919,000 and \$1,949,000 for 2012 and 2011, respectively. UABEF made contributions to UAB which totaled approximately \$6,460,000 and \$4,985,000 in 2012 and 2011, respectively. UABEF's total assets were approximately \$56,704,000 and \$51,727,000 at September 30, 2012 and 2011, respectively. UABEF's total liabilities were approximately \$18,563,000 and \$19,105,000 at September 30, 2012 and 2011, 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 \$29,238,000 and \$24,382,000 from HSF in 2012 and 2011, 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 \$886,000 and \$1,657,000 in 2012 and 2011, respectively, and the Hospital purchases various services from HSF, aggregating approximately \$30,155,000 and \$27,599,000 for the years ended September 30, 2012 and 2011, respectively. As a result of these transactions, the Hospital had a net receivable from HSF of approximately \$711,000. The Hospital had a net payable to HSF of approximately \$77,000 at September 30, 2011.

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 \$14,071,000 and \$14,658,000, which is included in the accompanying statement of net assets as deferred revenue-other for the years ended September 30, 2012 and 2011, respectively. Approximately \$163,000 and \$175,000 was recognized as rent revenue during the years ended September 30, 2012 and 2011, 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, 2012 and 2011, respectively, UAB contributed approximately \$8,301,000 and \$6,762,000 to the UAB Health System Board to support Health System administrative functions. In addition, at September 30, 2012 and 2011, respectively, the Hospital had a net payable from the Health System of approximately \$825,000 and \$420,000.

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 \$8,815,000 (unaudited) and \$7,873,000 (unaudited) and total liabilities were approximately \$1,275,000 (unaudited) and \$1,012,000 (unaudited) at September 30, 2012 and 2011, respectively.

The Hospital received premium revenue (capitation fees) of approximately \$64,068,000 and \$57,684,000 from Triton during the years ended September 30, 2012 and 2011.

The Hospital purchased \$9,384,000 in management, administrative and staffing services from the LLC during the year ended September 30, 2012.

### (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. As of September 30, 2012, the University, within the Short-Term Fund, had approximately \$ 90,100,000, all of which was invested in the money market fund. As of September 30, 2011, the University had approximately \$53,400,000 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, 2012 and 2011, respectively, UAB had cash and cash equivalents totaling \$288,316,307 and \$347,453,996.

## (4) Investments

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

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

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 Fund are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support to the endowment beneficiaries. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocation targets are established to meet 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 \$40,100,000 and \$35,800,000 at September 30, 2012 and 2011, respectively.

### Prime Fund

The Prime Fund is a longer-term fund used as an investment vehicle to manage operating reserves with

a time horizon of seven to ten years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid and semi-liquid securities. This fund is not currently invested in long-term lockup funds with 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 \$6,600,000 at September 30, 2012 and \$7,600,000 at September 30, 2011.

#### **Intermediate Fund**

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

#### **Short-Term Fund**

The Short-Term Fund contains the short-term operating reserves of the various System entities. Because of the different income and disbursement requirements of each entity, consolidation of these funds reduces daily cash fluctuations and minimizes the amount of short-term cash reserves needed. Assets held in the Short-Term Fund are invested with the primary objective of stability of principal and liquidity. Such investments are restricted to high quality, liquid, money market funds and other fixed income obligations with a maturity of one year or less. Refer to Note 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, 2012 and 2011 is as follows:

<b>September 30, 2012</b>		ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
Receivables:									
Accrued Income Receivables	\$	1,007,252	\$	610,059	\$	4,047,259	\$		
<b>TOTAL RECEIVABLES</b>	<b>\$</b>	<b>1,007,252</b>	<b>\$</b>	<b>610,059</b>	<b>\$</b>	<b>4,047,259</b>	<b>\$</b>		
Cash Equivalents:									
Certificates Of Deposit	\$		\$		\$	6,095,374	\$		
Money Market Funds		37,622,530		25,012,340		117,007,185			165,309,391
<b>TOTAL CASH EQUIVALENTS</b>	<b>\$</b>	<b>37,622,530</b>	<b>\$</b>	<b>25,012,340</b>	<b>\$</b>	<b>123,102,559</b>	<b>\$</b>		<b>165,309,391</b>
Equities:									
U.S. Common Stock	\$	71,093,168	\$	49,927,229	\$		\$		
U.S. Preferred Stock		1,031,250		937,500					
Non-U.S. Stock		9,012,235		7,038,544					
<b>TOTAL EQUITIES</b>	<b>\$</b>	<b>81,136,653</b>	<b>\$</b>	<b>57,903,273</b>	<b>\$</b>		<b>\$</b>		
Fixed Income Securities:									
U.S. Government Obligations	\$	28,152,015	\$	12,728,703	\$	363,188,133	\$		
Municipal Government Obligations						6,423,894			
Mortgage Backed Securities						50,978,064			
Collateralized Mortgage Obligations		428,837		176,195		57,695,598			
Corporate Bonds		48,420,651		25,691,441		324,568,847			
Non-U.S. Bonds						8,953,326			
<b>TOTAL FIXED INCOME SECURITIES</b>	<b>\$</b>	<b>77,001,503</b>	<b>\$</b>	<b>38,596,339</b>	<b>\$</b>	<b>811,807,862</b>	<b>\$</b>		
Commingled Funds:									
U.S. Equity Funds	\$	102,545,643	\$	99,826,894	\$		\$		
Non-U.S. Equity Funds		250,230,913		220,690,653					
U.S. Bond Funds		29,518,564				118,258,903			
Non-U.S. Bond Funds		57,589,079		54,429,629					
Hedge Funds		148,184,664		115,874,279					
Private Equity Funds		61,912,960							
Timberland Funds		5,624,452							
Real Estate Funds		128,235,796		102,617,303					
<b>TOTAL COMMINGLED FUNDS</b>	<b>\$</b>	<b>783,842,071</b>	<b>\$</b>	<b>649,029,616</b>	<b>\$</b>	<b>118,258,903</b>	<b>\$</b>		
<b>TOTAL FUND INVESTMENTS</b>	<b>\$</b>	<b>979,602,757</b>	<b>\$</b>	<b>770,541,568</b>	<b>\$</b>	<b>1,053,169,324</b>	<b>\$</b>		<b>165,309,391</b>
<b>TOTAL FUND ASSETS</b>	<b>\$</b>	<b>980,610,009</b>	<b>\$</b>	<b>771,151,627</b>	<b>\$</b>	<b>1,057,216,583</b>	<b>\$</b>		<b>165,309,391</b>
<b>TOTAL FUND LIABILITIES</b>	<b>\$</b>	<b>(126,133)</b>	<b>\$</b>	<b>(88,592)</b>	<b>\$</b>	<b>(481,793)</b>	<b>\$</b>		
<b>AFFILIATED ENTITY INVESTMENT IN FUNDS</b>	<b>\$</b>	<b>(124,786,897)</b>	<b>\$</b>	<b>(51,504,726)</b>	<b>\$</b>	<b>(77,940,650)</b>	<b>\$</b>		
<b>TOTAL NET ASSET VALUE</b>	<b>\$</b>	<b>855,696,979</b>	<b>\$</b>	<b>719,558,309</b>	<b>\$</b>	<b>978,794,140</b>	<b>\$</b>		<b>165,309,391</b>

