

THE UNIVERSITY OF ALABAMA  
FINANCIAL REPORT  
2012-2013





# 2012-2013 Financial Report Table of Contents

Independent Auditor's Report.....	3
Management's Discussion and Analysis (Unaudited).....	5
Financial Statements:	
Statements of Net Position.....	18
Statements of Revenues, Expenses and Changes in Net Position.....	19
Statements of Cash Flows.....	20
Discretely Presented Component Units	
Statements of Net Position.....	22
Statements of Revenues, Expenses and Changes in Net Position.....	23
Notes to Financial Statements:	
Note 1 Summary of Significant Accounting Policies.....	24
Note 2 Component Units.....	27
Note 3 Cash and Cash Equivalents.....	40
Note 4 Investments.....	41
Note 5 Accounts and Notes Receivable.....	51
Note 6 Loans and Pledges Receivable.....	51
Note 7 Capital Assets.....	52
Note 8 Construction Commitments and Financing.....	53
Note 9 Long-Term Debt.....	53
Note 10 Self-Insurance.....	56
Note 11 Retirement Plan.....	57
Note 12 Post-Employment Benefits.....	58
Note 13 Compensated Absences.....	58
Note 14 Federal Direct Lending Program.....	59
Note 15 Contingencies and Commitments.....	59
Note 16 Operating Expense by Function.....	60
Note 17 Other Noncurrent Assets and Liabilities.....	61
Note 18 Grants and Contracts.....	62
Note 19 Recently Issued Pronouncements.....	62
The Board of Trustees of The University of Alabama.....	
Executive Officers.....	64





## **Independent Auditor's Report**

To the Board of Trustees of The University of Alabama:

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

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

### ***Opinion***

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



### ***Emphasis of Matter***

As discussed in Note 1, the financial statements of the University are intended to present the financial position, the changes in financial position and, where applicable, the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2013 and 2012, its changes in financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

The accompanying management's discussion and analysis for the years ended September 30, 2013 and 2012 on pages 5 through 16 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 an 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 an opinion on the financial statements that collectively comprise the University's basic financial statements. The enrollment and statistics information included on page 17 is presented for purposes of additional analysis and is 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 do not express an opinion or provide any assurance on it.

*PricewaterhouseCoopers LLP*

January 27, 2014

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# The University of Alabama

## Management's Discussion and Analysis (Unaudited)

The Management's Discussion and Analysis (MD&A) of The University of Alabama's (the "University") annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal years ended September 30, 2013 and 2012. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes and this discussion are the responsibility of management.

### History and Mission

The University, the State of Alabama's (the "State") oldest institution of higher education, is the senior comprehensive doctoral-level institution in Alabama and began instructing students in 1831. Established by constitutional provision, with subsequent statutory mandates and authorizations, the University advances the intellectual and social condition of all the people of the State through quality programs of research, instruction and service. The University is a fully accredited institution of higher learning offering a wide variety of undergraduate, graduate and professional programs. The University is located in Tuscaloosa, Alabama.

The University is accredited by and is a member of the Southern Association of Colleges and Schools. All degree programs in professional schools and colleges subject to recognized accrediting agencies are fully accredited by the appropriate national organization. The University is a member of the Association of Public and Land-Grant Universities.

The University is governed by The Board of Trustees of The University of Alabama (the "Board"), a body corporate under Alabama Law. The Board also governs The University of Alabama at Birmingham and The University of Alabama in Huntsville, which along with the University, make up The University of Alabama System (the "System"). The Board determines policy and approves operating budgets, educational programs, facilities and capital financings for each campus, and sets the separate tuition and fee schedules applicable at each campus. Oversight responsibilities of the Alabama Commission on Higher Education ("ACHE") and annual requests for appropriations from the Alabama legislature are coordinated for each campus by the Chancellor of the System with the approval of the Board.

### Overview of Financial Statements

The University's financial statements present the financial condition, results of operations and cash flows of the University and its blended component unit, The Crimson Tide Foundation ("CTF"). The financial statements of six affiliated foundations are presented discretely from the University. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements. A summary of new accounting standards and their anticipated effects conclude the footnotes with brief summations of recently issued statements of the Governmental Accounting Standards Board ("GASB").

### Statement of Net Position

The statement of net position presents the financial position of the University at the end of the fiscal year. This statement reflects the various assets, deferred outflows, liabilities, and net position of the University as of the fiscal years ended September 30, 2013 and 2012.

From the data presented, readers of the statement of net position have the information to determine the assets available to continue the operations of the University. They may also determine how much the University owes vendors, bondholders, and lending institutions. In addition, the statement of net position outlines the net position (assets and deferred outflows minus liabilities) available to the University.

Net position is divided into three major categories. The first category, net investment in capital assets, provides the University's equity in property, plant and equipment owned by the University. The second category is restricted net position, which is divided into two categories, non-expendable and expendable. The corpus of non-expendable restricted resources, as it pertains to endowments, is only available for investment purposes. Donors have primarily restricted income derived from these investments to fund scholarships and fellowships. Expendable restricted resources are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The last category, unrestricted net position, presents the net position available to the University for any lawful purpose of the University.

At September 30, 2013, the University's assets exceeded \$3.2 billion, liabilities were \$1.2 billion, leaving a net position of \$2.0 billion, an overall increase in net position of \$133.2 million from 2012.

## The University's Assets

The University's cash and cash equivalents include both current and noncurrent balances of \$105.6 million and \$23.9 million, respectively, at the end of 2013. Noncurrent cash and cash equivalents are reported in other noncurrent assets in the condensed statements of net position presented below. Noncurrent cash and cash equivalents are comprised of restricted cash balances of endowment funds. The University considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents. Total cash and cash equivalents increased \$66.3 million in 2013 from the prior year principally due to cash retained for operating needs. Total cash and cash equivalents decreased \$13.4 million in 2012 from the prior year principally due to cash expended for capital projects.

Accounts receivable experienced a decrease of approximately \$10.2 million in fiscal year 2013, stemming from large receivables recorded in the prior

year (due from the National Institute of Standards and Technology and from the Health Resources and Services Administration) for construction of the North Engineering Research Center. The current portion of notes receivable experienced a decrease of \$1.6 million primarily from the satisfaction of the remaining balance of the note receivable due from the 1831 Foundation. Noncurrent notes receivable increased \$14.6 million for Greek housing loans. This follows an increase in noncurrent notes receivable of \$21.9 million in fiscal year 2012 also related primarily to Greek housing loans.

Pledges receivable (both current and noncurrent) decreased \$7.8 million in 2013 to \$23.6 million from \$31.4 million in 2012. Of this decrease, \$4.5 million was attributable to CTF, while the University's pledges receivable declined \$3.3 million.

Total combined investments, which includes short-term investments, endowment and life income investments, investments for capital activities, and other long-term investments, decreased \$43.1 million. The primary contributing factor of this decrease is the transfer of the Bryce Property, valued at \$87.6 million, from investments to capital assets. The University purchased the Bryce Property in 2010 as an endowment investment.

## Condensed Statements of Net Position

	September 30,		
	2013	2012	2011
Current assets			
Cash and cash equivalents	\$ 105,627,822	\$ 60,917,369	\$ 73,013,896
Short-term investments	224,328,503	273,564,466	213,353,837
Accounts receivable, net	94,558,012	104,714,972	99,429,818
Other current assets	87,807,544	80,786,800	66,905,630
Noncurrent assets			
Endowment, life income and other investments	1,027,965,684	1,021,810,297	1,040,630,540
Capital assets, net	1,539,631,730	1,290,466,310	1,126,752,587
Other noncurrent assets	130,087,220	101,542,973	82,083,064
Total assets	<u>3,210,006,515</u>	<u>2,933,803,187</u>	<u>2,702,169,372</u>
Deferred Outflows of Resources	<u>13,283,391</u>	<u>2,015,721</u>	<u>2,111,708</u>
Current liabilities	424,242,388	413,375,798	377,380,141
Noncurrent liabilities	820,116,340	676,742,359	713,963,122
Total liabilities	<u>1,244,358,728</u>	<u>1,090,118,157</u>	<u>1,091,343,263</u>
Net position			
Net investment in capital assets	817,415,403	667,869,001	594,279,899
Restricted	682,843,388	646,445,273	591,311,502
Unrestricted	478,672,387	531,386,477	427,346,416
Total net position	<u>\$ 1,978,931,178</u>	<u>\$ 1,845,700,751</u>	<u>\$ 1,612,937,817</u>

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The long-term use of the property was undetermined, until the campus master plan was finalized. As master planning proceeded in 2011 and 2012, it was determined that the property would be used for operations, pending the vacancy of the property by the Alabama Department of Mental Health (ADMH). Due to its intended operating use, the value of the property was transferred into capital assets, as it is no longer considered an investment property. The large reduction in endowment investments created by the Bryce Property transfer was offset by higher unrealized gains in 2013 along with the investment of 2012 bond proceeds.

In 2012, investments experienced an increase of \$41.4 million, primarily resulting from unrealized gains netted with a decrease in investments of bond proceeds that were expended for capital projects. Fiscal year 2011 saw an increase in investments of \$69.4 million due primarily to \$113.7 million in 2010 B, C and D bond proceeds received for capital projects and not yet expended as of September 30, 2011, offset by market losses of \$49.5 million.

Investments classified as current are available for operating purposes while noncurrent investments relate primarily to endowment and capital purposes. The University's investment portfolio is principally invested in three separate investment pools sponsored by the System. The University's investment approach is intended to maximize current investment returns consistent with annual liquidity needs while protecting principal. The University adopts the broad objective of investing assets to preserve their real value, enhance the purchasing power of income, and keep pace with inflation and evolving University needs. Fiscal year 2013 reflects a \$49.2 million decrease in short-term investments resulting from a withdrawal for operating needs. In addition, management elected to retain cash at year-end for upcoming operating needs. At the 2012 fiscal year-end, short-term investments had increased \$60.2 million due to cash received for the Fall 2012 term, but were later withdrawn for operating needs as previously mentioned.

Capital assets include land and land improvements, infrastructure, buildings and improvements, equipment, construction in progress, library materials, collections and intangible assets. During 2013, capital assets rose \$249.2 million and \$163.7 million in 2012 due largely to the construction of new buildings, and the transfer of the Bryce Property in 2013. In 2012, the University was gifted a conservation easement valued at \$25.0 million which was classified as an intangible asset. In 2011, capital assets increased \$98.4 million, net of annual depreciation, to \$1.1 billion. Capital spending remains

a priority to provide the necessary facilities needed to accommodate both present and future enrollment growth. The University is committed to modernizing its older teaching and research facilities, constructing new facilities, and funding its deferred maintenance commitments as it recruits quality students and enhances academic and research programs.

Major capital expenditures in 2013 included Presidential Village Phase II (\$30.9 million), North Engineering Research Complex (\$24.6 million), Riverside Parking Deck (\$12.9 million), Digital Media Center (\$15.0 million), Ferguson Center renovation and addition (\$11.2 million), North Campus Student Center (\$10.2 million), the Mal Moore Athletic Facility First Floor deferred maintenance (\$7.6 million), Strength and Conditioning facility (\$7.2 million), ten Hoor Hall renovation (\$5.1 million), Sarah Patterson Champions Plaza (\$3.0 million), Searcy Building deferred maintenance (\$2.8 million), Fresh Food Company (\$2.3 million), Presidential Village Phase I (\$2.2 million), Sam Bailey Track Stadium renovation (\$2.1 million), and the Burke Dining Hall renovation (\$2.1 million).

Major capital expenditures in 2012 were for the North Engineering Research Complex (\$34.1 million), Presidential Village Phase I (\$32.9 million), Russell Hall renovation and addition (\$12.8 million), the South Engineering Research Complex (\$8.9 million), Moore Hall renovation (\$7.5 million), East Quad Energy Plant (\$5.0 million), the University Police Center (\$4.5 million), Presidential Village Phase II (\$3.6 million), Indoor Tennis Stadium (\$3.4 million), and the Athletic Practice Fields replacement project (\$3.3 million).

Major capital expenditures in 2011 included the South Engineering Research Complex (\$41.7 million), Presidential Village I (\$23.5 million), East Quad Energy Plant (\$12.6 million), North Engineering Research Complex (\$6.9 million), and Foster Auditorium Renovation/Expansion (\$3.0 million).

Contributing to the make-up of other noncurrent assets not discussed above, the Eminent Scholars Program, established by the State of Alabama Act No. 85-759 and administered by the ACHE, provides that donor gifts of \$600,000 held in a foundation affiliated with the University are eligible for \$400,000 in State matching funds. In prior years, the University received funds from donors intended to be matched in accordance with this program and transferred the corpus of these funds to The Capstone Foundation to be invested by The Capstone Foundation as agent for the University. In fiscal year 2013, the University's receivable from The Capstone Foundation investment for the Eminent Scholars Program increased slightly from \$8.4 million



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in 2012 to \$8.7 million in 2013, the result of unrealized gains at year end.

## Deferred Outflows of Resources

The University implemented GASB Statements No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*, during fiscal year 2013. As a result, \$13.3 million in bond deferred refunding amounts were reclassified as deferred outflows of resources. Prior to this implementation, these amounts were reported in long term debt, net.

## The University's Liabilities

Current liabilities consist primarily of accounts payable, accrued liabilities, and unearned revenue related to operations. The majority of accounts payable and accrued liabilities represent amounts owed for salaries, wages and benefits, and supplies and services. Unearned revenue consists primarily of tuition and housing revenues for the fall semester that occurs after September 30 and football ticket revenue for the portion of the season which occurs after September 30. Current liabilities totaled \$424.2 million in 2013 compared to \$413.4 million in 2012, an increase of \$10.9 million. Accounts payable and accrued liabilities rose \$15.7 million in 2013 over the prior year. As a result of newly issued accounting guidance applicable to continuing care retirement communities, the University recorded an \$8.9 million future services obligation related to the entrance fees paid by residents of Capstone Village, a retirement community purchased by the University in 2010. Additionally, application of this guidance resulted in \$13.5 million in entrance fees reported as deposits, \$11.2 million of which were formerly reported as noncurrent unearned revenue. The decrease in deposits stems from the receipt of restricted cash from the State of Alabama Department of Mental Health, for which the University acts as agent for the construction of a new adult psychiatric facility. The balance is approximately \$39.4 million less in 2013 as the facility nears completion. Long-term debt increased in fiscal year 2013 due to new bond issuances in October 2012. Fiscal year 2012 saw a decline in long-term debt based on payments made on the note to the Alabama Department of Mental Health for the University's acquisition of the Bryce Property.

## The University's Net Position

Net position represents the residual interest in the University's assets and deferred outflows after all liabilities are deducted. The University's net position

increased \$133.2 million, or 7.2%, during fiscal 2013, nearing \$2 billion. This increase follows a 14.4% increase of \$232.8 million in 2012 and a 5.3% increase of \$80.8 million in fiscal year 2011.

Net investment in capital assets increased \$149.5 million from \$667.9 million in 2012. The previous year increase of \$73.6 million rose from \$594.3 million reported in 2011.

Restricted nonexpendable net position increased approximately \$19.0 million primarily because of additions to true endowments. This net position type encompasses true endowments and life income/annuities. In the prior year, restricted nonexpendable net position experienced growth of \$21.7 million.

Restricted expendable net position increased \$17.4 million, or 5.6%, following an increase of \$33.4 million in 2012, primarily due to investment gains recorded during both years. This net position category includes restricted gifts, institutional loan funds, and sponsored programs. Restricted expendable net position are restricted by externally-imposed constraints.