<b>September 30, 2011</b>		ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
Receivables:									
Accrued Income Receivables	\$	1,107,419	\$	650,770	\$	4,991,584	\$		
<b>TOTAL RECEIVABLES</b>	<b>\$</b>	<b>1,107,419</b>	<b>\$</b>	<b>650,770</b>	<b>\$</b>	<b>4,991,584</b>	<b>\$</b>		
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
<b>TOTAL CASH EQUIVALENTS</b>	<b>\$</b>	<b>32,523,163</b>	<b>\$</b>	<b>27,318,415</b>	<b>\$</b>	<b>92,476,054</b>	<b>\$</b>		<b>119,243,909</b>
Equities:									
U.S. Common Stock	\$	61,441,298	\$	47,156,571	\$		\$		
Non-U.S. Stock		3,693,290		2,813,145					
<b>TOTAL EQUITIES</b>	<b>\$</b>	<b>65,134,588</b>	<b>\$</b>	<b>49,969,716</b>	<b>\$</b>		<b>\$</b>		
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			
<b>TOTAL FIXED INCOME SECURITIES</b>	<b>\$</b>	<b>78,709,788</b>	<b>\$</b>	<b>33,658,061</b>	<b>\$</b>	<b>740,483,277</b>	<b>\$</b>		
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					
<b>TOTAL COMMINGLED FUNDS</b>	<b>\$</b>	<b>689,909,555</b>	<b>\$</b>	<b>579,700,319</b>	<b>\$</b>	<b>106,131,493</b>	<b>\$</b>		
<b>TOTAL FUND INVESTMENTS</b>	<b>\$</b>	<b>866,277,094</b>	<b>\$</b>	<b>690,646,511</b>	<b>\$</b>	<b>939,090,824</b>	<b>\$</b>		<b>119,243,909</b>
<b>TOTAL FUND ASSETS</b>	<b>\$</b>	<b>867,384,513</b>	<b>\$</b>	<b>691,297,281</b>	<b>\$</b>	<b>944,082,408</b>	<b>\$</b>		<b>119,243,909</b>
<b>TOTAL FUND LIABILITIES</b>	<b>\$</b>	<b>(141,349)</b>	<b>\$</b>	<b>(96,905)</b>	<b>\$</b>	<b>(431,667)</b>	<b>\$</b>		
<b>AFFILIATED ENTITY INVESTMENT IN FUNDS</b>	<b>\$</b>	<b>(108,310,387)</b>	<b>\$</b>	<b>(46,104,160)</b>	<b>\$</b>	<b>(63,559,098)</b>	<b>\$</b>		
<b>TOTAL NET ASSET VALUE</b>	<b>\$</b>	<b>758,932,777</b>	<b>\$</b>	<b>645,096,216</b>	<b>\$</b>	<b>880,091,643</b>	<b>\$</b>		<b>119,243,909</b>

The composition of investments, by investment type, of UAB's separately held investments, and UAB's interest in the System Pools, at September 30, 2012 and 2011 is as follows:

	2012	2011
Cash and equivalents:		
Commerical paper	\$ 100,000	\$ 100,000
Money market funds	1,409,448	1,164,026
<b>TOTAL CASH AND EQUIVALENTS</b>	<b>\$ 1,509,448</b>	<b>\$ 1,264,026</b>
Equities:		
Common stock	\$ 287,733	\$ 476,013
Equity investment in partnerships	38,912,815	29,149,334
<b>TOTAL EQUITIES</b>	<b>\$ 39,200,548</b>	<b>\$ 29,625,347</b>
Fixed Income Securities:		
U.S. government obligations	\$ 50,000,000	\$ 24,993,850
Corporate bonds	14,311,980	10,506,510
Non-U.S. bonds		355,449
<b>TOTAL FIXED INCOME SECURITIES</b>	<b>\$ 64,311,980</b>	<b>\$ 35,855,809</b>
Commingled Funds:		
U.S. equity funds	\$ 35,979,014	\$ 32,229,668
Non-U.S. equity funds	6,955,750	6,539,787
U.S. bond funds	37,761,610	35,978,470
Non-U.S. bond funds	1,382,863	1,314,313
Hedge funds	5,130,076	4,474,668
Private equity funds	2,777,615	2,396,752
Real estate funds	3,804,033	4,101,665
<b>TOTAL COMMINGLED FUNDS</b>	<b>\$ 93,790,961</b>	<b>\$ 87,035,323</b>
<b>REAL ESTATE</b>	<b>\$ 259,600</b>	<b>\$ 4,852,000</b>
Portion of System Pooled Investments:		
Endowment Fund	\$ 334,118,822	\$ 296,706,240
Prime Fund	507,361,293	452,494,134
Intermediate Fund	574,877,374	452,771,185
Short-Term Fund	90,063,756	53,379,956
<b>Total Portion of System Pooled Investments</b>	<b>\$ 1,506,421,245</b>	<b>\$ 1,255,351,515</b>
<b>Total Cash and Investments</b>	<b>\$ 1,705,493,782</b>	<b>\$ 1,413,984,020</b>
Less Short-Term Fund	\$ 90,063,756	\$ 53,379,956
<b>TOTAL INVESTMENTS</b>	<b>\$ 1,615,430,026</b>	<b>\$ 1,360,604,064</b>

### Investment Risk Factors

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

### Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that negative perceptions of the issuer's ability to make these payments will cause security prices to decline. These circumstances may arise due to a variety of factors such as financial weakness, bankruptcy, litigation, and/or adverse political developments. Certain fixed income securities, primarily obligations

of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have significant credit risk.

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

Board policy recognizes that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark. Credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio

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

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Barclays Government Credit Index for U.S. investments and the Citigroup WGBI Index for international investment benchmarks for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate, 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 \$20,000 and \$1,600,000 in the Endowment and Prime Funds, at September 30, 2012 and 2011, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$259,800,000 and \$232,200,000 in the Endowment and Prime Funds at September 30, 2012 and 2011, 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 an average minimum rating of BB or higher. For September 30, 2012 and 2011, approximately \$63,200,000 and \$59,200,000, 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 \$235,200,000 and \$189,500,000 at September 30, 2012 and 2011, respectively. For September 30, 2012 and 2011, \$6,100,000 and \$9,100,000, respectively, was invested by the Intermediate Fund in certificates of deposit.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the System campuses and 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, 2012 and 2011 is as follows:

## September 30, 2012 and 2011

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT TERM FUND	
	2012	2011	2012	2011	2012	2011	2012	2011
Fixed or Variable Income Securities								
U.S. Government Obligations	\$ 28,152,015	\$ 32,642,178	\$ 12,728,703	\$ 11,255,896	\$ 363,188,133	\$ 237,375,819	\$	\$
Municipal Government Obligations					6,423,894	5,348,375		
Other U.S. and Non-U.S. Denominated:								
AAA	1,586,686	601,838	749,786	259,069	30,554,363	82,551,910		
AA	8,698,140	9,442,755	4,205,006	4,280,773	77,971,612	82,527,357		
A	23,416,600	20,810,897	12,943,728	10,696,427	195,302,384	155,173,567		
BBB	15,128,540	14,989,257	7,969,116	5,808,925	61,721,408	93,358,572		
BB					9,130,213	19,361,524		
B					1,351,313	1,357,676		
C and < C					2,939,022	4,257,867		
Unrated	19,522	222,863		1,356,971	63,225,520	59,170,610		
Commingled Funds:								
U.S. Bond Funds: Unrated	29,518,564	19,459,731	55,590,858	48,810,114	118,258,903	106,131,493		
Non-U.S. Bond Funds: Unrated	57,589,079	56,083,738	54,429,629	48,033,757				
Money Market Funds: Unrated	37,622,530	32,523,163	25,012,340	27,318,415	117,007,185	67,192,267	165,309,391	119,243,909
Commercial Paper: Unrated						16,200,000		
Certificate of Deposits					6,095,374	9,083,787		
<b>TOTAL</b>	<b>\$ 201,731,676</b>	<b>\$ 186,776,420</b>	<b>\$ 173,629,166</b>	<b>\$ 157,820,347</b>	<b>\$ 1,053,169,324</b>	<b>\$ 939,090,824</b>	<b>\$ 165,309,391</b>	<b>\$ 119,243,909</b>

The credit risk for fixed and variable income securities for UAB's separately held investments at September 30, 2012 and 2011 is as follows:

<b>September 30, 2012 and 2011</b>			
	2012		2011
Fixed or Variable Income Securities			
U.S. Government Obligations	\$ 50,000,000	\$	24,993,850
Other U.S. and Non U.S. Denominated:			
AAA	14,311,980		10,506,510
AA			
A			
BBB			
BB			
B			
CCC			
CC			
Unrated			355,449
Commingled Funds:			
U.S. Bond Funds: Unrated	37,761,610		35,978,470
Non-U.S. Bond Funds: Unrated	1,382,863		1,314,313
Money Market Funds: Unrated	1,409,448		1,164,026
Commercial Paper: Unrated	100,000		100,000
<b>TOTAL</b>	<b>\$ 104,965,901</b>	<b>\$</b>	<b>74,412,618</b>

### Custodial Credit Risk

Custodial credit risk is the risk that in the event of the corporate failure of the custodian, the investment securities may not be returned.

Investment securities in the System Pools 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 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, 2012 and 2011, 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, 2012 and 2011 are as follows:

<b>September 30, 2012 and 2011</b>						
	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2012	2011	2012	2011	2012	2011
U.S. Government Obligations	5.0	4.1	5.5	4.9	1.9	2.6
Corporate Bonds	5.4	5.8	5.2	5.8	1.7	2.3
Commingled Bond Funds	0.6	4.2	1.5	3.8	2.3	2.2
Municipal Government Obligations					1.8	4.8
Non-U.S. Bonds					1.7	1.8

There are no fixed or variable income securities in the Short-Term Fund at September 30, 2012 and 2011.

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, 2012 and 2011 are as follows:

<b>September 30, 2012 and 2011</b>		
	2012	2011
Commingled bond funds	2.2	4.1

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, 2012 and 2011, the fair market values of these investments in the System Pools are as follows:

## September 30, 2012 and 2011

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2012	2011	2012	2011	2012	2011
Mortgage Backed Securities	\$	\$	\$	\$	\$	\$
Collateralized Mortgage Obligations	428,837	824,701	176,195	1,616,040	50,978,064	47,674,103
<b>TOTAL</b>	<b>\$ 428,837</b>	<b>\$ 824,701</b>	<b>\$ 176,195</b>	<b>\$ 1,616,040</b>	<b>\$ 108,673,662</b>	<b>\$ 128,412,599</b>

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

**Collateralized Mortgage Obligations.** Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relation-

ship 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, 2012 and 2011, the effective durations for these securities held in the System Pools are as follows:

## September 30, 2012 and 2011

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2012	2011	2012	2011	2012	2011
Mortgage backed securities					1.7	2.7
Collateralized mortgage obligations	2.6	2.4	2.7	1.2	1.1	0.9

There are no mortgage backed securities or CMOs in the Short Term Fund at September 30, 2012 and 2011.

There are no mortgage backed securities or CMOs in UAB's separately held investments at September 30, 2012 and 2011.

### 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, 2012 and 2011, 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 \$8.9 million and \$20.1 million of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2012 and 2011, 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, 2012 and 2011, there were no securities on loan from the investment pools.

### Joint Ventures

UAB accounts for its ownership of the PLTF as a joint venture, using the equity method in the amount of approximately \$38,913,000 and \$29,149,000 at September 30, 2012 and 2011, respectively. See Note 19 for further discussion of the PLTF.

## (5) Accounts Receivable

The composition of accounts receivable at September 30, 2012 and 2011 is summarized as follows:

	2012	2011
Patient care	\$ 275,701,352	\$ 277,487,859
Receivables from sponsoring agencies	57,633,120	57,654,933
Student accounts	12,621,641	10,617,786
Other	44,755,309	45,833,928
	<b>\$ 390,711,422</b>	<b>\$ 391,594,506</b>
Less: Provision for doubtful accounts from patient care	149,925,173	142,155,867
Less: Provision for doubtful accounts from student accounts	1,537,193	1,677,118
Less: Provision for doubtful accounts other	1,662,581	1,935,638
<b>Total accounts receivable</b>	<b>\$ 237,586,475</b>	<b>\$ 245,825,883</b>

## (6) Loans and Pledges Receivable

The composition of loans and pledges receivable at September 30, 2012 and 2011, 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

obligated 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.

	2012	2011
<b>LOANS RECEIVABLE:</b>		
Federal loan program	\$ 17,802,292	\$ 18,183,964
University loan funds	1,941,183	1,815,804
Other	1,254,042	1,134,543
Total loans receivable	\$ 20,997,517	\$ 21,134,311
Less allowance for doubtful accounts	2,300,116	1,807,497
Total loans receivable, net	\$ 18,697,401	\$ 19,326,814
Less: current portion	2,403,659	2,323,656
<b>Total loans receivable outstanding, noncurrent</b>	<b>\$ 16,293,742</b>	<b>\$ 17,003,158</b>
<b>GIFT PLEDGES OUTSTANDING:</b>		
Operations	\$ 12,120,132	\$ 13,779,435
Capital	7,431,019	7,457,311
Total gift pledges	\$ 19,551,151	\$ 21,236,746
Less: current portion	7,429,210	7,000,416
<b>Total gift pledges, noncurrent</b>	<b>\$ 12,121,941</b>	<b>\$ 14,236,330</b>

# (7) Capital Assets

Capital assets activity for the years ended September 30, 2012 and 2011 is summarized below:

Net interest costs capitalized for the University and Component Units in 2012 and 2011, respectively, were approximately \$3,049,000 and \$2,686,000 (net of \$912,000 and \$856,000 investment earnings in 2012 and 2011, respectively). There were no net interest costs capitalized in 2012 or 2011 for the Hospital.