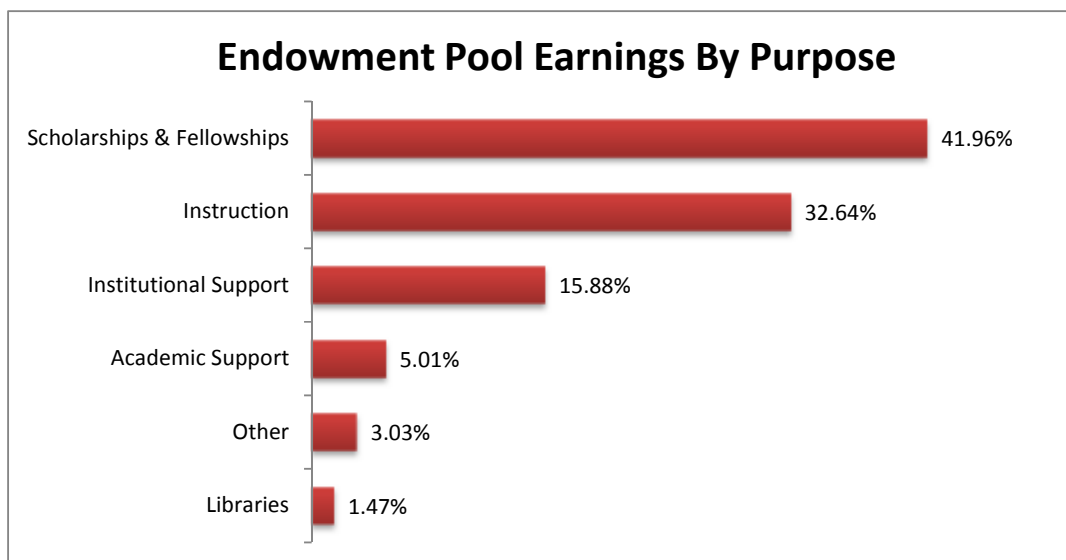
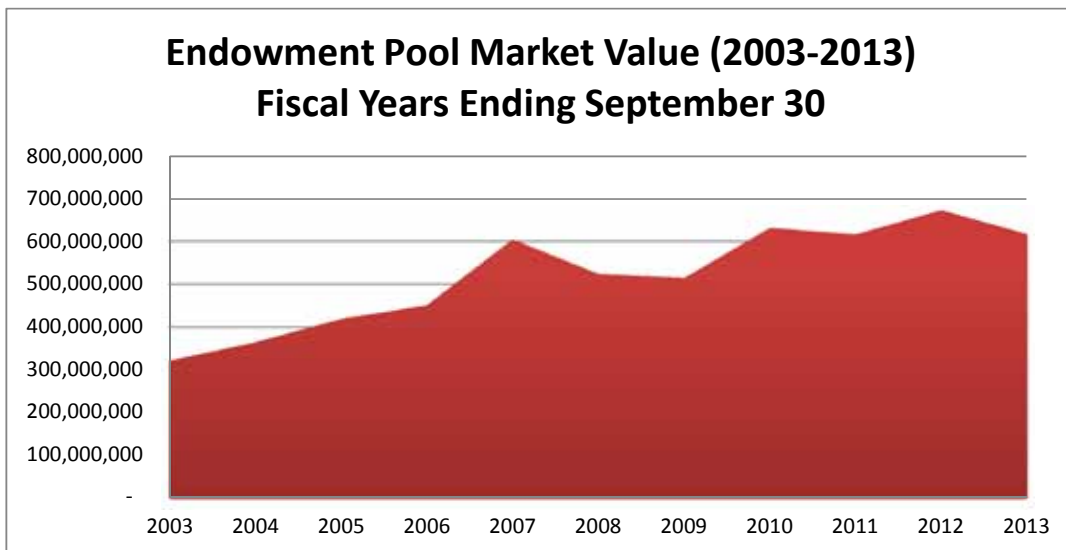
Unrestricted net position decreased \$52.7 million in 2013 partially as a result of the aforementioned transfer of the Bryce Property from an endowment investment to operations. The Bryce property was originally recorded as an endowment investment to be funded from endowment coal royalties. When the property moved from endowment investments to capital assets, unrestricted net position decreased \$87.6 million, for the value of the property that is now funded from unrestricted. The resulting decrease was offset by increases in residence halls and quasi unrestricted endowments, primarily. Unrestricted net assets rose \$104.0 million during the 2012 year primarily due to auxiliary activities and gains on unrestricted investments. This change follows a \$28.5 million increase during the 2011 fiscal year resulting from auxiliary activities and the receipt of unrestricted gifts.

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## University Endowments

The University's endowments experienced a decrease of \$56.0 million in fiscal 2013 with a September 30 value of \$617.6 million. The Bryce Property, which the University added to its endowment in 2010, was moved fully into operations during 2013, thus reclassifying its total fair market value of \$87.6 million from endowment assets to capital assets. Initially, the University's intended development of the property was undecided. As the University's campus master plan proceeded, the property was deemed for operating use, pending its vacancy by the ADMH.

While strong investment returns have allowed endowments to grow significantly over the past decade and increases in spending have had a significant impact on the unique student experience that is The University of Alabama, prudent management and investing strategies remain of utmost importance. With a continual commitment to excellence, we expect funding given by the University's generous donors will continue to grow, leveraging those gifts for the benefit of our students for many years to come.



## Statement of Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position (SRECNP) presents the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, both operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the University. The basis of the University's operating revenue stream is tuition and fees, followed by auxiliary sales and services, which are generated from self-supporting departments, including Intercollegiate Athletics, residence halls, food service operations, and the University Supply Store. Additionally, the University seeks funding from governments and sponsored programs in support of its mission of teaching, research, and service. Other significant revenue sources, which are considered nonoperating as defined by the GASB, include State educational appropriations, private gifts, investment income, and federal Pell grants.

Operating expenses are those paid in conjunction with the fulfillment of the University's mission and include salaries, wages and benefits; scholarships and fellowships; supplies and services; and depreciation.

The SRECNP also includes other changes affecting its net position including capital appropriations, capital gifts and grants, additions to permanent endowments, and intragovernmental transfers between the University and CTF, its blended component unit.

Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid. A summary of the University's revenues, expenses and changes in net position follows:

Condensed Statements of Revenues, Expenses and Changes in Net Position			
Years ended September 30,			
	2013	2012	2011
Operating revenues			
Tuition and fees	\$ 514,370,549	\$ 454,187,595	\$ 378,045,840
Less: scholarship allowances	(127,427,695)	(105,643,511)	(89,512,958)
Tuition and fees, net	386,942,854	348,544,084	288,532,882
Sponsored programs	72,690,633	74,617,162	80,508,623
Sales and services of educational activities	12,986,742	11,643,489	11,836,707
Auxiliary sales and services, net	144,765,209	140,948,823	122,446,271
Other operating revenues	42,516,071	44,505,964	42,297,178
Total operating revenues	659,901,509	620,259,522	545,621,661
Operating expenses	800,668,320	755,944,606	721,073,120
Operating loss	(140,766,811)	(135,685,084)	(175,451,459)
Nonoperating revenues (expenses)			
State educational appropriations	140,699,910	145,951,239	137,427,195
State fiscal stabilization funds	-	-	14,699,372
Gifts	45,366,130	50,354,337	53,594,605
Grants	30,805,700	31,128,382	30,492,746
Investment income, net	64,135,946	94,052,944	1,125,350
Interest expense	(34,936,244)	(34,153,468)	(35,340,619)
Other nonoperating (expenses) revenues, net	(2,079,700)	2,370,558	(2,190,116)
Net nonoperating revenues	243,991,742	289,703,992	199,808,533
Income before other changes in net position	103,224,931	154,018,908	24,357,074
Other changes in net position			
Capital appropriations	769,264	1,040,837	20,257,391
Capital gifts and grants	15,911,727	52,078,458	26,900,828
Additions to permanent endowments	16,999,033	18,209,743	16,623,409
Intragovernmental transfers	(3,674,528)	7,414,988	(7,387,876)
Increase in net position	133,230,427	232,762,934	80,750,826
Net position, beginning of year	1,845,700,751	1,612,937,817	1,532,186,991
Net position, end of year	\$ 1,978,931,178	\$ 1,845,700,751	\$ 1,612,937,817

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The University's net position increased \$133.2 million, \$232.8 million, and \$80.8 million, for the fiscal years ended September 30, 2013, 2012, and 2011, respectively. As noted in the SRECNP, the University experienced operating losses in all fiscal years presented of \$140.8 million, \$135.7 million, \$175.5 million, respectively. These operating losses highlight the University's dependency on nonoperating revenues, such as State appropriations and private gifts, to meet its cost of operations. Increases in tuition rates have reduced operating losses as State appropriations have decreased over recent years.

## Operating Revenues

Net tuition and fees portray the steady increases in tuition related to continued enrollment growth coupled with tuition rate increases. Net tuition and fees in 2013 were \$386.9 million, a \$38.4 million increase over 2012's \$348.5 million, which increased \$60.0 million over \$288.5 million in 2011. Tuition rates are reviewed annually by the University and presented to the Board for approval.

The University receives grant and contract revenue from federal, state, and local governments and private agencies. Federal grants and contracts experienced a decrease of \$5.8 million in 2013, following a minor decrease of \$0.8 million in 2012, and an increase of \$6.5 million in 2011. State and local grants and contracts increased \$2.5 million in 2013 following a \$2.1 million increase in 2012, collectively, while private grants and contracts increased \$1.4 million. During fiscal year 2013, the University continued expending federal funding under the American Recovery and Reinvestment Act (ARRA), primarily in the form of sponsored research grants. Approximately \$1.9 million and \$6.0 million were expended in the 2013 and 2012 fiscal years, respectively. As many ARRA projects have been or will soon be completed, ARRA expenditures are expected to be lower in fiscal year 2014.

The University's auxiliary activities are comprised of Intercollegiate Athletics, food service, housing, supply store, telecommunications, and other miscellaneous auxiliary enterprises. Auxiliary income increased \$3.8 million mostly due to residence hall income. The 2013 increase follows an \$18.5 million increase in the prior year, due primarily to athletic income, housing income, and supply store sales. Residence halls, the UA Supply Store, and various other auxiliary units experienced expected increases in revenue due to growth in the student population in all three years presented in the condensed statements.

Other operating revenue saw a decrease of \$2.0 million

in 2013 as the implementation of new accounting standards prompted an entry to reverse the previously recorded amortization of Capstone Village entrance fees. In 2012, other operating revenue increased \$2.2 million as a result of University departments impacted by higher enrollment figures, such as University Recreation and the Student Health Center.

## Non-Operating Revenues and Expenses

The University's non-operating revenues assist in offsetting the University's operating loss of \$140.8 million for 2013. In fiscal year 2013, the University received \$140.7 million in State educational appropriations for operating purposes, \$45.4 million in private gifts, and \$64.1 million in net investment income. In fiscal year 2012, the University received \$146.0 million in State educational appropriations for operating purposes, \$50.4 million in private gifts, and \$94.0 million in net investment income. In fiscal year 2011, the University received \$137.4 million in State educational appropriations to be used for operating purposes, \$53.6 million in private gifts, and \$1.1 million in net investment income.

Gift revenues decreased \$5.0 million in 2013 due to a large quasi-endowment gift from a donor advised fund distribution in the prior year. Gift revenues decreased \$3.2 million in 2012 due primarily to a change in estimate regarding the pledge allowance policy and a decrease in gifts received for Greek housing projects. Gift revenue increased in 2011 by \$7.8 million. The primary influence on the 2011 increase in gift revenue stems from gifts and pledges in support of Greek Housing capital gift campaigns. Also, \$1.7 million in outside gifts were received for the UA Acts of Kindness gift fund, which provides financial assistance to eligible faculty, staff, and students of the University who experience a qualifying emergency or hardship. In addition to the gifts received, CTF transferred \$1.0 million to the fund in response to the tornado on April 27, 2011.

Nonoperating grants consist primarily of Federal Pell grant awards. This program provides financial assistance grants to qualifying undergraduate students to promote access to postsecondary education. Also, included in nonoperating grants are Build America Bonds interest reimbursements. In 2013, nonoperating grant revenue decreased slightly to \$30.8 million, from \$31.1 million in 2012 and \$30.5 million in 2011.

Both investment and endowment income are combined as investment income on the SRECNP. Investment income decreased \$29.9 million as the University had

less unrealized gains in fiscal year 2013. Fiscal year 2012 ended with higher net earnings, as investments rebounded from an unrealized market loss of \$45.5 million in 2011.

## Operating Expenses

The University reports natural classifications of expenditures in the SRECNP. Salaries, wages and benefits increased \$24.6 million to \$510.2 million in 2013 from \$485.6 million in 2012, which was a \$19.0 million increase over \$466.6 million in 2011. The University maintains a competitive salary base to attract and retain talented faculty, staff, and graduate students and has strategically added new positions to accommodate growth in student enrollment.

Supplies and other services experienced an increase of \$17.8 million from 2012. Of this increase, \$8.9 million

stems from the 2013 adoption of new accounting standards mentioned earlier in the management discussion and analysis.

Scholarships and fellowships expense is reported net of scholarship allowances. The net expenses of \$20.6 million, \$19.5 million, and \$10.3 million for fiscal years 2013, 2012, and 2011, respectively, represent payments made directly to students after awards have been applied against tuition and fees charged to student accounts. Gross scholarship expenses totaled \$158.8 million, \$133.3 million, and \$107.3 million for the years ended September 30, 2013, 2012, and 2011, respectively.

### Operating Expenses (by natural classification)

	Year ended September 30,		
	2013	2012	2011
Salaries, wages and benefits	\$ 510,176,635	\$ 485,618,389	\$ 466,596,025
Scholarships and fellowships	20,647,980	19,454,077	10,323,158
Supplies and other services	220,120,548	202,361,216	196,249,994
Depreciation	49,723,157	48,510,924	47,903,943
Total operating expenses	<u>\$ 800,668,320</u>	<u>\$ 755,944,606</u>	<u>\$ 721,073,120</u>



In addition to natural classifications, operating expenses are reported by functional classifications as defined by the National Association of College and University Business Officers (“NACUBO”). The functional classification of an operating expense (Instruction, Research, etc.) is assigned to a department based on the nature of the activity, which represents the material

portion of the activity attributable to the department. This method reflects, by function of the University, amounts expended in areas such as Instruction, Research and Operations and Maintenance and is used most commonly for comparative reporting purposes among colleges and universities.

### 2013 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 219,268,643	\$ -	\$ 32,832,994	\$ 12,997,181	\$ 265,098,818
Research	24,834,385	-	19,367,154	4,183,664	48,385,203
Public Service	31,314,398	-	11,118,178	1,306,402	43,738,978
Academic Support	50,906,650	-	20,943,364	10,095,466	81,945,480
Student Services	28,997,209	-	14,510,288	2,937,498	46,444,995
Institutional Support	52,836,078	-	12,344,417	3,406,070	68,586,565
Operations and Maintenance	45,068,856	-	34,407,639	-	79,476,495
Scholarships and Fellowships	-	18,416,038	-	-	18,416,038
Auxiliary Enterprises	56,950,416	2,231,942	74,596,514	14,796,876	148,575,748
	<u>\$ 510,176,635</u>	<u>\$ 20,647,980</u>	<u>\$ 220,120,548</u>	<u>\$ 49,723,157</u>	<u>\$ 800,668,320</u>

### 2012 Operating Expenses (by functional classification)

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total
Instruction	\$ 206,268,055	\$ -	\$ 30,774,738	\$ 13,317,643	\$ 250,360,436
Research	22,776,014	-	21,688,211	4,534,233	48,998,458
Public Service	29,375,223	-	9,607,620	1,460,818	40,443,661
Academic Support	53,852,787	-	13,464,738	8,303,145	75,620,670
Student Services	26,689,360	-	13,230,812	3,103,041	43,023,213
Institutional Support	51,581,753	-	9,781,824	3,490,734	64,854,311
Operations and Maintenance	41,818,457	-	36,059,528	-	77,877,985
Scholarships and Fellowships	-	15,710,068	-	-	15,710,068
Auxiliary Enterprises	53,256,740	3,744,009	67,753,745	14,301,310	139,055,804
	<u>\$ 485,618,389</u>	<u>\$ 19,454,077</u>	<u>\$ 202,361,216</u>	<u>\$ 48,510,924</u>	<u>\$ 755,944,606</u>

## Other Changes in Net Position

Capital gifts and grants have fluctuated somewhat over the three years presented in the condensed SRECNP. During 2013, the decrease of \$36.2 million results from a large conservation easement gifted to the University during the prior year, valued at \$25.0 million. Additionally, the South and North Engineering Research Complexes began nearing completion in 2012, thus less funding was received in 2013 than in prior

years. State Capital Appropriations in 2011 of \$13.9 million also contributed to the construction of the South Engineering Research Complex. The remainder of the 2011 State capital appropriations were used for renovations, restoration, and upgrades in multiple capital projects, including elevator upgrades, roof replacements, HVAC upgrades, and exterior restorations.

Additions to permanent endowments remained fairly constant over the past three years, as well as intragovernmental transfers. Intragovernmental transfers are typically limited to transactions with the Crimson Tide Foundation, a blended component unit of the University.

## Capital Assets and Debt Administration

At September 30, 2013, the University had \$2.1 billion invested in gross capital assets and accumulated

depreciation of \$582.7 million, a net of \$1.5 billion as reflected in the schedule below summarizing the University's assets, net of accumulated depreciation. Depreciation expense totaled \$49.7 million for the current fiscal year. Buildings and fixed equipment are responsible for the largest increase. The following schedule summarizes the University's capital assets, net of accumulated depreciation.

### Capital Assets, Net of Accumulated Depreciation

	2013	2012	2011
Land	\$ 74,159,318	\$ 18,508,472	\$ 17,371,572
Land Improvements	39,332,357	34,066,091	30,013,837
Infrastructure	32,636,908	25,977,797	22,260,247
Buildings and Fixed Equipment	1,145,732,252	1,005,847,577	840,622,889
Construction in Progress	134,921,338	97,613,604	132,919,774
Equipment	46,203,430	39,450,466	34,900,027
Library Materials & Collections	27,716,809	28,126,882	29,326,590
Intangible Assets	38,929,318	40,875,421	19,337,651
	<u>\$ 1,539,631,730</u>	<u>\$ 1,290,466,310</u>	<u>\$ 1,126,752,587</u>

Capital asset expenditures for fiscal 2013 (in millions):

• Presidential Village Phase II	\$30.9
• North Engineering Research Complex	\$24.6
• Digital Media Center	\$15.0
• Riverside Parking Deck	\$12.9
• Ferguson Center Renovation & Addition	\$11.2
• North Campus Student Center	\$10.2
• Mal Moore Athletic Facility	\$7.6
• Strength & Conditioning Facility	\$7.2
• ten Hoor Hall Renovation	\$5.1
• Sarah Patterson Champions Plaza	\$3.0

Capital asset expenditures for fiscal 2012 (in millions):

• North Engineering Research Complex	\$34.1
• Presidential Village Phase I	\$32.9
• Russell Hall Renovation & Addition	\$12.8
• South Engineering Research Complex	\$8.9
• Moore Hall Renovation	\$7.5
• East Quad Energy Plant	\$5.0
• University Police Center	\$4.5
• Presidential Village Phase II	\$3.6
• Indoor Tennis Stadium	\$3.4
• Athletic Practice Fields Replacement	\$3.3

Capital asset expenditures for fiscal 2011 (in millions):

• South Engineering Research Complex	\$41.7
• Presidential Village Phase I	\$23.5
• East Quad Energy Plant	\$12.6
• North Engineering Research Complex	\$6.9
• Foster Auditorium Renovation	\$3.0

The University plans to fund ongoing construction projects with reserves, debt proceeds, private gifts, and various federal and state grants.

At September 30, 2013, the University had \$820.5 million of debt outstanding, of which \$22.0 million was classified as current. The large majority of debt obligations bear interest at fixed rates ranging from 0.0% to 6.3% and mature at various dates through fiscal year 2042. The University defeased certain indebtedness during fiscal years 2003 and 2013 to secure more favorable rates. This is discussed further in Note 9.

The University's outstanding debt obligations, exclusive of debt discounts and premiums of \$20.4 million, \$1.5 million, and \$1.8 million, respectively, are summarized

below. Further information may also be found in Note 9.

### Schedule of Long Term Debt

	2013	2012	2011
Bonds Payable	\$ 791,995,000	\$ 660,880,000	\$ 676,115,000
Notes Payable	8,050,860	8,937,510	49,745,783
	<u>\$ 800,045,860</u>	<u>\$ 669,817,510</u>	<u>\$ 725,860,783</u>

### Statement of Cash Flows

The statement of cash flows presents the significant sources and uses of cash from operations, noncapital financing activities, capital and related financing

activities, and investing activities. The University's operating liquidity is analyzed on a daily basis to ensure operating needs will be met.

### Condensed Statement of Cash Flows

	2013	2012	2011
Cash received from operations	\$ 667,566,152	\$ 643,431,697	\$ 565,179,121
Cash payments from operations	(743,106,085)	(716,371,350)	(679,755,274)
Net cash used in operating activities	(75,539,933)	(72,939,653)	(114,576,153)
Net cash provided by noncapital financing activities	221,004,788	279,717,287	271,376,574
Net cash used in capital and related financing activities	(83,922,072)	(248,181,281)	(15,655,155)
Net cash provided by (used in) investing activities	4,800,675	27,976,528	(78,864,642)
Net increase (decrease) in cash and cash equivalents	66,343,458	(13,427,119)	62,280,624
Cash and cash equivalents, beginning of year	63,205,431	76,632,550	14,351,926
Cash and cash equivalents, end of year	<u>\$ 129,548,889</u>	<u>\$ 63,205,431</u>	<u>\$ 76,632,550</u>

Net cash used in operating activities is covered by cash flows from non-capital financing activities. 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. During 2013, the University used \$75.5 million for operating activities, while \$221.0 million was received from noncapital financing activities. In 2012, the University used \$73.0 million of cash for operating activities, while \$279.7 million was received from noncapital financing activities. The University used \$114.6 million of cash for operating activities in 2011, offset by approximately

\$271.4 million of cash provided by noncapital financing activities.

Capital and related financing activities include proceeds from bond issuances, purchases of capital assets, and capital gifts, grants, and contracts. Cash of \$83.9 million and \$248.2 million of cash were used in capital and related financing activities during 2013 and 2012, respectively. In 2011, \$15.7 million was used. Cash provided by investing activities of \$4.8 million and \$28.0 million in 2013 and 2012, respectively, followed cash used in investing activities of \$78.9 million in 2011.



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## Future Economic Outlook

The University has positioned itself to weather the uncertain times our economy is experiencing. Prudent management, cost containment, and sensible investment strategies help ensure the University can remain dedicated to its mission of teaching, research, and service.

A crucial element to the University's future will continue to be our relationship with the State of Alabama as we work to maintain competitive tuition while providing an outstanding college education for our students. We continuously strive to attract the best students, while increasing the intrinsic and marketable value of education offered at The University of Alabama.

There exists a direct relationship between the growth of state support and the University's ability to control tuition growth as declines in state appropriations adversely affect tuition levels. There can be no assurance of future State appropriations. The University expects to be able to absorb this loss of state funds, without a material reduction of its budget, through a combination of increased tuition, increased enrollment and internal reserves. State appropriations are not, and cannot lawfully be, pledged under debt indentures. Major financial strengths of the University include a diverse source of revenues, including state appropriations, tuition and fees (net of scholarship allowances), auxiliary units' revenue, private support, and federally sponsored grants and contracts.

The University must have campus facilities that are competitive to meet student enrollment goals. The University continues to execute its long-term plan

to modernize and expand its teaching, research, and student facilities with a balance of new construction and technology. The continuous improvement of the University's aesthetic appeal offers visitors, current and prospective students, employees and the surrounding communities an attractive and appealing atmosphere in which to live and work.

The University's private support is fundamental in meeting budgetary needs. Gifts received are testaments to the high regard in which alumni, corporations, foundations, and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University's programs and the importance of its mission. At the same time, economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving. Our component units have also continued their level of support in the face of the current economic environment.

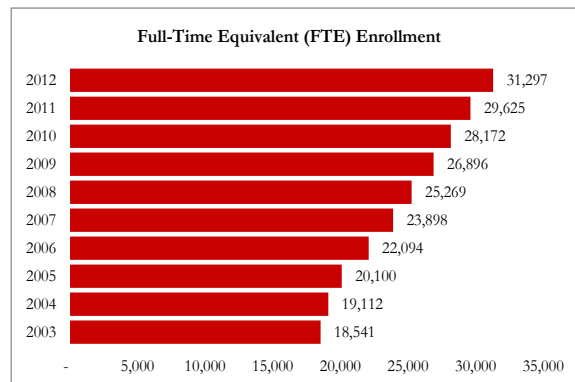
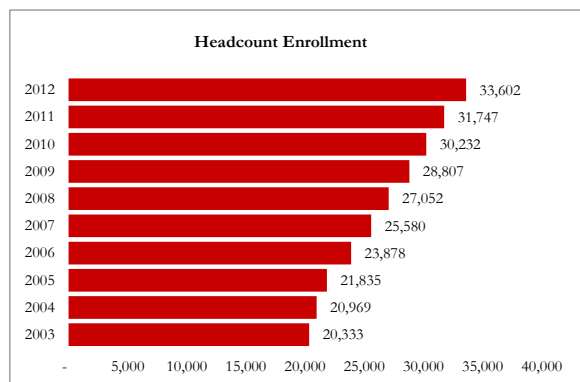
## Requests for Information

These financial statements are designed to provide a general overview of The University of Alabama and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information, including the separate financial reports of the discretely presented and blended component units of the University, should be addressed to the Office of Finance, The University of Alabama, Box 870136, Tuscaloosa, Alabama, 35487.



## Enrollment and Statistics\*

Headcount enrollment at the University reached 33,602 in Fall 2012, a significant increase of 1,855, while Full-time equivalent (“FTE”) enrollment totaled 31,297, an increase of 1,672. The chart below displays counts taken for each fall semester; the last of which (2012), demonstrates enrollment figures occurring for the fall semester of the 2013 fiscal year.



### The University of Alabama Statistical Highlights Fall Semester

Fall Headcount Enrollment	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Undergraduate	28,026	26,234	24,884	23,702	22,343	21,082	19,474	17,553	16,571	15,892
Graduate	4,994	4,913	4,726	4,473	3,978	3,851	3,781	3,687	3,756	3,763
Professional	582	600	622	632	731	647	623	595	642	678
Total Fall Enrollment	33,602	31,747	30,232	28,807	27,052	25,580	23,878	21,835	20,969	20,333

Fall First-Time Freshman Admissions	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Applications	26,409	22,136	20,112	19,518	18,500	14,313	12,513	10,707	9,106	8,298
Admits	14,019	9,636	10,790	11,194	11,172	9,140	8,766	7,755	7,021	7,194
Enrolled	6,397	5,772	5,519	5,116	5,116	4,538	4,378	3,735	3,368	3,077
Percent Admitted	53.1%	43.5%	53.7%	57.4%	60.4%	63.9%	70.1%	72.4%	77.1%	86.7%
Percent Enrolled	45.6%	59.9%	51.2%	45.7%	45.8%	49.6%	49.9%	48.2%	48.0%	42.8%

Degrees Conferred Academic Years Ending May	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
Baccalaureate	5,000	4,482	4,463	4,284	3,713	3,398	3,131	2,815	2,931	3,024
Master's	1,659	1,571	1,513	1,287	1,265	1,237	1,183	1,151	1,283	1,072
Educational Specialist	168	53	44	52	51	83	62	50	107	103
First Professional	38	175	159	171	172	154	152	172	183	172
Doctoral	325	252	242	209	192	191	160	181	154	158
Total Degrees Conferred	7,190	6,533	6,421	6,003	5,393	5,063	4,688	4,369	4,658	4,529

Academic Years Ending May	2012-13	2011-12	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04
Undergraduate In-State Academic Year Tuition	\$9,200	\$8,600	\$7,900	\$7,000	\$6,400	\$5,700	\$5,278	\$4,864	\$4,630	\$4,134
Percent Increase Over Prior Year	7.0%	8.9%	12.9%	9.4%	12.3%	8.0%	8.5%	5.1%	12.0%	16.3%

\*Data provided by the Office of Institutional Research and Assessment

**The University of Alabama**  
**Statements of Net Position**  
September 30, 2013 and 2012

	2013	2012
<b>Current assets</b>		
Unrestricted cash and cash equivalents	\$ 95,442,097	\$ 11,339,405
Restricted cash and cash equivalents	10,185,725	49,577,964
Short-term investments	224,328,503	273,564,466
Accounts receivable, net	94,558,012	104,714,972
Current portion of notes receivable, net	4,277,022	5,836,749
Current portion of student loans receivable	1,899,015	1,847,783
Current portion of pledges receivable	9,798,492	9,382,609
Inventories	6,318,476	6,384,239
Prepaid expenses and unearned scholarships	64,139,151	56,006,517
Other current assets	1,375,388	1,328,903
<b>Total current assets</b>	512,321,881	519,983,607
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	23,921,067	2,288,062
Endowment, and life income investments	617,611,309	673,605,620
Investments for capital activities	240,718,002	182,950,944
Other long-term investments	169,636,373	165,253,733
Notes receivable, net	74,198,637	59,596,475
Student loans receivable, net	8,983,590	9,118,287
Pledges receivable, net	13,851,323	22,010,715
Capital assets, net	1,539,631,730	1,290,466,310
Other noncurrent assets	9,132,603	8,529,434
<b>Total noncurrent assets</b>	2,697,684,634	2,413,819,580
<b>Total assets</b>	3,210,006,515	2,933,803,187
<b>Deferred outflows of resources</b>	13,283,391	2,015,721
<b>Total assets and deferred outflows of resources</b>	\$ 3,223,289,906	\$ 2,935,818,908
<b>Liabilities and net position</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 135,967,883	\$ 120,294,499
Current portion of unearned revenue	222,758,317	206,717,811
Deposits	43,473,241	66,741,838
Current portion of long-term debt	22,042,947	19,621,650
<b>Total current liabilities</b>	424,242,388	413,375,798
<b>Noncurrent liabilities</b>		
Federal refundable loans	8,036,873	8,045,094
Other liabilities	5,270,702	5,245,737
Unearned revenue	8,382,716	11,728,826
Long-term debt, net	798,426,049	651,722,702
<b>Total noncurrent liabilities</b>	820,116,340	676,742,359
<b>Total liabilities</b>	1,244,358,728	1,090,118,157
<b>Net position</b>		
Net investment in capital assets	817,415,403	667,869,001
Restricted		
Nonexpendable	352,224,161	333,221,880
Expendable	330,619,227	313,223,393
Unrestricted	478,672,387	531,386,477
<b>Total net position</b>	1,978,931,178	1,845,700,751
<b>Total liabilities and net position</b>	\$ 3,223,289,906	\$ 2,935,818,908

*See accompanying notes to financial statements.*

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**The University of Alabama**  
**Statements of Revenues, Expenses and Changes in Net Position**  
For the Years Ended September 30, 2013 and 2012

	2013	2012
<b>Operating revenues</b>		
Tuition and fees	\$ 514,370,549	\$ 454,187,595
Less: scholarship allowances	(127,427,695)	(105,643,511)
Tuition and fees, net	386,942,854	348,544,084
Federal grants and contracts	42,272,418	48,050,820
State grants and contracts	26,094,705	23,642,389
Local grants and contracts	536,475	518,818
Private grants and contracts	3,787,035	2,405,135
Sales and services of educational activities	12,986,742	11,643,489
Auxiliary sales & services, net of \$10,682,902 in 2013 and \$8,210,078 in 2012 of scholarship allowances	144,765,209	140,948,823
Other operating revenues	42,516,071	44,505,964
<b>Total operating revenues</b>	659,901,509	620,259,522
<b>Operating expenses</b>		
Salaries, wages and benefits	510,176,635	485,618,389
Scholarships and fellowships	20,647,980	19,454,077
Supplies and other services	220,120,548	202,361,216
Depreciation	49,723,157	48,510,924
<b>Total operating expenses</b>	800,668,320	755,944,606
<b>Operating loss</b>	(140,766,811)	(135,685,084)
<b>Nonoperating revenues (expenses)</b>		
State educational appropriations	140,699,910	145,951,239
Gifts	45,366,130	50,354,337
Grants	30,805,700	31,128,382
Investment income, net	64,135,946	94,052,944
Interest expense	(34,936,244)	(34,153,468)
Other nonoperating (expenses) revenues, net	(2,079,700)	2,370,558
<b>Net nonoperating revenues</b>	243,991,742	289,703,992
<b>Income before other changes in net position</b>	103,224,931	154,018,908
<b>Other changes in net position</b>		
State capital appropriations	769,264	1,040,837
Capital gifts and grants	15,911,727	52,078,458
Additions to permanent endowments	16,999,033	18,209,743
Intragovernmental transfers	(3,674,528)	7,414,988
<b>Increase in net position</b>	133,230,427	232,762,934
<b>Net position, beginning of year</b>	1,845,700,751	1,612,937,817
<b>Net position, end of year</b>	\$ 1,978,931,178	\$ 1,845,700,751