## September 30, 2012

	BEGINNING BALANCE		ADDITIONS		SALES/RETIREMENTS/ TRANSFERS		ENDING BALANCE
<b>UNIVERSITY AND COMPONENT UNITS</b>							
Capital assets not being depreciated							
Land	\$	54,098,266	\$	10,440,756	\$	660,000	\$ 63,879,022
Construction in progress		40,289,441		73,073,697		14,095,821	99,267,317
	\$	<b>94,387,707</b>	\$	<b>83,514,453</b>	\$	<b>14,755,821</b>	\$ <b>163,146,339</b>
Capital assets being depreciated							
Land Improvements	\$	\$23,139,908	\$	2,114,798	\$		\$ 25,254,706
Buildings		1,165,173,041		19,645,749		3,854,457	1,180,964,333
Fixed Equipment Systems		86,960,197		1,974,773			88,934,970
Equipment		380,047,193		17,851,987		18,469,977	379,429,203
Library Materials		90,131,630		3,310,884			93,442,514
	\$	<b>1,745,451,969</b>	\$	<b>44,898,191</b>	\$	<b>22,324,434</b>	\$ <b>1,768,025,726</b>
Total Capital Assets	\$	1,839,839,676	\$	128,412,644	\$	37,080,255	\$ 1,931,172,065
Less: Accumulated Depreciation		1,015,086,276		73,013,723		20,052,609	1,068,047,390
<b>Total Net Capital Assets</b>	\$	<b>824,753,400</b>	\$	<b>55,398,921</b>	\$	<b>17,027,646</b>	\$ <b>863,124,675</b>
<b>HOSPITAL</b>							
Capital assets not being depreciated							
Land	\$	19,470,486	\$		\$	425,532	\$ 19,044,954
Construction in progress		9,152,554		5,378,341		7,084,644	7,446,251
	\$	<b>28,623,040</b>	\$	<b>5,378,341</b>	\$	<b>7,510,176</b>	\$ <b>26,491,205</b>
Capital assets being depreciated							
Land Improvements	\$	340,061	\$	197,465	\$		\$ 537,526
Buildings		823,167,504		12,041,049			835,208,553
Fixed Equipment Systems		10,002,839					10,002,839
Equipment		334,595,514		22,138,603		1,988,873	354,745,244
	\$	<b>1,168,105,918</b>	\$	<b>34,377,117</b>	\$	<b>1,988,873</b>	\$ <b>1,202,483,038</b>
Total Capital Assets	\$	1,196,728,958	\$	39,755,458	\$	9,499,049	\$ 1,226,985,367
Less: Accumulated Depreciation		542,513,377		55,542,120		2,169,514	595,885,983
<b>Total Net Capital Assets</b>	\$	<b>654,215,581</b>	\$	<b>(15,786,662)</b>	\$	<b>7,329,535</b>	\$ <b>631,099,384</b>
<b>TOTAL UAB</b>							
Capital assets not being depreciated							
Land	\$	73,568,752	\$	10,440,756	\$	1,085,532	\$ 82,923,976
Construction in progress		49,441,995		78,452,038		21,180,465	106,713,568
	\$	<b>123,010,747</b>	\$	<b>88,892,794</b>	\$	<b>22,265,997</b>	\$ <b>189,637,544</b>
Capital assets being depreciated							
Land Improvements	\$	23,479,969	\$	2,312,263	\$		\$ 25,792,232
Buildings		1,988,340,545		31,686,798		3,854,457	2,016,172,886
Fixed Equipment Systems		96,963,036		1,974,773			98,937,809
Equipment		714,642,707		39,990,590		20,458,850	734,174,447
Library Materials		90,131,630		3,310,884			93,442,514
	\$	<b>2,913,557,887</b>	\$	<b>79,275,308</b>	\$	<b>24,313,307</b>	\$ <b>2,968,519,888</b>
Total Capital Assets	\$	3,036,568,634	\$	168,168,102	\$	46,579,304	\$ 3,158,157,432
Less: Accumulated Depreciation		1,557,599,653		128,555,843		22,222,123	1,663,933,373
<b>Total Net Capital Assets</b>	\$	<b>1,478,968,981</b>	\$	<b>39,612,259</b>	\$	<b>24,357,181</b>	\$ <b>1,494,224,059</b>

## September 30, 2011

	BEGINNING BALANCE		ADDITIONS		SALES/RETIREMENTS/ TRANSFERS		ENDING BALANCE
<b>UNIVERSITY AND COMPONENT UNITS</b>							
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
	\$	<b>93,007,386</b>	\$	<b>17,272,787</b>	\$	<b>15,892,466</b>	\$ <b>94,387,707</b>
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
	\$	<b>1,680,648,553</b>	\$	<b>69,680,542</b>	\$	<b>4,877,126</b>	\$ <b>1,745,451,969</b>
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
<b>Total Net Capital Assets</b>	\$	<b>828,444,683</b>	\$	<b>12,481,751</b>	\$	<b>16,173,034</b>	\$ <b>824,753,400</b>
<b>HOSPITAL</b>							
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
	\$	<b>27,058,744</b>	\$	<b>4,082,987</b>	\$	<b>2,518,691</b>	\$ <b>28,623,040</b>
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
	\$	<b>1,142,648,227</b>	\$	<b>30,478,245</b>	\$	<b>5,020,554</b>	\$ <b>1,168,105,918</b>
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
<b>Total Net Capital Assets</b>	\$	<b>675,285,824</b>	\$	<b>(18,451,381)</b>	\$	<b>2,618,862</b>	\$ <b>654,215,581</b>
<b>TOTAL UAB</b>							
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
	\$	<b>120,066,130</b>	\$	<b>21,355,774</b>	\$	<b>18,411,157</b>	\$ <b>123,010,747</b>
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
	\$	<b>2,823,296,780</b>	\$	<b>100,158,787</b>	\$	<b>9,897,680</b>	\$ <b>2,913,557,887</b>
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
<b>Total Net Capital Assets</b>	\$	<b>1,503,730,507</b>	\$	<b>(5,969,630)</b>	\$	<b>18,791,896</b>	\$ <b>1,478,968,981</b>

# (8) Long-Term Debt

Long-term debt activity for the years ended September 30, 2012 and 2011 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, 2012

	BEGINNING BALANCE	NEW DEBT	PRINCIPAL REPAYMENT	ENDING BALANCE
<b>UNIVERSITY</b>				
Leases Payable for purchase of equipment, 4.55% to 5.04%, due various dates through 2013	\$ 142,462	\$ -	\$ 100,657	\$ 41,805
Birmingham General Revenue Bonds Series 1993B, variable rate interest(0.33% at September 30, 2012), due annually through 2014	3,200,000	-	1,000,000	2,200,000
Birmingham General Revenue Bonds Series 2002, 3.0% to 3.8%, due annually through 2014	3,490,000	-	1,120,000	2,370,000
Birmingham General Revenue Bonds Series 2003A, 3.4% to 4.5% due annually through 2030	55,185,000	-	2,585,000	52,600,000
Birmingham General Revenue Bonds Series 2005A, 4.0% to 5.0% due annually through 2021	40,065,000	-	4,510,000	35,555,000
Birmingham General Revenue Bonds Series 2005B, 4.0% to 4.5% due annually through 2028	46,670,000	-	2,165,000	44,505,000
Birmingham General Revenue Bonds Series 2010A, 2.0% to 4.5% due annually through 2041	54,650,000	-	720,000	53,930,000
Birmingham General Revenue Bonds Series 2010B, 1.0% to 5.8% due annually through 2041	52,975,000	-	190,000	52,785,000
Birmingham General Revenue Bonds Series 2010C, 2.0% to 4.0% due annually through 2028	32,902,942	-	2,834,733	30,068,209
	<b>\$ 289,280,404</b>	<b>\$ -</b>	<b>\$ 15,225,390</b>	<b>\$ 274,055,014</b>
Less (Plus): unamortized bond discount (premium)				(1,026,934)
<b>TOTAL UNIVERSITY DEBT</b>				<b>\$ 275,081,948</b>
Less: current portion				15,516,849
<b>TOTAL UNIVERSITY DEBT, NONCURRENT</b>				<b>\$ 259,565,099</b>
<b>HOSPITAL</b>				
Lease Payable, 3.75% due monthly through 2020	\$ 4,334,690	\$ -	\$ 580,547	\$ 3,754,143
Birmingham Hospital Revenue Bonds Series 2004A, 5.0% due annually through 2014	14,875,000	-	4,720,000	10,155,000
Birmingham Hospital Revenue Bonds Series 2006A, 4% due annually through 2041	242,975,000	-	930,000	242,045,000
Highlands Bonds Series 2007A, variable rate interest due annually through 2013	40,000,000	-	40,000,000	-
Birmingham Hospital Revenue Bonds Series 2008A, 4% to 5.75% due annually through 2025	102,830,000	-	1,750,000	101,080,000
Birmingham Hospital Revenue Bonds Series 2008B, variable interest rate, due annually through 2031	109,930,000	-	109,930,000	-
Birmingham General Revenue Bonds Series 2010C, 2.0% to 4.0% due annually through 2028	1,647,058	-	225,267	1,421,791
Birmingham Hospital Revenue Bonds Series 2012A, 2.57% due annually through 2027	-	20,580,000	-	20,580,000
Birmingham Hospital Revenue Bonds Series 2012B, variable interest rate (0.17% at September 30, 2012), due annually through 2042	-	65,000,000	-	65,000,000
Birmingham Hospital Revenue Bonds Series 2012C, variable interest rate (0.17% at September 30, 2012), due annually through 2042	-	65,000,000	-	65,000,000
	<b>\$ 516,591,748</b>	<b>\$ 150,580,000</b>	<b>\$ 158,135,814</b>	<b>\$ 509,035,934</b>
Less (Plus): unamortized bond discount (premium)				8,735,253
<b>TOTAL HOSPITAL DEBT</b>				<b>500,300,681</b>
Less: current portion				9,717,757
<b>TOTAL HOSPITAL DEBT, NONCURRENT</b>				<b>\$ 490,582,924</b>
<b>COMPONENT UNITS</b>				
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	\$ -	\$ 120,000	\$ 19,880,000
	<b>\$ 20,000,000</b>	<b>\$ -</b>	<b>\$ 120,000</b>	<b>\$ 19,880,000</b>
Less (Plus): unamortized bond discount (premium)				
<b>TOTAL COMPONENT UNITS DEBT</b>				<b>19,880,000</b>
Less: current portion				480,000
<b>TOTAL COMPONENT UNITS DEBT, NONCURRENT</b>				<b>19,400,000</b>
<b>TOTAL UAB</b>	<b>\$ 825,872,152</b>	<b>\$ 150,580,000</b>	<b>\$ 173,481,204</b>	<b>\$ 802,970,948</b>
Less (Plus): unamortized bond discount (premium)				7,708,319
<b>TOTAL UAB DEBT</b>				<b>795,262,629</b>
Less: current portion				25,714,606
<b>TOTAL UAB DEBT, NONCURRENT</b>				<b>\$ 769,548,023</b>