*See accompanying notes to financial statements.*

**The University of Alabama**  
**Statements of Cash Flows**  
September 30, 2013 and 2012

	2013	2012
<b>Cash flows from operating activities</b>		
Student tuition and fees, net	\$ 401,399,601	\$ 356,695,309
Grants and contracts	70,549,185	77,853,323
Sales and services of educational activities	3,004,313	7,540,812
Other receipts	43,404,282	49,566,419
Auxiliary enterprises	149,125,306	151,775,834
Payments to suppliers	(207,871,613)	(199,303,760)
Payments to employees	(506,801,984)	(485,319,046)
Payments for scholarships and fellowships	(28,432,488)	(31,445,099)
Student loan receipts (disbursements)	83,465	(303,445)
<b>Net cash used in operating activities</b>	(75,539,933)	(72,939,653)
<b>Cash flows from noncapital financing activities</b>		
State educational appropriations	140,699,910	145,951,239
Private gifts	70,617,173	69,823,530
Grants	30,805,700	31,128,382
Student direct lending receipts	171,040,230	165,145,790
Student direct lending disbursements	(171,033,955)	(165,659,529)
Deposits (to) from affiliates	(6,275)	513,739
Other (disbursements) receipts	(22,069,310)	33,133,205
Intragovernmental transfers	951,315	(319,069)
<b>Net cash provided by noncapital financing activities</b>	221,004,788	279,717,287
<b>Cash flows from capital and related financing activities</b>		
Proceeds from issuance of notes and bonds payable	302,688,585	-
Capital gifts, grants and contracts	15,194,195	26,604,562
Purchases of capital assets	(194,492,301)	(192,972,184)
Principal payments on capital debt	(18,051,650)	(56,043,273)
Defeasance of debt	(149,612,576)	-
Interest payments on capital debt	(35,022,482)	(33,504,443)
Intragovernmental transfers	(4,625,843)	7,734,057
<b>Net cash used in capital and related financing activities</b>	(83,922,072)	(248,181,281)
<b>Cash flows from investing activities</b>		
Interest and dividends on investments	41,760,631	41,823,245
Purchases of investments	(346,972,303)	(210,109,078)
Proceeds from sales and maturities of investments	322,383,534	219,675,234
Payments received on notes receivable	7,831,855	5,745,312
Disbursements from issuance of notes receivable	(20,203,042)	(29,158,185)
<b>Net cash provided by investing activities</b>	4,800,675	27,976,528
<b>Net increase (decrease) in cash and cash equivalents</b>	66,343,458	(13,427,119)
<b>Cash and cash equivalents, beginning of year</b>	63,205,431	76,632,550
<b>Cash and cash equivalents, end of year</b>	\$ 129,548,889	\$ 63,205,431

*See accompanying notes to financial statements.*

	2013	2012
<b>Reconciliation of cash and cash equivalents to the statement of net position</b>		
Unrestricted cash and cash equivalents-current	\$ 95,442,097	\$ 11,339,405
Restricted cash and cash equivalents-current and noncurrent	34,106,792	51,866,026
<b>Total cash and cash equivalents</b>	<b>\$ 129,548,889</b>	<b>\$ 63,205,431</b>
<b>Reconciliation of operating loss to net cash used in operating activities</b>		
Operating loss	\$ (140,766,811)	\$ (135,685,084)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation expense	49,723,157	48,510,924
Bad debt expense	1,600,870	1,519,157
Changes in assets and liabilities		
Accounts and other receivables	(6,227,769)	(6,972,337)
Inventories and other assets	(7,148,219)	(5,703,653)
Accounts payable and accrued liabilities	14,584,443	3,676,649
Unearned revenue	12,694,396	21,714,691
<b>Net cash used in operating activities</b>	<b>\$ (75,539,933)</b>	<b>\$ (72,939,653)</b>
<b>Supplemental noncash activities information</b>		
Gift of capital assets	\$ 717,533	\$ 25,473,896
Gift of investments	\$ -	\$ (844,200)
Assets acquired with a liability	\$ 28,210,682	\$ 27,739,801
Loss on the disposal of capital assets	\$ (291,945)	\$ (1,105,831)
Capital appropriations	\$ 769,264	\$ 1,040,837

*See accompanying notes to financial statements.*



**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Net Position**  
**2013 and 2012**

	2013	2012
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,241,811	\$ 1,458,710
Restricted cash and cash equivalents	9,710,324	9,984,614
Short-term investments	27,848,047	24,568,217
Accounts receivable, net	1,657,755	1,530,610
Current portion of notes receivable, net	923,012	718,636
Current portion of pledges receivable, net	265,990	336,436
Inventories	484,971	387,568
Prepaid expenses and unearned scholarships	93,700	151,655
Other current assets	827,908	968,692
Due from The University of Alabama	207,802	883,155
<b>Total current assets</b>	44,261,320	40,988,293
<b>Noncurrent assets</b>		
Restricted cash and cash equivalents	8,057,200	8,057,200
Endowment investments	72,661,844	65,913,740
Other long-term investments	15,359,632	15,505,975
Notes receivable, net	-	-
Pledges receivable, net	323,621	389,969
Capital assets, net	82,493,279	84,831,932
Other noncurrent assets	65,297	65,297
<b>Total noncurrent assets</b>	178,960,873	174,764,113
<b>Total assets</b>	\$ 223,222,193	\$ 215,752,406
<b>Liabilities and net position</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 3,570,544	\$ 3,790,249
Unearned revenue	4,475,263	4,435,817
Current portion of long-term debt	3,994,897	4,856,060
Due to The University of Alabama	1,100,233	772,726
<b>Total current liabilities</b>	13,140,937	13,854,852
<b>Noncurrent liabilities</b>		
Other liabilities	4,811,316	4,868,053
Long-term debt, net	91,866,865	95,652,154
Due to The University of Alabama	8,729,217	8,416,740
<b>Total noncurrent liabilities</b>	105,407,398	108,936,947
<b>Total liabilities</b>	118,548,335	122,791,799
<b>Net position</b>		
Net investment in capital assets	(1,400,446)	(3,580,771)
Restricted		
Nonexpendable	45,114,942	43,016,127
Expendable	26,400,080	23,293,557
Unrestricted	34,559,282	30,231,694
<b>Total net position</b>	104,673,858	92,960,607
<b>Total liabilities and net position</b>	\$ 223,222,193	\$ 215,752,406

*See accompanying notes to financial statements.*

**The University of Alabama**  
**Discretely Presented Component Units**  
 Statements of Revenues, Expenses and Changes in Net Position  
 2013 and 2012

	2013	2012
<b>Operating revenues</b>		
Gifts	\$ 9,834,744	\$ 11,916,292
Other operating revenues	31,726,597	29,491,980
<b>Total operating revenues</b>	41,561,341	41,408,272
<b>Operating expenses</b>		
Salaries, wages and benefits	8,009,465	7,017,085
Scholarships and fellowships	3,186,438	2,266,546
Supplies and services	9,070,728	9,413,667
Depreciation	2,351,688	2,379,734
<b>Total operating expenses</b>	22,618,319	21,077,032
<b>Operating income</b>	18,943,022	20,331,240
<b>Nonoperating revenues (expenses)</b>		
Investment income	6,740,901	1,560,027
Interest expense	(6,528,774)	(6,599,319)
Payments to The University of Alabama	(6,815,819)	(11,263,561)
Change in value of split-interest agreements	(626,079)	(477,817)
Other nonoperating expenses	-	(168,407)
<b>Net nonoperating expenses</b>	(7,229,771)	(16,949,077)
<b>Income before other changes in net position</b>	11,713,251	3,382,163
<b>Other changes in net position</b>		
Intragovernmental transfers	-	(2,124)
<b>Increase in net position</b>	11,713,251	3,384,287
<b>Net position, beginning of year</b>	92,960,607	89,576,320
<b>Net position, end of year</b>	\$ 104,673,858	\$ 92,960,607

*See accompanying notes to financial statements.*





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## The University of Alabama Notes to Financial Statements Years Ended September 30, 2013 and 2012

### Note 1 – Summary of Significant Accounting Policies

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

The University, 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”).

GASB Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis for Public Colleges and Universities*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* establish standards for external financial reporting for public colleges and universities and require that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net Investment in Capital Assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

Nonexpendable – Net position subject to externally imposed stipulations that they be maintained permanently by the University. Such assets include the corpus of the University’s permanent

endowment funds.

Expendable – Net position, which when used by the University, is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire with the passage of time.

- Unrestricted: Net position which is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of management. Substantially all unrestricted net position is internally designated for academic, research, public service and capital programs.

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 35. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University’s policy for defining operating activities as reported on the statements of revenues, expenses, and changes in net position are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. As discussed further below, certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including State educational appropriations, private gifts, certain grants, and investment income.

Auxiliary enterprise revenues primarily represent revenues generated by university housing, Intercollegiate Athletics, and the University Supply Store. Revenues received for capital activities are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying statements of revenues, expenses, and changes in net position.

All internal sales between University departments from sales and service units (fleet services, postal services, telecommunications, etc.) have been eliminated in the accompanying financial statements.

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, disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The estimates susceptible to changes include those used in determining the allowance for uncollectible accounts, useful lives of capital assets, the valuation of investments (including endowed real estate), reserves for self insurance, and reserves for general and professional liability claims. Although some variability is inherent in these estimates, management believes that the amounts provided are adequate.

Other significant accounting policies of the University are as follows:

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

**Investments:** The University's investments are primarily reported at fair value. The majority of the University's investment portfolio is invested in separate investment pools sponsored by the System. 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, unless impaired. Fair value for equity securities, debt securities, mutual funds and U.S. government and agency obligations held by the University is determined from quoted market prices or market prices of similar instruments. Real estate held as endowment investments is reported at fair value. Investments received by gift are reported at fair value at date of receipt. Net investment income, including realized and unrealized gains and losses, is reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net position.

Investments are reported in four categories in the statement of net position. Investments recorded as endowment and life income are those invested funds that cannot be used to fund current operations and thus are included in noncurrent assets. Investments held for future capital projects are included in noncurrent assets, except for amounts included in current assets to offset current construction-related payables. Other long-term investments are those invested funds with maturities greater than one year or are considered by management to be of a long duration that are not an investment of the endowment and life income fund or the plant

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fund. All other investments are included as short-term investments.

**Loans Receivable:** Loans receivable represent all amounts owed on promissory notes from debtors including campus-based and federal student loans.

**Inventories:** Inventories are carried at the lower of cost or market and consist primarily of the University Supply Store inventory.

**Accounts and Notes 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 the University's contracts and grants. Accounts receivable are recorded net of estimated uncollectible amounts. The University has certain notes receivable, principally from campus Greek organizations, for construction.

**Capital Assets:** Capital assets are recorded at cost at the date of acquisition, or fair value at date of donation in the case of gifts, less accumulated depreciation. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Training costs and data conversion costs are expensed as incurred.

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

Depreciation of buildings and building improvements and infrastructure (20-50 years), land improvements (5-20 years), library collection (10 years), and inventoried equipment (5-15 years) is computed on a straight-line basis.

**Pledges:** The University receives pledges and bequests of financial support. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements,

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

**Charitable Remainder Trusts:** The University is the beneficiary of various charitable remainder trust funds administered by unaffiliated organizations. Under the terms of the agreements, the University has the irrevocable right to receive the remaining assets of the trusts upon the death of a specified beneficiary or beneficiaries in exchange for a stipulated amount to be paid periodically to the donor or their designee until the death of the beneficiary. Following the death of the beneficiary, the remainder is transferred to the University as either unrestricted or restricted funds depending on donor-imposed purpose restrictions. The assets received at the inception of a charitable remainder trust agreement are recorded at fair value at the date of gift. The fair value of charitable remainder trust assets is approximately \$6.7 million and \$6.5 million at September 30, 2013 and 2012, respectively. Any change in value related to these trusts is recorded as investment income in the statements of revenues, expenses and changes in net position.

The liability associated with these agreements is recorded at the present value based on IRS mortality tables and prevailing interest rates. The liability is reduced for distributions made to the beneficiaries and is adjusted annually for revaluations of expected future payments to the beneficiaries based on changes in life expectancy. The present value of the liability associated with these agreements is approximately \$4.3 million at September 30, for both 2013 and 2012, respectively.

**Beneficial Interest in Perpetual Trusts:** Perpetual trusts are trusts under which the University will receive income distributions in perpetuity, but will never receive the corpus of the trust assets (principal). Income received from perpetual trusts is recognized as unrestricted or restricted expendable investment income depending on donor restrictions.

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**Endowment Spending:** The State Legislature adopted the Alabama Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), effective January 1, 2009, which permits The Board of Trustees of the University of Alabama (the “Board”) to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. UPMIFA also prescribes the guidelines for the expenditure of donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. UPMIFA focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA includes a robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The University’s policy is to retain the endowment realized and unrealized appreciation with the endowment after the spending rate distributions in a manner consistent with the standards of prudence prescribed by UPMIFA. The Board approved a spending rate for the fiscal years ending September 30, 2013 and 2012 of 5.0%, which is based on a moving three-year average of the market (unit) value.

**Unearned Revenues:** Unearned revenues consist primarily of tuition and Intercollegiate Athletics ticket revenue related to future fiscal years.

**Federal Refundable Loans:** Certain loans to students are administered by the University with funding primarily supported by the federal government. The University’s statement of net position includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions and related activity owed upon termination of the program.

**Compensated Absences:** The University accrues liabilities for employees’ annual and sick leave balances. The accrual rates are formulated calculations based on length of service, job classification, and hours worked. Adjustments to the accrual are recorded annually.

**Deferred Outflows of Resources:** Deferred outflows of resources consist of bond deferred refunding amounts.

**Scholarship Allowances and Student Aid:** Student tuition and fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly to students are presented as scholarships and fellowships expense.

**Grant and Contract Revenue:** The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue

associated with sponsored programs in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on the terms of the individual grant or contract. Pell grants are recorded as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position.

**Nonoperating Revenues (Expenses):** Nonoperating revenues and expenses include State educational appropriations, private gifts for other than capital purposes, federal Pell grants, investment income, net of unrealized appreciation or depreciation in the fair value of investments and interest expense.

## Note 2 – Component Units

**Scope of Statements** – GASB Statement No. 14, *The Financial Reporting Entity*, as amended, 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 Crimson Tide Foundation (“CTF”), chartered on October 1, 2004 with a fiscal year end of June 30, is presented as a blended component unit within the University’s financial statements. CTF is a nonprofit corporation organized exclusively to promote and encourage a continuing interest in and loyalty to the Intercollegiate Athletics program at the University; to promote, encourage and support the construction, improvement and renovation of athletic facilities; to encourage alumni and friends of the University to generously support the University and its Athletics Department by gifts, devises and bequests; to support, promote and encourage the education of University students; and to conduct any and all appropriate activities, in accordance with National Collegiate Athletic Association and Southeastern Conference policies on institutional control, in order to accomplish the above objectives and purposes.

CTF is included in the University’s financial statements as a blended component unit because the Foundation operates as an extension of the Intercollegiate Athletic Department and it almost exclusively benefits the University. CTF financial information for the years ended June 30, 2013 and 2012 is included in the University’s financial statements and presented as follows:

**The Crimson Tide Foundation**  
 Statements of Net Position  
 June 30, 2013 and 2012

<b>Assets</b>	2013	2012
Current assets		
Cash and cash equivalents	\$ 18,400	\$ 180,852
Short-term investments	45,856,222	43,285,401
Pledges receivable, net	5,453,474	6,494,670
Other current assets	-	2,500
Other receivables	4,291,253	3,452,159
Total current assets	55,619,349	53,415,582
Noncurrent assets		
Restricted cash and cash equivalents	279,095	6,154
Endowment investments	13,465,613	9,573,588
Pledges receivable, net	8,908,957	12,344,356
Other long-term investments	48,859,798	46,563,517
Capital assets, net	5,314,066	2,483,781
Total noncurrent assets	76,827,529	70,971,396
Total assets	\$ 132,446,878	\$ 124,386,978
<b>Liabilities and net position</b>		
Current liabilities		
Accounts payable	\$ 811,447	\$ 585,235
Unearned revenue	8,453,219	7,781,915
Note payable, current portion	615,237	578,055
Other current liabilities	1,395,537	1,179,911
Total current liabilities	11,275,440	10,125,116
Noncurrent liabilities		
Note payable, long-term portion	598,670	1,213,907
Total noncurrent liabilities	598,670	1,213,907
Total liabilities	11,874,110	11,339,023
Net position		
Net investment in capital assets	4,100,159	691,819
Restricted		
Nonexpendable	12,765,936	8,779,008
Expendable	16,801,774	14,384,464
Unrestricted	86,904,899	89,192,664
Total net position	120,572,768	113,047,955
Total liabilities and net position	\$ 132,446,878	\$ 124,386,978

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**The Crimson Tide Foundation**  
Statements of Revenues, Expenses and Changes in Net Position  
June 30, 2013 and 2012

	2013	2012
<b>Operating revenues</b>		
Private gifts	\$ 28,675,809	\$ 27,710,358
Other operating revenues	22,540,138	20,600,432
Total operating revenues	<u>51,215,947</u>	<u>48,310,790</u>
<b>Operating expenses</b>		
Benefits	710,134	360,881
Scholarships	350,626	264,540
Professional fees	761,738	515,594
Travel	1,334,653	476,089
Supplies	328,754	223,355
Conference and entertainment	883,364	821,547
Communication and information	94,733	87,489
Rentals	359,269	250,021
Repairs and maintenance	597,416	299,225
Depreciation	251,407	399,694
Other	412,125	182,699
Total operating expenses	<u>6,084,219</u>	<u>3,881,134</u>
Operating income	<u>45,131,728</u>	<u>44,429,656</u>
<b>Nonoperating revenues (expenses)</b>		
Investment income, net	5,123,508	(517,819)
Interest expense	(95,625)	(130,560)
Net nonoperating revenues (expenses)	<u>5,027,883</u>	<u>(648,379)</u>
Income before other changes in net position	50,159,611	43,781,277
<b>Other changes in net position</b>		
Additions to permanent endowments	3,543,250	2,654,243
Intergovernmental transfers	(46,178,048)	(40,214,893)
Increase in net position	<u>7,524,813</u>	<u>6,220,627</u>
<b>Net position, beginning of period</b>	<u>113,047,955</u>	<u>106,827,328</u>
<b>Net position, end of period</b>	<u>\$ 120,572,768</u>	<u>\$ 113,047,955</u>

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GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, *Determining Whether Certain Organizations are Component Units - an Amendment of GASB Statement No. 14* and No. 61, *The Financial Reporting Entity: Omnibus - an Amendment of GASB Statements No. 14 and 34*, 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 primary objective of these Statements is to determine whether all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. The Statements as amended provide additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government.