## September 30, 2011

	BEGINNING BALANCE	NEW DEBT	PRINCIPAL REPAYMENT	ENDING BALANCE
<b>UNIVERSITY</b>				
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 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)
<b>TOTAL UNIVERSITY DEBT</b>				<b>\$ 290,543,607</b>
Less: current portion				15,219,892
<b>TOTAL UNIVERSITY DEBT, NONCURRENT</b>				<b>\$ 275,323,715</b>

<b>HOSPITAL</b>				
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.% 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 2028		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
<b>TOTAL HOSPITAL DEBT</b>				<b>\$ 507,952,458</b>
Less: current portion				8,205,813
<b>TOTAL HOSPITAL DEBT, NONCURRENT</b>				<b>\$ 499,746,645</b>

<b>COMPONENT UNITS</b>				
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)				
<b>TOTAL COMPONENT UNITS DEBT</b>				<b>\$ 20,000,000</b>
Less: current portion				\$ 120,000
<b>TOTAL COMPONENT UNITS DEBT, NONCURRENT</b>				<b>\$ 19,880,000</b>
<b>TOTAL UAB</b>	\$ 739,361,211	\$ 162,299,850	\$ 75,788,909	\$ 825,872,152
Less (Plus): unamortized bond discount (premium)				7,376,087
<b>TOTAL UAB DEBT</b>				<b>\$ 818,496,065</b>
Less: current portion				23,545,705
<b>TOTAL UAB DEBT, NONCURRENT</b>				<b>\$ 794,950,360</b>

Maturities and interest on notes, leases, and bonds payable for the next five years and in the subsequent five-year incremental periods are presented in the table below. Future interest payments for variable rate debt are computed by applying the rate in effect at September 30, 2012.

<b>UNIVERSITY</b>				
<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>	
2013	\$ 15,516,849	\$ 11,423,677	\$ 26,940,526	
2014	16,010,935	10,888,464	26,899,399	
2015	16,191,218	10,323,651	26,514,869	
2016	16,817,454	9,631,552	26,449,006	
2017	14,665,661	8,947,592	23,613,253	
2018-2022	70,542,897	35,189,857	105,732,754	
2023-2027	55,390,000	22,223,858	77,613,858	
2028-2032	31,840,000	12,417,369	44,257,369	
2033-2037	18,520,000	7,306,700	25,826,700	
2038-2041	18,560,000	2,001,513	20,561,513	
<b>TOTAL UNIVERSITY</b>	<b>\$ 274,055,014</b>	<b>\$ 130,354,233</b>	<b>\$ 404,409,247</b>	
<b>HOSPITAL</b>				
<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>	
2013	\$ 9,717,757	\$ 18,701,252	\$ 28,419,009	
2014	10,147,512	18,475,367	28,622,879	
2015	10,590,281	18,034,343	28,624,624	
2016	11,065,520	17,556,076	28,621,596	
2017	11,538,244	17,061,473	28,599,717	
2018-2022	63,822,620	76,456,412	140,279,034	
2023-2027	76,294,000	60,150,165	136,444,165	
2028-2032	83,820,000	55,820,878	139,640,878	
2033-2037	102,010,000	41,430,745	143,440,745	
2038-2041	130,030,000	13,197,846	143,227,846	
<b>TOTAL HOSPITAL</b>	<b>\$ 509,035,934</b>	<b>\$ 336,884,557</b>	<b>\$ 845,920,493</b>	
<b>COMPONENT UNITS</b>				
<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>	
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	
<b>TOTAL COMPONENT UNITS</b>	<b>\$ 19,880,000</b>	<b>\$ 1,401,510</b>	<b>\$ 21,281,510</b>	
<b>TOTAL UAB</b>				
<b>YEAR</b>	<b>PRINCIPAL</b>	<b>INTEREST</b>	<b>TOTAL</b>	
2013	\$ 25,714,606	\$ 30,384,441	\$ 56,099,047	
2014	26,638,447	29,617,007	56,255,454	
2015	27,261,499	28,604,834	55,866,333	
2016	28,432,974	27,427,901	55,860,875	
2017	44,093,905	26,410,774	70,504,679	
2018-2022	134,365,517	111,646,269	246,011,788	
2023-2027	131,684,000	82,374,023	214,058,023	
2028-2032	115,660,000	68,238,247	183,898,247	
2033-2037	120,530,000	48,737,445	169,267,445	
2038-2041	148,590,000	15,199,359	163,789,359	
<b>TOTAL UAB</b>	<b>\$ 802,970,948</b>	<b>\$ 468,640,300</b>	<b>\$ 1,271,611,250</b>	

The University defeased certain indebtedness by depositing funds in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreements, all funds deposited in the trust accounts are invested in obligations of the U.S. government. Neither the assets of the trust accounts nor the defeased indebtedness are included in the accompanying statement of net assets as of September 30, 2012 and 2011. The principal outstanding on the defeased indebtedness at September 30, 2012 and 2011, respectively, was approximately \$0 and \$35,055,000 (\$0 and \$33,382,876 related to University and \$0 and \$1,672,124 related to Hospital, respectively).

In July 2012, the Hospital refinanced two series of its hospital revenue bonds: the Series 2008B Bonds, which were variable rate demand bonds (VRDOs) with a principal balance of \$109,930,000 secured by a letter of credit from Bank of America (BA); and the Series 2007A Bonds, which were variable rate obligations with a principal balance of \$40,000,000. The Series 2008B Bonds refunded obligations that provided funding for the North Pavilion project. The Series 2007A Bonds provided interim financing for the Highlands acquisition. The Series 2007A Bonds had an original maturity of October 1, 2012 if the debt was not refinanced. To accomplish this refinancing, the Hospital issued its 2012A, 2012B, and 2012C hospital revenue bonds in the amounts of \$20,580,000, \$65,000,000 and \$65,000,000, respectively. The issuance of the 2012 bonds allowed the Hospital to reduce its borrowing costs and refinance certain obligations on a long-term basis.