The University reports six discretely presented foundations, which have been organized exclusively for charitable, scientific and educational purposes for the benefit of certain constituents of the University. The six foundations are: The National Alumni Association of The University of Alabama, The Capstone Foundation, The 1831 Foundation, The University of Alabama Law School Foundation, The Capstone Health Services Foundation, and The Donor Advised Fund (the "Foundations"). Because of the financial benefit relationship that exists between the University and the Foundations, the Foundations are considered component units of the University and are discretely presented in the accompanying financial statements in accordance with GASB Statement No. 39. Management deems discrete presentation appropriate for the Foundations because their governing bodies are not substantially the same as the University, and the Foundations exist to benefit constituents broader than the University itself.

The Foundations are not-for-profit organizations. The National Alumni Association, The University of Alabama Law School Foundation and the Capstone Foundation report financial results under principles prescribed by the FASB. The remaining foundations mentioned in the paragraph above report financial results under principles prescribed under the GASB, similar to those as described for the University. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Certain modifications have been made to the presentation of the FASB-reporting Foundations' financial statements

in the University's financial reporting entity to conform with the University's financial statement presentation. The following are certain financial statement principles and policies followed by the FASB-reporting discretely presented component units:

**Basis of Accounting - FASB-Reporting Discretely Presented Component Units** – The financial statements of the Foundations have been prepared on the accrual basis.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Net assets of the FASB-reporting Foundations and changes therein are classified and reported as follows in their separately issued financial statements:

**Unrestricted** – Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category included unrestricted gifts and earnings on these unrestricted gifts.

**Temporarily Restricted** – Net assets subject to donor-imposed restrictions that may or will be met either by actions of the Foundations or the passage of time. Items that affect this net asset category include restricted gifts and earnings on endowment funds expendable for purposes stipulated by the donor. These amounts are reclassified to unrestricted net assets when such purpose or time restrictions are met.

**Permanently Restricted** – Net assets subject to donor-imposed restrictions to be maintained permanently by the Foundations. Items that affect this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and only the income be made available for expenditure.

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

**Investments - Discretely Presented Component Units** - The FASB-reporting Foundations' investments in debt securities, equity securities and mutual funds with readily determinable market values are reported at their fair market values based on published market prices. Investments without readily determinable market values are reported at cost, unless impaired. These Foundations invest certain amounts in System-sponsored investment

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pools, the Endowment Fund and Intermediate Fund (Note 4). The value of the Foundations' beneficial interests in the pools is determined by the System and based on the Foundations' proportionate shares of the net asset value of the pools. The pools invest in various investment securities, including both marketable and non-readily marketable securities.

Investments received by gift are stated at fair value at date of receipt. Changes in market values are reported as unrealized gains or losses on the statement of activities and changes in net assets. All interest income and realized and unrealized gains and losses are reported in the statement of activities and changes in net position.

**Endowments - Discretely Presented Component**

**Units** - As discussed in Note 1, the Alabama Uniform Prudent Management of Institutional Funds Act ("UPMIFA") was enacted by the Alabama State Legislature and signed into law effective January 1, 2009. Endowment earnings and distributions are appropriated for expenditure by the governing Boards of Directors of the Foundations in a manner consistent with the standard of prudence prescribed by UPMIFA. In order to conform to the standards for prudent fiduciary management of investments, each Foundation's Board of Directors has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets.

**Contributions Receivable - Discretely Presented Component Units** - Contributions received, including

unconditional promises to give, are recognized as revenues at their fair values in the period received. For financial reporting purposes, the FASB-reporting Foundations distinguish between contributions of unrestricted assets, temporarily restricted assets, and permanently restricted assets. Contributions for which donors have imposed restrictions which limit the use of the donated assets are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions when the purpose or time restrictions are met. Contributions of assets that donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted assets. Contributions for which donors have not stipulated restrictions are reported as unrestricted support.

Unconditional promises to give with payments due in future periods are reported as restricted support. Gifts of land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation, the Foundations report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.





**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Net Position**  
2013

	National Alumni Association June 30, 2013	Law School Foundation June 30, 2013	Donor Advised Fund June 30, 2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 104,064	\$ 227,508	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	5,149,198	1,762,785	952,605
Accounts receivable, net	-	-	-
Current portion of notes receivable, net	-	-	-
Current portion of pledges receivable	-	214,520	-
Inventories	128,533	-	-
Prepaid expenses and unearned scholarships	-	-	-
Other current assets	440,306	279,304	6,132
Due from The University of Alabama	-	-	-
Total current assets	<u>5,822,101</u>	<u>2,484,117</u>	<u>958,737</u>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	-	-	-
Endowment investments	34,966,808	26,764,625	-
Other long-term investments	3,043,399	111,249	2,713,734
Notes receivable, net	-	-	-
Pledges receivable, net	-	218,969	-
Capital assets, net	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	<u>38,010,207</u>	<u>27,094,843</u>	<u>2,713,734</u>
Total assets	<u>\$ 43,832,308</u>	<u>\$ 29,578,960</u>	<u>\$ 3,672,471</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 87,146	\$ 55,577	\$ -
Unearned revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	113,706	523,502	-
Total current liabilities	<u>200,852</u>	<u>579,079</u>	<u>-</u>
<b>Noncurrent liabilities</b>			
Other liabilities	-	-	-
Long-term debt, net	-	-	-
Due to The University of Alabama	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>200,852</u>	<u>579,079</u>	<u>-</u>
<b>Net Position</b>			
Net investment in capital assets	-	-	-
Restricted			
Nonexpendable	23,548,426	21,548,545	-
Expendable	5,243,827	5,264,625	3,627,635
Unrestricted	14,839,203	2,186,711	44,836
Total net position	<u>43,631,456</u>	<u>28,999,881</u>	<u>3,672,471</u>
Total liabilities and net position	<u>\$ 43,832,308</u>	<u>\$ 29,578,960</u>	<u>\$ 3,672,471</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Net Position, Continued**  
2013

	Capstone Foundation Sept. 30, 2013	1831 Foundation Sept. 30, 2013	Capstone Health Services Foundation Sept. 30, 2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 152,900	\$ 813,264	\$ 944,075
Restricted cash and cash equivalents	-	9,710,324	-
Short-term investments	4,033,181	4,355,340	11,594,938
Accounts receivable, net	118,666	-	1,539,089
Current portion of notes receivable, net	-	-	923,012
Current portion of pledges receivable	51,470	-	-
Inventories	72,313	-	284,125
Prepaid expenses and unearned scholarships	93,700	-	-
Other current assets	96,400	5,766	-
Due from The University of Alabama	-	-	207,802
Total current assets	<u>4,618,630</u>	<u>14,884,694</u>	<u>15,493,041</u>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	-	8,057,200	-
Endowment investments	10,930,411	-	-
Other long-term investments	8,313,050	1,178,200	-
Notes receivable, net	-	-	-
Pledges receivable, net	104,652	-	-
Capital assets, net	142,311	82,339,533	11,435
Other noncurrent assets	-	-	65,297
Total noncurrent assets	<u>19,490,424</u>	<u>91,574,933</u>	<u>76,732</u>
Total assets	<u>\$ 24,109,054</u>	<u>\$ 106,459,627</u>	<u>\$ 15,569,773</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 300,601	\$ 1,717,907	\$ 1,409,313
Unearned revenue	-	4,475,263	-
Current portion of long-term debt	-	3,994,897	-
Due to The University of Alabama	57,277	405,748	-
Total current liabilities	<u>357,878</u>	<u>10,593,815</u>	<u>1,409,313</u>
<b>Noncurrent liabilities</b>			
Other liabilities	4,811,316	-	-
Long-term debt, net	-	91,866,865	-
Due to The University of Alabama	8,729,217	-	-
Total noncurrent liabilities	<u>13,540,533</u>	<u>91,866,865</u>	<u>-</u>
Total liabilities	<u>13,898,411</u>	<u>102,460,680</u>	<u>1,409,313</u>
<b>Net Position</b>			
Net investment in capital assets	-	(1,411,881)	11,435
Restricted			
Nonexpendable	17,971	-	-
Expendable	9,362,300	2,901,693	-
Unrestricted	830,372	2,509,135	14,149,025
Total net position	<u>10,210,643</u>	<u>3,998,947</u>	<u>14,160,460</u>
Total liabilities and net position	<u>\$ 24,109,054</u>	<u>\$ 106,459,627</u>	<u>\$ 15,569,773</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Net Position**  
2012

	National Alumni Association June 30, 2012	Law School Foundation June 30, 2012	Donor Advised Fund June 30, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 144,158	\$ 180,873	\$ -
Restricted cash and cash equivalents	-	-	-
Short-term investments	4,754,285	1,739,750	1,053,229
Accounts receivable, net	-	-	-
Current portion of notes receivable, net	-	5,000	-
Current portion of pledges receivable	-	219,376	-
Inventories	122,808	-	-
Prepaid expenses and unearned scholarships	-	-	-
Other current assets	466,435	267,119	6,765
Due from The University of Alabama	518,809	209,024	-
Total current assets	<u>6,006,495</u>	<u>2,621,142</u>	<u>1,059,994</u>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	-	-	-
Endowment investments	31,055,607	24,318,995	-
Other long-term investments	2,878,039	109,268	2,053,876
Notes receivable, net	-	-	-
Pledges receivable, net	-	289,532	-
Capital assets, net	-	-	-
Other noncurrent assets	-	-	-
Total noncurrent assets	<u>33,933,646</u>	<u>24,717,795</u>	<u>2,053,876</u>
Total assets	<u>\$ 39,940,141</u>	<u>\$ 27,338,937</u>	<u>\$ 3,113,870</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 39,234	\$ 40,546	\$ 404
Unearned revenue	-	-	-
Current portion of long-term debt	-	-	-
Due to The University of Alabama	-	-	-
Total current liabilities	<u>39,234</u>	<u>40,546</u>	<u>404</u>
<b>Noncurrent liabilities</b>			
Other liabilities	-	-	-
Long-term debt, net	-	-	-
Due to The University of Alabama	-	-	-
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>39,234</u>	<u>40,546</u>	<u>404</u>
<b>Net Position</b>			
Net investment in capital assets	-	-	-
<b>Restricted</b>			
Nonexpendable	22,658,678	20,339,506	-
Expendable	4,255,975	4,926,693	3,067,332
<b>Unrestricted</b>			
	12,986,254	2,032,192	46,134
Total net position	<u>39,900,907</u>	<u>27,298,391</u>	<u>3,113,466</u>
Total liabilities and net position	<u>\$ 39,940,141</u>	<u>\$ 27,338,937</u>	<u>\$ 3,113,870</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Net Position, Continued**  
2012

	Capstone Foundation Sept. 30, 2012	1831 Foundation Sept. 30, 2012	Capstone Health Services Foundation Sept. 30, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 126,960	\$ 406,381	\$ 600,338
Restricted cash and cash equivalents	-	9,984,614	-
Short-term investments	2,725,846	3,880,755	10,414,352
Accounts receivable, net	-	-	1,530,610
Current portion of notes receivable, net	-	-	713,636
Current portion of pledges receivable	117,060	-	-
Inventories	89,074	-	175,686
Prepaid expenses and unearned scholarships	151,655	-	-
Other current assets	223,214	5,159	-
Due from The University of Alabama	-	-	155,322
Total current assets	<u>3,433,809</u>	<u>14,276,909</u>	<u>13,589,944</u>
<b>Noncurrent assets</b>			
Restricted cash and cash equivalents	-	8,057,200	-
Endowment investments	10,539,138	-	-
Other long-term investments	9,286,592	1,178,200	-
Notes receivable, net	-	-	-
Pledges receivable, net	100,437	-	-
Capital assets, net	145,911	84,662,662	23,359
Other noncurrent assets	-	-	65,297
Total noncurrent assets	<u>20,072,078</u>	<u>93,898,062</u>	<u>88,656</u>
Total assets	<u>\$ 23,505,887</u>	<u>\$ 108,174,971</u>	<u>\$ 13,678,600</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 552,387	\$ 1,895,373	\$ 1,262,305
Unearned revenue	-	4,435,817	-
Current portion of long-term debt	-	4,856,060	-
Due to The University of Alabama	483,037	289,689	-
Total current liabilities	<u>1,035,424</u>	<u>11,476,939</u>	<u>1,262,305</u>
<b>Noncurrent liabilities</b>			
Other liabilities	4,868,053	-	-
Long-term debt, net	-	95,652,154	-
Due to The University of Alabama	8,416,740	-	-
Total noncurrent liabilities	<u>13,284,793</u>	<u>95,652,154</u>	<u>-</u>
Total liabilities	<u>14,320,217</u>	<u>107,129,093</u>	<u>1,262,305</u>
<b>Net Position</b>			
Net investment in capital assets	-	(3,604,129)	23,358
<b>Restricted</b>			
Nonexpendable	17,943	-	-
Expendable	8,617,089	2,426,468	-
<b>Unrestricted</b>			
	550,638	2,223,539	12,392,937
Total net position	<u>9,185,670</u>	<u>1,045,878</u>	<u>12,416,295</u>
Total liabilities and net position	<u>\$ 23,505,887</u>	<u>\$ 108,174,971</u>	<u>\$ 13,678,600</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended 2013**

	National Alumni Association June 30, 2013	Law School Foundation June 30, 2013	Donor Advised Fund June 30, 2013
Operating revenues			
Gifts	\$ 3,255,990	\$ 1,820,374	\$ 467,314
Other operating revenues	1,300,271	141,608	-
Total operating revenues	<u>4,556,261</u>	<u>1,961,982</u>	<u>467,314</u>
Operating expenses			
Salaries, wages and benefits	-	-	-
Scholarships and fellowships	1,856,352	1,168,737	-
Supplies and other services	1,155,071	593,655	62,044
Depreciation	-	-	-
Total operating expenses	<u>3,011,423</u>	<u>1,762,392</u>	<u>62,044</u>
Operating income	<u>1,544,838</u>	<u>199,590</u>	<u>405,270</u>
Nonoperating revenues (expenses)			
Investment income	3,121,490	2,145,333	292,735
Interest expense	-	-	-
Payments to The University of Alabama	(935,779)	(643,433)	(139,000)
Change in value of split-interest agreements	-	-	-
Other nonoperating revenues (expenses)	-	-	-
Net nonoperating revenues	<u>2,185,711</u>	<u>1,501,900</u>	<u>153,735</u>
Income before other changes in net position	3,730,549	1,701,490	559,005
Other changes in net position			
Intragovernmental transfers	-	-	-
Increase in net position	<u>3,730,549</u>	<u>1,701,490</u>	<u>559,005</u>
Net position, beginning of year	39,900,907	27,298,391	3,113,466
Net position, end of year	<u>\$ 43,631,456</u>	<u>\$ 28,999,881</u>	<u>\$ 3,672,471</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
Statements of Revenues, Expenses and Changes in Net Position, Continued  
Years Ended 2013

	Capstone Foundation Sept. 30, 2013	1831 Foundation Sept. 30, 2013	Capstone Health Services Foundation Sept. 30, 2013
Operating revenues			
Gifts	\$ 4,291,066	\$ -	\$ -
Other operating revenues	431,068	14,961,652	14,891,998
Total operating revenues	<u>4,722,134</u>	<u>14,961,652</u>	<u>14,891,998</u>
Operating expenses			
Salaries, wages and benefits	-	-	8,009,465
Scholarships and fellowships	161,349	-	-
Supplies and other services	2,954,292	3,142,776	1,162,890
Depreciation	-	2,339,764	11,924
Total operating expenses	<u>3,115,641</u>	<u>5,482,540</u>	<u>9,184,279</u>
Operating income	<u>1,606,493</u>	<u>9,479,112</u>	<u>5,707,719</u>
Nonoperating revenues (expenses)			
Investment income	1,166,964	2,731	11,648
Interest expense	-	(6,528,774)	-
Payments to The University of Alabama	(1,122,405)	-	(3,975,202)
Change in value of split-interest agreements	(626,079)	-	-
Other nonoperating revenues (expenses)	-	-	-
Net nonoperating (expenses), revenues	<u>(581,520)</u>	<u>(6,526,043)</u>	<u>(3,963,554)</u>
Income before other changes in net position	1,024,973	2,953,069	1,744,165
Other changes in net position			
Intragovernmental transfers	-	-	-
Increase in net position	<u>1,024,973</u>	<u>2,953,069</u>	<u>1,744,165</u>
Net position, beginning of year	9,185,670	1,045,878	12,416,295
Net position, end of year	<u>\$ 10,210,643</u>	<u>\$ 3,998,947</u>	<u>\$ 14,160,460</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
 Statements of Revenues, Expenses and Changes in Net Position  
 Years Ended 2012

	National Alumni Association June 30, 2012	Law School Foundation June 30, 2012	Donor Advised Fund June 30, 2012
Operating revenues			
Gifts	\$ 4,076,829	\$ 1,524,905	\$ 2,241,178
Other operating revenues	1,243,289	140,756	-
Total operating revenues	<u>5,320,118</u>	<u>1,665,661</u>	<u>2,241,178</u>
Operating expenses			
Salaries, wages and benefits	-	-	-
Scholarships and fellowships	1,688,749	437,424	-
Supplies and other services	1,060,209	630,511	161,834
Depreciation	-	-	-
Total operating expenses	<u>2,748,958</u>	<u>1,067,935</u>	<u>161,834</u>
Operating income	<u>2,571,160</u>	<u>597,726</u>	<u>2,079,344</u>
Nonoperating revenues (expenses)			
Investment income	(327,899)	(381,024)	197,543
Interest expense	-	-	-
Payments to The University of Alabama	(1,117,943)	(476,795)	(5,472,753)
Change in value of split-interest agreements	-	-	-
Other nonoperating revenues (expenses)	-	-	-
Net nonoperating expenses	<u>(1,445,842)</u>	<u>(857,819)</u>	<u>(5,275,210)</u>
Income (loss) before other changes in net position	1,125,318	(260,093)	(3,195,866)
Other changes in net position			
Intragovernmental transfers	-	-	-
Increase (decrease) in net position	<u>1,125,318</u>	<u>(260,093)</u>	<u>(3,195,866)</u>
Net position, beginning of year	38,775,589	27,558,484	6,309,332
Net position, end of year	<u>\$ 39,900,907</u>	<u>\$ 27,298,391</u>	<u>\$ 3,113,466</u>

**The University of Alabama**  
**Discretely Presented Component Units**  
 Statements of Revenues, Expenses and Changes in Net Position, Continued  
 Years Ended 2012

	Capstone Foundation Sept. 30, 2012	1831 Foundation Sept. 30, 2012	Capstone Health Services Foundation Sept. 30, 2012
Operating revenues			
Gifts	\$ 3,673,380	\$ 400,000	\$ -
Other operating revenues	406,604	13,890,224	13,811,107
Total operating revenues	<u>4,079,984</u>	<u>14,290,224</u>	<u>13,811,107</u>
Operating expenses			
Salaries, wages and benefits	-	-	7,017,085
Scholarships and fellowships	140,373	-	-
Supplies and other services	3,646,917	2,772,338	1,141,858
Depreciation	-	2,339,207	40,527
Total operating expenses	<u>3,787,290</u>	<u>5,111,545</u>	<u>8,199,470</u>
Operating income	<u>292,694</u>	<u>9,178,679</u>	<u>5,611,637</u>
Nonoperating revenues (expenses)			
Investment income	1,699,668	148,475	223,264
Interest expense	-	(6,599,319)	-
Payments to The University of Alabama	(907,799)	-	(3,288,271)
Change in value of split-interest agreements	(477,817)	-	-
Other nonoperating revenues (expenses)	-	(168,407)	-
Net nonoperating revenues (expenses)	<u>314,052</u>	<u>(6,619,251)</u>	<u>(3,065,007)</u>
Income before other changes in net position	606,746	2,559,428	2,546,630
Other changes in net position			
Intragovernmental transfers	-	2,124	-
Increase in net position	<u>606,746</u>	<u>2,561,552</u>	<u>2,546,630</u>
Net position, beginning of year	8,578,924	(1,515,674)	9,869,665
Net position, end of year	<u>\$ 9,185,670</u>	<u>\$ 1,045,878</u>	<u>\$ 12,416,295</u>





### Note 3 – Cash and Cash Equivalents

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

The System sponsors a short-term investment pool for the System entities to invest operating cash reserves. The Short-Term Fund is invested in the Federated

Treasury Obligation money market fund. As of September 30, 2013 and 2012, the University had approximately \$60 million and \$50 million, respectively, in the Short-Term Fund. The assets held in the money market fund are presented in unrestricted cash and cash equivalents.

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## Note 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, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with the assets pooled on a market value basis. Separately managed funds that reside with each entity are to be invested consistent with the asset mix of the corresponding System investment pool. The following disclosures relate to both the System Pools, which include the investments of other System entities and other affiliated entities, and the University-specific investment portfolio.

### **Endowment Fund**

The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over a perpetual time frame. Accordingly, the primary investment objectives of the Endowment Fund are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support to the endowment beneficiaries. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocation targets are established to meet the return objectives, while providing adequate diversification in order to minimize investment volatility. As discussed in Note 1, certain investments within the Endowment Fund are valued at cost, unless impaired. The University’s portion of investments in the Endowment Fund which are measured at cost totaled approximately \$59.7 million at both September 30, 2013 and 2012.

### **Prime Fund**

The Prime Fund is a longer-term pool used as an investment vehicle to manage operating reserves with a time horizon of seven to ten years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid and semi-

liquid securities. This fund is not currently invested in long-term lockup funds with illiquid assets. As discussed in Note 1, certain investments in the Prime Fund are valued at cost, unless impaired. The University’s portion of investments which are measured at cost totaled approximately \$2.2 million at both September 30, 2013 and 2012.

### **Intermediate Fund**

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

### **Short-Term Fund**

The Short-Term Fund contains the short-term operating reserves of the various System entities. Because of the different income and disbursement requirements of each entity, consolidation of these funds reduces daily cash fluctuations and minimizes the amount of short-term cash reserves needed. Assets held in the Short-Term Fund are invested with the primary objectives of stability of principal and 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, with ownership preference in appropriate investment fund groups, certain direct investments are held in the name of the Board. All other investments in the Systems Pools are classified as commingled funds.

### **Land and Other Real Estate Held as Investments by Endowments**

The University values land and other real estate held as investments by endowments at fair value.

The University holds, as part of its endowment investments, 171 tracts of timber land located in twelve counties in north Alabama totaling 27,782 acres. Of the total land, 15,220 acres are upland pine, 11,759 acres are hardwood, and 803 acres are non-forest land. In the University’s opinion, timber production and related commer-

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cial recreation is the highest and best use for the 171 tracts individually and as a whole; the property is located in an area with a favorable climate for growing trees and contains good markets for forest products. Timber production is the predominant land use in the counties that contain the property. The fee simple market value of timber and land of \$56.9 million and \$60.6 million as of September 30, 2013 and 2012, respectively, was derived through the application of the cost, sales comparison, and income capitalization approaches to value. The value of minerals and mineral exploitation rights contained in fee and mineral rights only and surface mining rights only for 35,880 acres are valued at \$17.2 million and \$17.0 million as of September 30, 2013 and 2012, respectively. The fair value of these rights were determined using non-quantitative “menus” of incremental value, enhanced values for perceived early exploitation, risk discounted cash flow, and rules-of-thumb developed over time in appraising mineral assets.

The University purchased the Bryce Property in 2010 as an endowment investment. The long-term use of the property was undetermined, until the campus master plan was finalized. As master planning proceeded in 2011 and 2012, it was determined that the property would be used for operations, pending the vacancy of the property by the Alabama Department of Mental Health (“ADMH”). Due to its intended operating use, the value of the property was transferred into capital assets, as it is no longer considered an investment property, thereby increasing capital assets \$87.6 million, \$55.7 million for land and \$31.9 for buildings, and decreasing endowment investments by the same. When the property was transferred, unrestricted net position decreased \$87.6 million for the value of the property that is now funded from unrestricted as opposed to endowment coal royalties as originally approved. Coal royalties of \$17.3 million had been used toward the purchase of the property at the time of the transfer, resulting in an increase in restricted cash and a decrease

to unrestricted cash by this amount. In accordance with the purchase agreement, \$3 million remains to be paid to ADMH.

Additionally, at the time of purchase, the University recorded an estimated liability of \$3.5 million for environmental remediation. The University also committed to spending \$6.5 million in building restoration efforts in the future. In connection with the purchase of the Bryce Property, the University also leased the facility back to ADMH for a period estimated to last three to four years for \$1 while ADMH relocates to another property. If the University were to sell any part of the campus within 10 years from the purchase date, any gain on sale would be split evenly between the University and ADMH.

As discussed above, along with the acquisition of the Bryce Property came certain potential liabilities. GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The Statement requires governments to estimate the components of expected pollution remediation outlays and determine whether outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired. Certain future actions by the University may become necessary that could potentially result in additional costs or liabilities not yet determinable, and in addition to the \$4.8 million currently accrued for environmental remediation. As the likelihood of monetary expenses of these actions becomes probable, related entries and disclosures will be made as deemed appropriate under the provisions of GASB Statement No. 49.



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

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2013	2012	2013	2012	2013	2012	2013	2012
Receivables:								
Accrued Income Receivables	\$ 1,096,967	\$ 1,007,252	\$ 651,549	\$ 610,059	\$ 4,056,788	\$ 4,047,259	\$ -	\$ -
Total Receivables	1,096,967	1,007,252	651,549	610,059	4,056,788	4,047,259	-	-
Cash Equivalents:								
Certificates of Deposit	-	-	-	-	8,094,239	6,095,374	-	-
Commercial Paper	-	-	-	-	2,599,751	-	-	-
Options	-	-	-	-	-	29,792	-	-
Money Market Funds	56,519,604	37,622,530	50,827,901	25,012,340	69,728,143	116,977,393	201,099,030	165,309,391
Total Cash Equivalents	56,519,604	37,622,530	50,827,901	25,012,340	80,422,133	123,102,559	201,099,030	165,309,391
Equities:								
U. S. Common Stock	74,460,258	71,093,168	53,886,837	49,927,229	-	-	-	-
U. S. Preferred Stock	1,238,188	1,031,250	1,125,625	937,500	-	-	-	-
Non-U.S. Stock	10,624,062	9,012,235	6,771,037	7,038,544	-	-	-	-
Total Equities	86,322,508	81,136,653	61,783,499	57,903,273	-	-	-	-
Fixed Income Securities:								
U.S. Government Obligations	21,850,510	28,152,015	11,213,984	12,728,703	317,145,893	363,188,133	-	-
Municipal Government Obligations	-	-	-	-	217,383	6,423,894	-	-
Mortgage Backed Securities	-	-	-	-	120,283,662	50,978,064	-	-
Collateralized Mortgage Obligations	-	428,837	-	176,195	50,078,274	57,695,598	-	-
Corporate Bonds	59,987,039	48,420,651	30,751,076	25,691,441	343,033,010	324,568,847	-	-
Non-U.S. Bonds	-	-	-	-	1,046,990	8,953,326	-	-
Total Fixed Income Securities	81,837,549	77,001,503	41,965,060	38,596,339	831,805,212	811,807,862	-	-
Commingled Funds:								
U. S. Equity Funds	102,773,998	102,545,643	110,668,279	99,826,894	-	-	-	-
Non-U. S. Equity Funds	280,637,986	250,230,913	259,399,547	220,690,653	-	-	-	-
U. S. Bond Funds	31,464,754	29,518,564	59,945,698	55,590,858	78,977,322	118,258,903	-	-
Non-U. S. Bond Funds	61,765,298	57,589,079	56,698,721	54,429,629	-	-	-	-
Hedge Funds	153,064,178	148,184,664	120,473,011	115,874,279	-	-	-	-
Private Equity Funds	62,791,546	61,912,960	-	-	-	-	-	-
Timberland Funds	16,960	5,624,452	-	-	-	-	-	-
Real Estate Funds	131,161,560	128,235,796	104,551,847	102,617,303	-	-	-	-
Total Commingled Funds	823,676,280	783,842,071	711,737,103	649,029,616	78,977,322	118,258,903	-	-
Total Fund Investments	1,048,355,941	979,602,757	866,313,563	770,541,568	991,204,667	1,053,169,323	201,099,030	165,309,391
Total Fund Assets	1,049,452,908	980,610,009	866,965,112	771,151,627	995,261,455	1,057,216,582	201,099,030	165,309,391
Total Fund Liabilities	(122,926)	(126,133)	(85,447)	(88,592)	(584,144)	(481,793)	-	-
Affiliated Entity Investments	(138,865,562)	(124,786,897)	(53,288,957)	(51,504,726)	(88,296,301)	(77,940,650)	-	-
Total Net Asset Value	\$ 910,464,420	\$ 855,696,979	\$ 813,590,708	\$ 719,558,309	\$ 906,381,010	\$ 978,794,139	\$ 201,099,030	\$ 165,309,391



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

	2013	2012
Cash, Receivables and Equivalents		
Money Market Funds	\$ 281,326	\$ 208,893
Accrued Income Receivables	40,050	54,900
Total Cash, Receivables and Equivalents	<u>321,376</u>	<u>263,793</u>
Equities		
U.S. Common Stock	4,278,119	4,200,784
Total Equities	<u>4,278,119</u>	<u>4,200,784</u>
Fixed Income Securities		
U.S. Government Obligations	159,477	383,104
Total Fixed Income Securities	<u>159,477</u>	<u>383,104</u>
Commingled Funds		
U.S. Equity Funds	104,694,558	17,244,939
U.S. Bond Funds	2,817,603	3,009,476
Private Equity Funds	175,938	175,935
Total Commingled Funds	<u>107,688,099</u>	<u>20,430,350</u>
Total Real Estate	<u>77,059,557</u>	<u>166,813,374</u>
System Pooled Investments		
Short-Term Fund	60,040,248	50,046,756
Endowment Fund	533,489,545	500,558,993
Prime Fund	232,258,446	215,903,457
Intermediate Fund	297,039,568	386,850,909
Total System Pooled Investments	<u>1,122,827,807</u>	<u>1,153,360,115</u>
Less Short-Term Fund Cash Equivalents	<u>(60,040,248)</u>	<u>(50,046,756)</u>
Total University Investments	<u>\$ 1,252,294,187</u>	<u>\$ 1,295,404,764</u>

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## Investment Risk Factors

Many factors 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 US investments and the Citigroup WGBI Index for international investments 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 in the Endowment and Prime Funds, at September 30, 2012, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$317.2 million and \$259.8 in the Endowment and Prime Funds, at September 30, 2013 and 2012, respectively.