The 2012B and 2012C 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). No bonds were tendered and no amounts were outstanding under the LOC as of September 30, 2012.

Similarly, the 2008B bonds, which were repaid during 2012 with proceeds from the 2012 offering, included a demand obligation feature that allowed the bondholder to tender the bonds back to the Hospital at any date. The Hospital 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). No bonds were tendered and no amounts were outstanding under the LOC as of September 30, 2011.

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, 2012A, 2012B, and 2012C 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, 2012 and 2011.

## (9) Other Noncurrent Liabilities

The activity with respect to other noncurrent liabilities for the year ended September 30, 2012 and 2011, is as follows for UAB:

### September 30, 2012

	BEGINNING BALANCE	ADDITIONS	DEDUCTIONS	ENDING BALANCE
Advances federal loans	\$ 15,425,453	\$ 240,406	\$ (740,469)	\$ 14,925,390
Deferred revenue	14,577,781	147,726	(376,148)	14,349,359
Other noncurrent liabilities	962,150	1,208,047	(298,011)	1,872,186
<b>Total advances federal loans and other noncurrent liabilities</b>	<b>\$ 30,965,384</b>	<b>\$ 1,596,179</b>	<b>\$ (1,414,628)</b>	<b>\$ 31,146,935</b>

### 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
<b>Total advances federal loans and other noncurrent liabilities</b>	<b>\$ 29,439,192</b>	<b>\$ 2,543,844</b>	<b>\$ (1,017,652)</b>	<b>\$ 30,965,384</b>

## (10) Pledged Revenues

Pledged revenues for 2012 and 2011, as defined by the Series 2000A, 2000B, 2000C, 2000D, 2004A, 2008A, 2012A, 2012B and 2012C Hospital Revenue Trust Indentures, are as follows:

HOSPITAL BONDS	2012	2011
Total pledged revenues	\$ 1,211,793,337	\$ 1,126,629,898

Pledged revenues for 2012 and 2011, as defined by the Series 1993B, 2002, 2003A, 2005A, 2005B, 2010A, 2010B and 2010C General Revenue Trust Indentures, are as follows:

UNIVERSITY BONDS	2012	2011
Tuition fees	\$ 175,184,111	\$ 161,719,588
Indirect cost recovery	80,901,702	91,802,288
Sales and service of educational activities	55,906,284	53,034,123
Auxiliary sales and services	21,281,904	20,211,806
Endowment and investment income	27,096,839	34,144,703
Other sources	39,442,801	30,826,011
<b>TOTAL PLEDGED REVENUES</b>	<b>\$ 399,813,641</b>	<b>\$ 391,738,519</b>

# (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 2012, 2011, and 2010, respectively, were approximately \$137,065,000, \$134,826,000, and \$127,433,000, which consisted of \$79,458,000, \$96,297,000, and \$91,017,000 from UAB and \$57,607,000, \$38,529,000, and \$36,416,000 from employees. UAB's contribution was 10%, 12.51%, and 12.51% of salaries and wages for covered employees in 2012, 2011, and 2010, respectively. Covered employees (except for law enforcement employees) are required by statute to contribute 7.25% in 2012 and 5% in 2011 of earned compensation to TRS. The contribution by law enforcement employees is 8.25% in 2012 and 6% in 2011 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, 2012, 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 2012 and 2011, respectively, excluding employee amounts not eligible for matching, were approximately \$31,357,000 and \$30,444,000 which included approximately \$15,678,000 and \$15,222,000 each from UAB and its employees.

UAB's total salaries and wages for fiscal year 2012 and 2011, respectively, were approximately \$921,253,000 and \$887,356,000. Total salaries and wages during fiscal years 2012 and 2011 for covered employees participating in TRS were approximately \$794,579,000 and \$769,758,000, respectively. Total salaries and wages during fiscal years 2012 and 2011 for covered employees participating in the 403(b) Plan were approximately \$327,589,000 and \$316,527,000, 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.

The LLC sponsors a voluntary 403(b) retirement plan for eligible employees. The 403(b) plan is a voluntary, defined-contribution, tax-deferred as well as Roth after tax plan governed by Internal Revenue Code 403(b). Eligible employees can choose between

both TIAA and VALIC for investments. Employees are vested after 3 years of employment. Eligibility for matching is for all full-time and part-time regular, twelve-hour shift, and weekend staff employees.

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 \$44,705,000 and \$40,092,000 as of September 30, 2012 and 2011, 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 on the PEEHIP website at [www.rsa-al.gov/PEEHIP/peehip.html](http://www.rsa-al.gov/PEEHIP/peehip.html) under the Trust Fund Financials tab. 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, 2012 and 2011, respectively:

### Retired Member Rates

- Individual Coverage/Non-Medicare Eligible - \$151 and \$146
- Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$391 and \$381
- Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible - \$250 and \$245
- Individual Coverage/Medicare Eligible Retired Member - \$10 and \$10
- Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) - \$250 and \$245
- Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible - \$109 and \$109

The required contribution rates of the employer were \$370 and \$420 per employee per month in the years ended September 30, 2012 and 2011, respectively. 100% of 2012 and 2011 contributions were paid in 2012 and 2011, respectively. UAB con-

tributed \$16,732,900 and \$18,039,089 to PEEHIP in 2012 and 2011, 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 \$7,142,350 and \$1,816,610 in retiree healthcare and benefit expense during the years ended September 30, 2012 and 2011, 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, 2012 and 2011 is as follows:

	2012	2011	2010
Annual required contribution	\$ 10,342,567	\$ 6,539,591	\$ 5,887,768
Interest on obligations for retiree benefits	728,677	560,001	372,327
Adjustment to annual required contribution	(555,218)	(367,986)	(261,789)
Annual retiree benefit costs	10,516,026	6,731,606	5,998,306
UAB Contributions	(3,373,676)	(4,914,996)	(4,166,681)
Increase in obligations for retiree benefits	7,142,350	1,816,610	1,831,625
Obligations for retiree benefits, beginning of year	8,967,199	7,150,589	5,318,964
<b>Total obligations for retiree benefits, end of year</b>	<b>\$ 16,109,549</b>	<b>\$ 8,967,199</b>	<b>\$ 7,150,589</b>

The annual retiree benefit cost, percentage of the annual retiree benefit cost contributed to the retiree benefit plan and the net obligation for retiree ben-

efits for UAB for year ended September 30, 2012 and 2011 are as follows:

	2012	2011	2010
Annual retiree benefit cost	\$ 10,516,026	\$ 6,731,606	\$ 5,998,306
Percentage of annual cost contributed	32.08%	73.01%	69.5%
Net obligation to the retiree benefit plan	\$ 16,109,549	\$ 8,967,199	\$ 7,150,589

### 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, 2010 and 2011 was as follows:

	2012	2011	2010
Actuarial accrued liability	\$ 44,358,077	\$ 52,061,639	\$ 51,649,871
Actuarial value of plan assets			
Unfunded actuarial accrued liability	\$ 44,358,077	\$ 52,061,639	\$ 51,649,871
Funded ratio	Zero	Zero	Zero
Covered payroll	\$ 921,253,387	\$ 887,356,263	\$ 838,331,004
Unfunded actuarial accrued liability as a percentage of covered payroll	4.81%	5.87%	6.16%

## 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, 2011
- 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 9.5% and 7.8% for the years ended September 30, 2012 and September 30, 2011, respectively, reduced by increments to an ultimate rate of 5.0% over years through 2018
- amortization of the initial unfunded actuarial liability over 30 years on a level percent of pay method with payroll growth rate of 3.25%

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, 2012 and 2011, respectively, UAB disbursed approximately \$130,039,000 and \$126,454,000 under the FDSLP.

## (14) Grants and Contracts

At September 30, 2012 and 2011, UAB had been awarded approximately \$366,519,000 (unaudited) and \$356,004,000 (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, 2012 and 2011, UAB had been awarded approximately \$12,459,000 (unaudited) and \$30,346,000 (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 26% and 27% of the Hospital's net patient service revenue for the years ended September 30, 2012 and 2011, 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 2009. Revenue from the Blue Cross program accounted for approximately 31% and 33% of the Hospital's net patient service revenue for each of the years ended September 30, 2012 and 2011, 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 participates in the Alabama

Medicaid Plan and therefore, also receives supplemental payments based on formulas established by the Alabama Medicaid Agency. The net benefit associated with the Hospital's essential provider designation, totaling approximately \$58,907,000 and \$46,390,000 in 2012 and 2011, 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, 2012 and 2011.

**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:

	2012	2011
Gross Patient Service Revenue	\$ 4,143,237,574	\$ 3,752,515,964
Less provision for contractual and other adjustments	(2,851,491,622)	(2,575,163,689)
Less provision Bad Debts	(236,995,097)	(196,167,535)
Net Patient Service Revenue	\$ 1,054,750,855	\$ 981,184,740
Capitation Revenue	64,068,261	57,684,083
Other Operating Revenue	83,855,212	77,002,487
<b>TOTAL HOSPITAL SALES REVENUE</b>	<b>\$ 1,202,674,328</b>	<b>\$ 1,115,871,310</b>

## (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, 2012 and 2011:

	2012	2011
Approximate charges forgone, based on established rates	\$ 216,552,000	\$ 178,531,000
Percentage of charity charges to total charges	5.2%	4.8%

## (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, 2012 and 2011 follows:

	2012	2011
Other	43%	41%
Medicare	20	21
Blue Cross	28	28
Medicaid	9	10
	<b>100%</b>	<b>100%</b>

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 2012 and 2011 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, 2012 and 2011, 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 2012 and 2011.

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, 2012 and 2011 are presented as follows for UAB:

## (18) Construction Commitments and Financing

UAB has contracted for the construction and renovation of several facilities. At September 30, 2012 and 2011, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$109,756,000 (unaudited) and \$117,151,000 (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 covers liabilities of the covered parties, including UAB, arising from reported claims, claims that are incurred

SELF INSURED LIABILITIES	2012	2011
Balance, beginning of year	\$ 9,655,872	\$ 9,308,638
Claims incurred and changes in estimates	78,020,385	66,937,421
Claim payments	(72,720,172)	(66,590,187)
<b>BALANCE, END OF YEAR</b>	<b>\$ 14,956,085</b>	<b>\$ 9,655,872</b>

## (20) Commitments and 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 \$137,000 and \$144,000 at September 30, 2012 and September 30, 2011, 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), 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, 2012. Approximately 12.7% of any Contingent Consideration received by SRI will be owed to individuals who were employed by Brookwood as of the date of the Purchase Agreement.

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

In addition, in November 2009, UABRF (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.

## (21) Operating Expenses by Function

Total operating expenses by functional classification for the years ended September 30, 2012 and 2011 are as follows for UAB:

<b>September 30, 2012</b>	<b>SALARIES, WAGES, AND BENEFITS</b>	<b>SUPPLIES AND SERVICES</b>	<b>DEPRECIATION AND AMORTIZATION</b>	<b>SCHOLARSHIPS AND FELLOWSHIPS</b>	<b>TOTAL</b>
Instruction	\$ 224,190,242	\$ 23,227,468			\$ 247,417,710
Research	196,868,074	116,617,296			313,485,370
Public service	54,228,038	17,896,872			72,124,910
Academic support	123,460,490	29,962,225			153,422,715
Student services	17,241,447	8,489,860			25,731,307
Institutional support	69,519,494	29,907,695			99,427,189
Operations and maintenance of plant	27,608,790	37,667,318			65,276,108
Scholarships and fellowships				\$ 19,158,774	19,158,774
Hospital	536,212,418	498,350,263			1,034,562,681
Auxiliary	37,542,944	428,560,390			466,103,334
Depreciation and amortization			\$ 128,960,636		128,960,636
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,286,871,937</b>	<b>\$ 1,190,679,387</b>	<b>\$ 128,960,636</b>	<b>\$ 19,158,774</b>	<b>\$ 2,625,670,734</b>

<b>September 30, 2011</b>	<b>SALARIES, WAGES, AND BENEFITS</b>	<b>SUPPLIES AND SERVICES</b>	<b>DEPRECIATION AND AMORTIZATION</b>	<b>SCHOLARSHIPS AND FELLOWSHIPS</b>	<b>TOTAL</b>
Instruction	\$ 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	110,175,567	36,134,459			146,310,026
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	32,968,768	369,504,943			402,473,711
Depreciation and amortization			\$ 127,748,781		127,748,781
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 1,226,729,759</b>	<b>\$ 1,106,569,166</b>	<b>\$ 127,748,781</b>	<b>\$ 19,012,364</b>	<b>\$ 2,480,060,070</b>

## (22) Segment Reporting

As discussed in 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, 2012 and 2011 is as follows:

UNIVERSITY	2012	2011
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
Current assets	\$ 412,426,979	\$ 386,904,874
Capital assets, net	801,214,461	765,965,497
Other assets	643,045,923	645,604,331
<b>TOTAL ASSETS</b>	<b>\$ 1,856,687,363</b>	<b>\$ 1,798,474,702</b>
Current liabilities	\$ 192,666,516	\$ 189,183,060
Long-term debt	259,565,099	275,323,715
Other noncurrent liabilities	14,925,391	15,425,453
<b>TOTAL LIABILITIES</b>	<b>\$ 467,157,006</b>	<b>\$ 479,932,228</b>
Invested in capital net of related debt	\$ 555,391,612	\$ 549,858,206
Restricted nonexpendable	252,616,872	227,892,270
Restricted expendable	183,897,791	174,373,059
Unrestricted	397,624,082	366,418,939
<b>TOTAL NET ASSETS</b>	<b>\$ 1,389,530,357</b>	<b>\$ 1,318,542,474</b>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>		
Tuition and fees, net	\$ 130,569,653	\$ 115,886,758
Grant and contract revenue	367,310,018	434,244,970
Sales and services, auxiliary	21,281,904	20,211,806
Other operating revenues	95,349,085	83,860,134
Salaries, wages, and benefits	(677,685,032)	(648,503,741)
Supplies and services	(253,634,899)	(268,142,906)
Depreciation expense	(66,839,816)	(67,964,828)
Scholarships and fellowships	(19,158,339)	(19,012,364)
<b>OPERATING LOSS</b>	<b>\$ (402,807,426)</b>	<b>\$ (349,420,171)</b>
State appropriations	\$ 235,090,129	\$ 221,566,438
Investment income	71,929,201	332,402
Interest expense	(6,838,327)	(8,369,601)
Gifts	32,332,717	28,570,266
Other nonoperating revenues	31,653,883	46,705,699
<b>(LOSS) BEFORE OTHER CHANGES IN NET ASSETS</b>	<b>\$ (38,639,823)</b>	<b>\$ (60,614,967)</b>
Capital gifts	\$ 418,160	\$ 7,215
Endowment gifts	11,009,611	9,561,889
Other	14,205,901	16,824,832
Intergovernmental transfers	83,994,034	59,150,023
<b>INCREASE IN NET ASSETS</b>	<b>\$ 70,987,883</b>	<b>\$ 24,928,992</b>
Net assets, beginning of year	\$ 1,318,542,474	\$ 1,293,613,482
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 1,389,530,357</b>	<b>\$ 1,318,542,474</b>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided by (used in):		
Operating activities	\$ (327,562,787)	\$ (292,091,526)
Noncapital financing activities	398,036,422	369,568,997
Capital and related financing activities	(110,079,784)	24,315,590
Investing activities	(9,968,914)	(46,793,258)
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (49,575,063)</b>	<b>\$ 54,999,803</b>
Cash and cash equivalents, beginning of year	\$ 160,675,532	\$ 105,675,729
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 111,100,469</b>	<b>\$ 160,675,532</b>