The Intermediate Fund is benchmarked against the 1-3 Year Barclays Government Credit Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For September 30, 2013 and 2012, approximately \$135.8 million and \$63.2 million, 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 \$151.3 million and \$235.2 million at September 30, 2013 and 2012, respectively. For September 30, 2013 and 2012, \$8.1 million and \$6.1 million, respectively, was invested by the Intermediate Fund in certificates of deposit.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the System campuses and hospital. The Short-Term Fund is invested in a money market fund, which in turn invests mostly in U.S. Treasury Securities and repurchase agreements that are collateralized by U.S. Treasury Securities. These funds are all commingled with funds of other investors. Refer to Note 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, 2013 and 2012 are as follows:

	2013			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
<b>Fixed or Variable Income Securities</b>				
U.S. Government Obligations	\$ 21,850,510	\$ 11,213,984	\$ 317,145,893	\$ -
Municipal Government Obligations	-	-	217,383	-
Other U.S. and Non-U.S. Denominated:				
AAA	1,254,938	642,291	18,861,309	-
AA	11,441,938	5,792,481	85,433,796	-
A	27,814,947	14,242,504	182,513,978	-
BBB	19,475,216	10,073,800	78,670,892	-
BB	-	-	6,740,499	-
B	-	-	3,613,132	-
C and < C	-	-	2,818,596	-
Unrated	-	-	135,789,735	-
Commingled Funds:				
U.S. Bond Funds: Unrated	31,464,754	59,945,698	78,977,321	-
Non-U.S. Bond Funds: Unrated	61,765,298	56,698,721	-	-
Money Market Funds: Unrated	56,519,604	50,827,901	69,728,143	201,099,030
Commercial Paper: Unrated	-	-	2,599,751	-
Certificates of Deposits	-	-	8,094,239	-
Total	<u>\$ 231,587,205</u>	<u>\$ 209,437,380</u>	<u>\$ 991,204,667</u>	<u>\$ 201,099,030</u>
<b>2012</b>				
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
<b>Fixed or Variable Income Securities</b>				
U.S. Government Obligations	\$ 28,152,015	\$ 12,728,703	\$ 363,188,133	\$ -
Municipal Government Obligations	-	-	6,423,894	-
Other U.S. and Non-U.S. Denominated:				
AAA	1,586,686	749,786	30,554,363	-
AA	8,698,140	4,205,006	77,971,612	-
A	23,416,600	12,943,728	195,302,384	-
BBB	15,128,540	7,969,116	61,721,408	-
BB	-	-	9,130,213	-
B	-	-	1,351,313	-
C and < C	-	-	2,939,022	-
Unrated	19,522	-	63,225,520	-
Commingled Funds:				
U.S. Bond Funds: Unrated	29,518,564	55,590,858	118,258,903	-
Non-U.S. Bond Funds: Unrated	57,589,079	54,429,629	-	-
Money Market Funds: Unrated	37,622,530	25,012,340	117,007,185	165,309,391
Certificates of Deposits	-	-	6,095,374	-
Total	<u>\$ 201,731,676</u>	<u>\$ 173,629,166</u>	<u>\$ 1,053,169,323</u>	<u>\$ 165,309,391</u>

In accordance with the Board policy disclosed previously, credit risk for the University's fixed and variable income securities held outside of the System Pools is managed by diversifying across issuers and limiting the amount of portfolio assets that are invested in non-investment grade securities.

The credit risk for fixed and variable income securities, for the University's separately held investments, at September 30, 2013 and 2012 is as follows:

	2013	2012
Fixed or Variable Income Securities		
U.S. Government Guaranteed	\$ 159,477	\$ 383,104
Other U.S. Dollar, Money Market Funds, and Commingled Bonds		
AAA	1,074,529	1,139,350
AA	282,605	170,313
A	248,089	435,885
BBB	286,732	511,416
BB	441,773	211,333
B	400,357	191,251
Below B	19,069	7,026
Unrated	345,775	551,796
	<u>\$ 3,258,406</u>	<u>\$ 3,601,474</u>





**Custodial Credit Risk**

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

Investment securities in the System Pools and the University’s separately held portfolio 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 the University’s separately held investment portfolio is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2013 and 2012, no investment in a single issuer represents 5% or more of total investments held by any single investment manager of the System Pools or the University’s separately held investment portfolio, except for investments issued by the U.S. government and money market fund investments held by

the Short Term Fund.

**Interest Rate Risk**

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity, measured by effective duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Effective duration is the approximate change in price of a security resulting from a 100 basis points (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 investment pool as they are managed relative to the investment objectives and liquidity demands of the investors.

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

The effective durations presented in years for fixed or variable income securities, for the System Pools, at September 30, 2013 and 2012 are as follows:

(The information presented below does not take into account the relative weighting of the portfolio components to the total portfolio.)

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2013	2012	2013	2012	2013	2012	2013	2012
U. S. Government Obligations	5.6	5.0	5.4	5.5	1.8	1.9	-	-
Municipal Government Obligations	-	-	-	-	0.2	1.8	-	-
Corporate Bonds	4.2	5.4	4.2	5.2	1.5	1.7	-	-
Non-U. S. Bonds	-	-	-	-	1.5	1.7	-	-
Commingled Bond Funds	1.5	0.6	2.3	1.5	2.3	2.3	-	-

The effective durations for fixed or variable income securities, for the University’s separately held investments, at September 30, 2013 and 2012 are as follows:

	2013	2012
U.S. Government Obligations	14.3	7.0
Commingled Bond Funds	2.8	3.9



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

	2013			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Mortgage Backed Securities	\$ -	\$ -	\$ 120,283,662	\$ -
Collateralized Mortgage Obligations	-	-	50,078,274	-
Total Fixed	\$ -	\$ -	\$ 170,361,936	\$ -

	2012			
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Mortgage Backed Securities	\$ -	\$ -	\$ 50,978,064	\$ -
Collateralized Mortgage Obligations	428,837	176,195	57,695,598	-
Total Fixed	\$ 428,837	\$ 176,195	\$ 108,673,662	\$ -

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

*Collateralized Mortgage Obligations.* Collateralized mortgage obligations (“CMOs”) generate a return based upon either the payment of interest or principal on mortgages

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

At September 30, 2013 and 2012, the effective durations for these securities held in the System Pools are listed below. At September 30, 2013 and 2012, the University did not hold any investments in these security types outside of the System Pools.

	2013			
	Endowment Fund	Prime Fund	Intermediate Fund	Short-Term Fund
Mortgage Backed Securities	-	-	0.7	-
Collateralized Mortgage Obligations	-	-	1.0	-

	2012			
	Endowment Fund	Prime Fund	Intermediate Fund	Short-Term Fund
Mortgage Backed Securities	-	-	1.7	-
Collateralized Mortgage Obligations	2.6	2.7	1.1	-

### Foreign Currency Risk

The strategic asset allocation policy for the Endowment Fund and the Prime Fund includes an allocation to non-United States equity 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, 2013 and 2012, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$1.0 million and \$8.9 million of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2013 and 2012, respectively. At September 30, 2013 and 2012, the University did not hold any foreign securities in its separately held investment portfolio.

### Securities Lending

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

At September 30, 2013 and 2012, no securities were on loan from the investment pools.

## Note 5 – Accounts and Notes Receivable

Accounts receivable consist of amounts for student tuition and fees, contract and grant reimbursements due from third parties, and interest due on investments.

The note receivable from The 1831 Foundation, a discretely presented component unit, represents a related party transaction to fund the construction of dormitories held by The 1831 Foundation. The note accrues

interest at 5.5% and the remaining balance was satisfied in October 2013. Notes receivable from student organizations bear interest rates ranging from 0% to 5.73% with terms up to 40 years.

The composition of accounts receivable and notes receivable at September 30, 2013 and 2012 is summarized as follows:

	2013	2012
<b>Accounts Receivable</b>		
Student accounts	\$ 60,456,043	\$ 58,305,335
Receivables from sponsoring agencies	21,045,929	32,020,475
Accrued interest receivable	7,351,327	7,575,893
Other	9,508,219	9,955,978
Total accounts receivable	98,361,518	107,857,681
Less provision for doubtful accounts	(3,803,506)	(3,142,709)
<b>Accounts receivable, net</b>	<b>\$ 94,558,012</b>	<b>\$ 104,714,972</b>
<b>Notes Receivable</b>		
Note receivable from The 1831 Foundation	\$ 2,686,540	\$ 6,508,446
Notes receivable from student organizations	75,789,119	58,924,778
Total notes receivable	78,475,659	65,433,224
Less current portion	(4,277,022)	(5,836,749)
<b>Notes receivable, net</b>	<b>\$ 74,198,637</b>	<b>\$ 59,596,475</b>

## Note 6 – Loans and Pledges Receivable

Loans receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs. Pledges receivable represent unconditional promises to give from third party donors and are pre-

sented at their gross, undiscounted amount.

The composition of loans and pledges receivable at September 30, 2013 and 2012, is summarized as follows:

	2013	2012
<b>Loans receivable</b>		
Federal loan program	\$ 12,884,781	\$ 12,977,760
University loan funds	1,694,541	1,685,027
Less allowance for doubtful loans	(3,696,717)	(3,696,717)
Total loans outstanding, net	10,882,605	10,966,070
Less current portion	(1,899,015)	(1,847,783)
<b>Total loans outstanding, noncurrent</b>	<b>\$ 8,983,590</b>	<b>\$ 9,118,287</b>
<b>Pledges outstanding</b>		
Operations	\$ 24,053,902	\$ 31,818,165
Capital	1,013,804	1,358,077
Less allowance for doubtful pledges	(1,417,891)	(1,782,918)
Total pledges, net	23,649,815	31,393,324
Less current portion	(9,798,492)	(9,382,609)
<b>Total pledges, noncurrent</b>	<b>\$ 13,851,323</b>	<b>\$ 22,010,715</b>

## Note 7 – Capital Assets

Capital assets are capitalized and recorded at cost at the date of acquisition or at estimated fair value at the date received if gifted to the University. Capital assets as of

September 30, 2013 and 2012 are summarized as follows:

	Balance October 1, 2012	Additions	Retirements/ Transfers	Balance September 30, 2013
<b>Nondepreciable capital assets:</b>				
Land	\$ 18,508,472	\$ 55,650,846	\$ -	\$ 74,159,318
Collections	20,882,929	1,073,400	(4,271)	21,952,058
Construction in progress	97,613,604	197,267,681	(159,959,947)	134,921,338
<b>Total nondepreciable capital assets</b>	<u>137,005,005</u>	<u>253,991,927</u>	<u>(159,964,218)</u>	<u>231,032,714</u>
<b>Depreciable capital assets:</b>				
Land improvements	50,879,812	7,530,140	-	58,409,952
Infrastructure	49,551,921	8,483,693	-	58,035,614
Buildings and fixed equipment	1,293,471,375	190,117,251	(20,320,901)	1,463,267,725
Equipment	120,107,405	17,780,776	(8,462,506)	129,425,675
Library materials	101,385,352	542,611	-	101,927,963
Intangible assets	78,509,171	1,730,654	-	80,239,825
<b>Total depreciable capital assets</b>	<u>1,693,905,036</u>	<u>226,185,125</u>	<u>(28,783,407)</u>	<u>1,891,306,754</u>
<b>Less accumulated depreciation:</b>				
Land improvements	16,813,721	2,263,874	-	19,077,595
Infrastructure	23,574,124	1,824,582	-	25,398,706
Buildings and fixed equipment	287,623,798	30,440,830	(529,155)	317,535,473
Equipment	80,656,939	9,495,301	(6,929,995)	83,222,245
Library materials	94,141,399	2,021,813	-	96,163,212
Intangible assets	37,633,750	3,676,757	-	41,310,507
<b>Total accumulated depreciation</b>	<u>540,443,731</u>	<u>49,723,157</u>	<u>(7,459,150)</u>	<u>582,707,738</u>
<b>Total depreciable capital assets, net</b>	<u>1,153,461,305</u>	<u>176,461,968</u>	<u>(21,324,257)</u>	<u>1,308,599,016</u>
<b>Total capital assets, net</b>	<u>\$ 1,290,466,310</u>	<u>\$ 430,453,895</u>	<u>\$ (181,288,475)</u>	<u>\$ 1,539,631,730</u>

	Balance October 1, 2011	Additions	Retirements/ Transfers	Balance September 30, 2012
<b>Nondepreciable capital assets:</b>				
Land	\$ 17,371,572	\$ 1,136,900	\$ -	\$ 18,508,472
Collections	20,410,800	472,129	-	20,882,929
Construction in progress	132,919,774	177,069,606	(212,375,776)	97,613,604
<b>Total nondepreciable capital assets</b>	<u>170,702,146</u>	<u>178,678,635</u>	<u>(212,375,776)</u>	<u>137,005,005</u>
<b>Depreciable capital assets:</b>				
Land improvements	45,141,483	6,336,034	(597,705)	50,879,812
Infrastructure	44,305,994	5,351,557	(105,630)	49,551,921
Buildings and fixed equipment	1,105,980,174	218,931,173	(31,439,972)	1,293,471,375
Equipment	109,180,073	13,269,898	(2,342,566)	120,107,405
Library materials	100,880,567	504,785	-	101,385,352
Intangible assets	48,474,371	30,034,800	-	78,509,171
<b>Total depreciable capital assets</b>	<u>1,453,962,662</u>	<u>274,428,247</u>	<u>(34,485,873)</u>	<u>1,693,905,036</u>
<b>Less accumulated depreciation:</b>				
Land improvements	15,127,646	1,839,202	(153,127)	16,813,721
Infrastructure	22,045,747	1,563,089	(34,712)	23,574,124
Buildings and fixed equipment	265,357,285	25,777,343	(3,510,830)	287,623,798
Equipment	74,280,046	8,657,638	(2,280,745)	80,656,939
Library materials	91,964,777	2,176,622	-	94,141,399
Intangible assets	29,136,720	8,497,030	-	37,633,750
<b>Total accumulated depreciation</b>	<u>497,912,221</u>	<u>48,510,924</u>	<u>(5,979,414)</u>	<u>540,443,731</u>
<b>Total depreciable capital assets, net</b>	<u>956,050,441</u>	<u>225,917,323</u>	<u>(28,506,459)</u>	<u>1,153,461,305</u>
<b>Total capital assets, net</b>	<u>\$ 1,126,752,587</u>	<u>\$ 404,595,958</u>	<u>\$ (240,882,235)</u>	<u>\$ 1,290,466,310</u>

## Note 8 – Construction Commitments and Financing

The University has contracted for the construction and renovation of several facilities. At September 30, 2013 and 2012, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$113.8 million and \$60.5 million, respectively, which is expected to be financed from grants, bond proceeds, University funds, and private gifts.

## Note 9 – Long-term Debt

Long-term debt activity for the years ended September 30, 2013 and 2012 is summarized as follows:

Type/Supported by	Balance October 1, 2012	New Debt	Principal Repayment	Reclass	Balance September 30, 2013
<b>Notes payable</b>					
Crimson Tide Foundation airplane	\$ 1,791,963	\$ -	\$ 578,056	\$ -	\$ 1,213,907
Student housing revenue	2,954,759	-	204,971	-	2,749,788
Rental income	1,190,788	-	103,625	-	1,087,163
Bryce Property	3,000,000	-	-	-	3,000,000
<b>Bonds</b>					
Student housing revenue	152,099,857	83,722,905	24,249,413	(10,437,080)	201,136,269
Fraternities/Sororities	37,799,899	13,541,546	6,324,847	1,722,669	46,739,267
Intercollegiate athletics	196,608,830	53,876,982	44,658,025	4,246,592	210,074,379
Auxiliaries	26,430,364	11,179,026	6,242,571	(1,350,007)	30,016,812
General fee	247,941,050	123,624,541	73,355,142	5,817,826	304,028,275
	<u>669,817,510</u>	<u>\$285,945,000</u>	<u>\$155,716,650</u>	<u>\$ -</u>	<u>800,045,860</u>
Plus net unamortized bond premium/discount	1,526,842				20,423,136
Less current portion	(19,621,650)				(22,042,947)
	<u>\$ 651,722,702</u>				<u>\$ 798,426,049</u>

Type/Supported by	Balance October 1, 2011	New Debt	Principal Repayment	Reclass	Balance September 30, 2012
<b>Notes payable</b>					
Crimson Tide Foundation airplane	\$ 2,335,083	\$ -	\$ 543,120	\$ -	\$ 1,791,963
Student housing revenue	3,152,152	-	197,393	-	2,954,759
Rental income	1,508,548	-	317,760	-	1,190,788
Bryce Property	42,750,000	-	39,750,000	-	3,000,000
<b>Bonds</b>					
Student housing revenue	153,254,032	-	1,154,175	-	152,099,857
Fraternities/Sororities	41,931,462	-	4,131,563	-	37,799,899
Intercollegiate athletics	201,021,673	-	4,412,843	-	196,608,830
Auxiliaries	27,460,602	-	1,030,238	-	26,430,364
General fee	252,447,231	-	4,506,181	-	247,941,050
	<u>725,860,783</u>	<u>\$ -</u>	<u>\$ 56,043,273</u>	<u>\$ -</u>	<u>669,817,510</u>
Plus net unamortized bond premium/discount	1,806,005				1,526,842
Less current portion	(43,293,272)				(19,621,650)
	<u>\$ 684,373,516</u>				<u>\$ 651,722,702</u>

Debt obligations generally bear interest at fixed rates ranging from 0% to 6.3% and mature at various dates through fiscal year 2042.