<b>HOSPITAL</b>	<b>2012</b>	<b>2011</b>
<b>CONDENSED STATEMENT OF NET ASSETS</b>		
Current assets	\$ 311,195,825	\$ 249,235,776
Capital assets, net	631,099,384	654,215,581
Other assets	542,758,190	480,271,156
<b>TOTAL ASSETS</b>	<b>\$ 1,485,053,399</b>	<b>\$ 1,383,722,513</b>
Current liabilities	\$ 77,437,604	\$ 70,338,159
Long-term debt	490,582,924	499,746,645
Other noncurrent liabilities	14,349,359	14,577,780
<b>TOTAL LIABILITIES</b>	<b>\$ 582,369,887</b>	<b>\$ 584,662,584</b>
Invested in capital net of related debt	\$ 130,798,704	\$ 146,263,124
Restricted nonexpendable	128,099	128,099
Restricted expendable	27,975,954	25,207,841
Unrestricted	743,780,755	627,460,865
<b>TOTAL NET ASSETS</b>	<b>\$ 902,683,512</b>	<b>\$ 799,059,929</b>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b>		
Operating revenues	\$ 1,194,902,008	1,109,666,682
Operating expenses	(1,034,562,682)	(963,281,100)
Depreciation expense	(55,542,120)	(53,012,613)
<b>OPERATING INCOME</b>	<b>\$ 104,797,206</b>	<b>\$ 93,372,969</b>
State appropriations	33,550,226	32,722,101
Investment income (loss)	55,634,553	(11,701,057)
Interest expense	(20,693,887)	(21,186,386)
Gifts	348,648	328,209
Other nonoperating revenues	281,797	3,207,397
<b>INCOME BEFORE OTHER CHANGES IN NET ASSETS</b>	<b>\$ 173,918,543</b>	<b>\$ 96,743,233</b>
Capital gifts	\$ 34,212	527,011
Other	21,187	(194,446)
Intergovernmental transfers	(70,350,359)	(50,801,766)
<b>INCREASE IN NET ASSETS</b>	<b>\$ 103,623,583</b>	<b>\$ 46,274,032</b>
Net assets, beginning of year	\$ 799,059,929	752,785,897
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 902,683,512</b>	<b>\$ 799,059,929</b>
<b>CONDENSED STATEMENT OF CASH FLOWS</b>		
Net cash provided by (used in):		
Operating activities	\$ 173,320,736	\$ 117,016,207
Noncapital financing activities	(36,217,223)	(14,449,718)
Capital and related financing activities	(61,129,999)	(79,371,658)
Investing activities	(90,229,119)	(59,228,024)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>\$ (14,255,605)</b>	<b>\$ (36,033,193)</b>
Cash and cash equivalents, beginning of year	52,405,402	88,438,595
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 38,149,797</b>	<b>\$ 52,405,402</b>

## (23) Recently Issued Pronouncements

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 Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Also, additional reporting guidance is provided for blending a component unit if the primary government is a business-type entity that uses a single column presentation for financial reporting. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The University 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. The University 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. The University 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 GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), in March 2012. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The University is currently evaluating the impact, if any, that GASB 65 will have on its financial statements.

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

The GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* (GASB 67), in June 2012. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. The University is currently evaluating the impact, if any, that GASB 67 will have on its financial statements.

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

**The University of Alabama at Birmingham**  
**Required Supplementary Information**  
**September 30, 2012 and 2011**

## 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, 2011
- 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 9.5% and 7.8% for the years ended September 30, 2012 and 2011, respectively, reduced by increments to an ultimate rate of 5.0% over years through 2018;
- amortization of the initial unfunded actuarial liability over 30 years on a level percent of pay method with payroll growth rate of 3.25%;

## 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, 2011	None	\$ 44,358,077	\$ (44,358,077)	Zero	\$ 921,253,387	-4.8%	
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%	

# The University of Alabama at Birmingham Administration

As of September 30, 2012



## **Richard B. Marchase**

Interim President



## **Linda C. Lucas**

Provost

## **Louis Dale**

Vice President for Equity and Diversity

## **Will Ferniany**

CEO, UAB Health System

## **Shirley Salloway Kahn**

Vice President for Development,  
Alumni, and External Relations

## **Richard B. Marchase**

Vice President for Research and Economic  
Development

## **Richard L. Margison**

Vice President for Financial Affairs  
and Administration

## **E. Douglas Rigney, Jr.**

Interim Vice President for  
Information Technology

## **Michael R. Waldrum, M.D.**

VP/Chief Operating Officer, Hospital

## **Ray L. Watts, M.D.**

Senior Vice President for Medicine and Dean,  
School of Medicine



## **Thomas M. DiLorenzo**

Dean, College of Arts and Sciences

## **Doreen C. Harper**

Dean, School of Nursing

## **Eric P. Jack**

Interim Dean, School of Business

## **Harold P. Jones**

Dean, School of Health Professions

## **Melanie M. Lalor**

Interim Dean, School of Engineering

## **Max Michael III**

Dean, School of Public Health

## **Bryan D. Noe**

Dean, Graduate School

## **Rodney W. Nowakowski, O.D.**

Dean, School of Optometry

## **Michael S. Reddy**

Dean, School of Dentistry

## **Deborah L. Voltz**

Dean, School of Education

# The Board of Trustees of The University of Alabama

As of September 30, 2012

## **The Honorable Robert Bentley**

Governor of Alabama  
President ex officio

## **Thomas R. Bice, Ed. D.**

State Superintendent of Education  
Member ex officio

## **Paul W. Bryant, Jr.**

President pro tempore  
Tuscaloosa



## **Karen Phifer Brooks**

Tuscaloosa

## **John H. England, Jr.**

Tuscaloosa

## **Joseph C. Espy III**

Montgomery

## **Ronald W. Gray**

Huntsville

## **Andria S. Hurst**

Birmingham

## **Vanessa Leonard**

Rockford

## **W. Davis Malone III**

Dothan

## **John J. McMahon, Jr.**

Birmingham

## **William "Britt" Sexton**

Decatur

## **Finis E. St. John IV**

Cullman

## **Marietta M. Urquhart**

Mobile

## **Kenneth L. Vandervoort, M.D.**

Anniston

## **James W. Wilson III**

Montgomery

## **Trustees Emeriti**

Frank H. Bromberg, Jr.  
Angus R. Cooper II  
Oliver H. Delchamps, Jr.  
Garry Neil Drummond  
Jack Edwards  
Joseph L. Fine  
Sandra Hullett  
Peter L. Lowe  
Sidney L. McDonald  
John T. Oliver, Jr.  
Joe H. Ritch  
Yetta G. Samford, Jr.  
Cleophus Thomas, Jr.  
John Russell Thomas



## **Robert E. Witt**

Chancellor

## **Michael A. Bownes**

Secretary of the Board