Maturities and interest on notes, leases and bonds payable, using rates in effect at September 30, 2013, for the next five years and in subsequent five-year periods are as follows:

	Notes Principal	Bonds Principal	Total Principal	Notes Interest	Bonds Interest	Total Interest	Total Debt Service
2014	\$ 3,937,947	\$ 18,105,000	\$ 22,042,947	\$ 249,841	\$ 37,181,694	\$ 37,431,535	\$ 59,474,482
2015	936,200	16,770,000	17,706,200	195,447	36,552,278	36,747,725	54,453,925
2016	353,097	17,455,000	17,808,097	161,011	35,944,024	36,105,035	53,913,132
2017	369,446	18,080,000	18,449,446	144,661	35,272,064	35,416,725	53,866,171
2018	386,623	21,800,000	22,186,623	127,485	34,523,253	34,650,738	56,837,361
2019-2023	1,149,292	131,160,000	132,309,292	394,706	156,424,470	156,819,176	289,128,468
2024-2028	676,752	165,095,000	165,771,752	172,932	120,508,423	120,681,355	286,453,107
2029-2033	241,503	200,405,000	200,646,503	13,403	79,152,520	79,165,923	279,812,426
2034-2038	-	146,170,000	146,170,000	-	34,150,939	34,150,939	180,320,939
2039-2042	-	56,955,000	56,955,000	-	4,781,225	4,781,225	61,736,225
	<u>\$ 8,050,860</u>	<u>\$791,995,000</u>	<u>\$800,045,860</u>	<u>\$ 1,459,486</u>	<u>\$574,490,890</u>	<u>\$ 575,950,376</u>	<u>\$ 1,375,996,236</u>

Pledged revenues for the years ended September 30, 2013 and 2012 as defined by outstanding bond covenants are as follows:

	2013	2012
Tuition and fees	\$ 514,370,549	\$ 454,187,595
Sales and services of educational activities	12,986,742	11,643,489
Auxiliary sales and services	155,448,111	149,158,901
Investment income	41,760,631	41,823,245
Other operating revenue	42,516,071	44,505,964
Total pledged revenues	<u>\$ 767,082,104</u>	<u>\$ 701,319,194</u>

The University defeased certain indebtedness during fiscal years 2003 and 2013 with the 2003 and 2012 bond issuances, respectively. For these defeasances, funds were deposited in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreements, funds deposited in the trust accounts were invested in obligations of the U.S. Government. The University estimates that the amounts on deposit will be sufficient to satisfy the debt service requirements on the defeased indebtedness and that the defeasance will result in lower overall debt service payments to the University. Should the amounts on deposit not be sufficient to retire the defeased indebtedness upon maturity, the University would be responsible to satisfy the shortfall. The University remains legally obligated for the repayment of the defeased indebtedness. Neither the assets of the trust accounts nor the defeased indebtedness are included in the accompanying statements of net position. The principal outstanding on the 2003 defeased indebtedness at September 30,

2013 and September 30, 2012 is approximately \$0 and \$14.1 million, respectively. The principal outstanding on the 2012A defeased indebtedness at September 30, 2013 is approximately \$114.2 million.

The University's general revenue bonds are subject to certain covenants. These covenants, among other things, require the Board to adopt an annual budget; to establish and maintain reasonable fees, rates, and other charges to ensure pledged revenues are sufficient for debt service coverage; to maintain books and records pertaining to the pledged revenues; to furnish annual audits and other periodic reports; and to comply with certain restrictions as to additional indebtedness. Based on pledged revenues received in fiscal year 2013 of \$767.1 million, the projected maximum annual debt service requirement of \$58.0 million in 2021 is covered approximately 13.2 times by pledged revenues. The University is in compliance with all covenants as of September 30, 2013.



The following is a detailed schedule of long-term debt as of September 30, 2013:

Description	Date Issued	Final Maturity	Interest Rate-%	Original Debt	Outstanding Debt
Bonds Payable:					
General Fee Revenue Bond Series 2004A	7/1/04	7/1/34	4.72-5.25	\$ 92,715,000	\$ 88,090,000
General Fee Revenue Bond Series 2006A	9/1/06	7/1/36	4.125-5.0	40,575,000	40,055,000
General Fee Revenue Bond Series 2006B	9/1/06	7/1/23	5.22-5.9	23,750,000	16,315,000
General Fee Revenue Bond Series 2008A	8/1/08	7/1/34	3.0-5.0	45,425,000	40,890,000
General Fee Revenue Bond Series 2009A	10/30/09	7/1/39	5.14-6.28	135,425,000	135,425,000
General Fee Revenue Bond Series 2009B	10/30/09	7/1/21	1.25-5.14	48,060,000	34,560,000
General Fee Revenue Bond Series 2010A	7/1/10	7/1/40	2.0-5.875	16,495,000	15,430,000
General Fee Revenue Bond Series 2010B	11/18/10	7/1/40	5.7-5.85	18,000,000	18,000,000
General Fee Revenue Bond Series 2010C	11/18/10	7/1/38	3.8-6.1	100,420,000	100,420,000
General Fee Revenue Bond Series 2010D	11/18/10	7/1/19	1.0-4.0	31,040,000	19,645,000
General Fee Revenue Bond Series 2012A	10/16/12	7/1/42	3.0-5.0	265,655,000	265,655,000
General Fee Revenue Bond Series 2012B	10/16/12	7/1/19	1.4-3.0	20,290,000	17,510,000
Total Bonds Payable				<u>837,850,000</u>	<u>791,995,000</u>
Notes Payable:					
U. S. Department of Education	7/20/89	4/15/19	3.0	3,188,000	922,220
Commercial finance co., CTF airplane	5/10/05	5/10/15	6.25	5,000,000	1,213,907
U.S. Department of Education	3/23/00	1/1/30	5.5	2,483,000	1,827,570
Geist LLC Promissory Note	1/24/07	2/1/21	6.0	1,800,000	1,087,163
Department of Mental Health	5/28/10	12/1/11	0.0	65,750,000	3,000,000
Total Notes Payable				<u>78,221,000</u>	<u>8,050,860</u>
Total Bonds & Notes Payable				<u>\$ 916,071,000</u>	<u>\$ 800,045,860</u>



## Note 10 – Self-Insurance

The University participates with other campuses that comprise the System in a self-insurance program for general liability. The Board established a separate revocable trust fund for payment of these self-insurance claims under its risk retention program. Annual contributions are made to the trust fund, at an actuarially determined rate, to provide funding for the retained risk. Accounts payable and accrued liabilities in the accompanying statements includes a reserve of approximately \$1.4 million for general liability at both September 30, 2013 and 2012.

The University is self-insured for health insurance. The liability for unpaid claims includes an accrual for an estimate of claims incurred but not reported. The changes in the health insurance liabilities for the years ended September 30, 2013 and 2012 are summarized as follows:

	2013	2012
Balance, beginning of year	\$ 2,466,000	\$ 2,442,000
Claims paid	(31,290,498)	(30,181,570)
Contributions	31,443,498	30,205,570
Balance, end of year	<u>\$ 2,619,000</u>	<u>\$ 2,466,000</u>



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## Note 11 – Retirement Plan

Most employees of the University participate in the Teachers' Retirement System of Alabama ("TRS"), a cost sharing, multiple-employer public retirement system. In addition, employees meeting eligibility requirements may participate in an optional program with the Teachers Insurance and Annuity Association – College Retirement Equities Fund ("TIAA – CREF") or The Variable Annuity Life Insurance Company ("VALIC"). TRS is a defined benefit plan while the TIAA-CREF and VALIC programs are defined contribution plans.

The TRS was established as of September 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 the state-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control.

Members of TRS are classified as either Tier 1 or Tier 2 plan members, contingent upon if their eligible service began prior to January 1, 2013. Tier 1 participants in TRS who retire at age 60 with at least 10 years of credited service, or after completing 25 years of credited service, regardless of age, are entitled to an annual benefit, payable monthly, unless there is a return to full-time employment with a TRS or Employees' Retirement System ("ERS") agency, or to temporary employment in excess of specified limits. Tier 2 participants with at least 10 years of credited service who have attained the age of 62 are also entitled to an annual benefit, payable monthly. Service retirement benefits are calculated based on a retirement formula. The factors used to calculate the monthly benefit options include the employee's average final salary, years and months of creditable service, and a retirement benefit factor established by the Alabama Legislature. The benefit factor is 2.0125% for Tier 1 participants and 1.65% for Tier 2 participants. 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. In addition, the University, as the employer, contributes to TRS. The total contribution requirement for fiscal year 2013, 2012, and 2011 was approximately \$55.3 million, \$52.3 million, and \$48.5 million,

respectively, which consisted of \$31.7 million from the University and \$23.5 million from employees in 2013, \$30.3 million from the University and \$22.0 million from employees in 2012, and \$34.6 million from the University and \$13.9 million from employees in 2011. The University's contribution rate for the year ended September 30, 2013 was 10.08% for Tier 1 covered employees and 9.44% for Tier 2 covered employees. The University's contribution rate for the fiscal year ended September 30, 2012 was 10.0 % for covered employees. Tier 1 covered employees were required by statute to contribute 7.50% and 7.25% of earned compensation to TRS in fiscal years 2013 and 2012, respectively. Tier 2 covered employees were required to contribute 6.0% of earned compensation to TRS in fiscal year 2013. All regular employees of the University are members of TRS with the exception of temporary employees.

The actuarial accrued liability ("AAL"), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL and the actuarial valuation of assets at September 30, 2012 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were \$28.3 billion and \$18.8 billion, respectively, resulting in an under-funded AAL of \$9.5 billion. Complete financial presentation and disclosure of the financial position and activities of the TRS are presented in the September 30, 2012 annual financial report of TRS. That report is publicly available and may be obtained by contacting TRS.

As previously noted, some employees participate in the optional TIAA-CREF and VALIC programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All regular full-time and regular part-time employees are eligible to participate from the date of employment. The University contributes a matching amount up to 5% of the employees monthly contribution for regular, full-time exempt employees. The University's contribution is funded as it accrues

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and, along with that of employees, is immediately and fully vested. The contribution for fiscal years 2013 and 2012, excluding amounts not eligible for matching, was approximately \$17.6 million and \$16.5 million, which included approximately \$8.8 million and \$8.3 million each from the University and its employees.

The University's total salaries and wages for fiscal years 2013 and 2012 were approximately \$381.5 million and \$361.8 million, respectively. Salaries and wages for covered employees participating in TRS and TIAA – CREF or VALIC were approximately \$315.0 million and \$303.4 million, and \$202.2 million and \$191.1 million, respectively, during the fiscal years 2013 and 2012.

## Note 12 – Post-Employment Benefits

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

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 \$1.0 million for each covered individual. The Code of Alabama 1975, Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers.

The required rates of retirees are as follows as of September 30, 2013:

### Retired Member Rates:

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

The required contribution rate of the employer was \$336 per employee per month in the year ended September 30, 2013. The University paid \$6.7 million and \$7.3 million for the years ended September 30, 2013 and 2012 for 1,709 and 1,663 retirees, respectively. The required contribution rate is determined by PEEHIP in accordance with state statute. The complete financial report for PEEHIP can be obtained by contacting TRS at 1-877-517-7000.

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 with 25 or more years of credited service are eligible for tuition assistance benefits for themselves as well as for their spouse and unmarried dependent children.

## Note 13 – Compensated Absences

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. Depending on their payroll classification, some employees are also paid one-half of their unused accrued sick leave at their regular rate of pay. Accounts payable and accrued liabilities within the accompanying statements of net position includes an accrual of approximately \$22.6 million and \$21.4 million as of September 30, 2013 and 2012, respectively, primarily for accrued vacation and sick leave.

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## Note 14 – Federal Direct Lending Program

The Federal Direct Student Loan Program (“FDSLPL”) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student’s cost of attendance directly through the University rather than through private lenders. The University began participation in the FDSLPL on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. During the years ended September 30, 2013 and 2012, respectively, the University disbursed approximately \$171.0 million and \$165.7 million, respectively, under the FDSLPL.

## Note 15 – Contingencies and Commitments

The University has sovereign immunity and is, therefore, in the opinion of University Counsel, immune to ordinary tort actions. The University has consistently been dismissed from lawsuits on the basis of the sovereign immunity doctrine. That doctrine also protects the University from vicarious liability arising from the negligence of its employees. As a matter of policy, the University has chosen to indemnify its

employees through a self-insured trust fund against liabilities arising from the performance of their official duties. Some exceptions to the sovereign immunity doctrine exist, most notably federal court cases arising under the federal Constitution or federal statutes. The University is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of those actions will have a material adverse effect on the financial statements. 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 the University. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the University expects any such amounts to be immaterial.

The University was a guarantor of third party obligations totaling approximately \$0.2 million at September 30, 2012.



## Note 16 – Operating Expenses by Function

In addition to their natural classifications, expenses are also classified by their functional classifications. Functional classifications are assigned to departments based on the nature of their activity, such as instruction, public service, institutional support, etc.

Operating expenses by functional classification for the years ended September 30, 2013 and 2012 are summarized as follows:

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total 2013
Instruction	\$ 219,268,643	\$ -	\$ 32,832,994	\$ 12,997,181	\$ 265,098,818
Research	24,834,385	-	19,367,154	4,183,664	48,385,203
Public service	31,314,398	-	11,118,178	1,306,402	43,738,978
Academic support	50,906,650	-	20,943,364	10,095,466	81,945,480
Student services	28,997,209	-	14,510,288	2,937,498	46,444,995
Institutional support	52,836,078	-	12,344,417	3,406,070	68,586,565
Operations and maintenance	45,068,856	-	34,407,639	-	79,476,495
Scholarships and fellowships	-	18,416,038	-	-	18,416,038
Auxiliary enterprises	56,950,416	2,231,942	74,596,514	14,796,876	148,575,748
	<u>\$ 510,176,635</u>	<u>\$ 20,647,980</u>	<u>\$ 220,120,548</u>	<u>\$ 49,723,157</u>	<u>\$ 800,668,320</u>

	Salaries, wages and benefits	Scholarships and fellowships	Supplies and other services	Depreciation	Total 2012
Instruction	\$ 206,268,055	\$ -	\$ 30,774,738	\$ 13,317,643	\$ 250,360,436
Research	22,776,014	-	21,688,211	4,534,233	48,998,458
Public service	29,375,223	-	9,607,620	1,460,818	40,443,661
Academic support	53,852,787	-	13,464,738	8,303,145	75,620,670
Student services	26,689,360	-	13,230,812	3,103,041	43,023,213
Institutional support	51,581,753	-	9,781,824	3,490,734	64,854,311
Operations and maintenance	41,818,457	-	36,059,528	-	77,877,985
Scholarships and fellowships	-	15,710,068	-	-	15,710,068
Auxiliary enterprises	53,256,740	3,744,009	67,753,745	14,301,310	139,055,804
	<u>\$ 485,618,389</u>	<u>\$ 19,454,077</u>	<u>\$ 202,361,216</u>	<u>\$ 48,510,924</u>	<u>\$ 755,944,606</u>

## Note 17 – Other Noncurrent Assets and Liabilities

The composition of other noncurrent assets at September 30, 2013 and 2012 is summarized as follows:

	2013	2012
Receivable from The Capstone Foundation	\$ 8,729,217	\$ 8,416,740
Other	403,386	112,694
	<u>\$ 9,132,603</u>	<u>\$ 8,529,434</u>

The receivable from The Capstone Foundation relates to the Eminent Scholars Program established by the State of Alabama Act No. 85-759 and administered by the Alabama Commission on Higher Education. The program provides that donor gifts of \$600,000 held in a foundation affiliated with the University are eligible for \$400,000 in State matching funds. In prior years, the University received funds from donors intended to be matched in accordance with this program. Consistent with the provision of the program, the University transferred the corpus of these funds to The Capstone Foundation, as agent for the University, whereby the State would match these donations. The program

has been inactive since 1997, and no matching funds have been provided to date. These funds held by the Capstone Foundation include both the corpus and any unrealized gains earned thereon and are shown as a receivable from the Capstone Foundation. Unrealized gains earned each year on the corpus are added to the receivable and reported as investment income by the University. Realized gains and investment income earned each year on the corpus amount are distributed to the University and reported as investment income.

The activity with respect to other noncurrent liabilities for the years ended September 30, 2013 and 2012, is as follows:

	2013	2012
Federal loan funds		
Federal refundable loans, beginning of year	\$ 8,045,094	\$ 8,069,170
Deposits received	519,435	470,591
Deposits disbursed	(527,656)	(494,667)
Federal refundable loans, end of year	<u>\$ 8,036,873</u>	<u>\$ 8,045,094</u>
Other liabilities		
Split interest agreement obligations, beginning of year	\$ 4,268,748	\$ 4,305,640
New annuities	22,212	63,166
Terminated annuities	(51,382)	-
Investment (loss) income	621,192	793,416
Payments on obligations	(493,143)	(471,327)
Actuarial change in obligations	(120,095)	(557,522)
Other income	82,725	135,375
Total split interest agreement obligations	<u>4,330,257</u>	<u>4,268,748</u>
Less current portion	<u>(477,876)</u>	<u>(471,679)</u>
Split interest agreement obligations, end of year	3,852,381	3,797,069
General liability trust fund liability	1,418,321	1,448,668
Total other liabilities	<u>\$ 5,270,702</u>	<u>\$ 5,245,737</u>

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## Note 18 – Grants and Contracts

At September 30, 2013, the University had been awarded approximately \$31.3 million 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 as of and for the year ended September 30, 2013.

During fiscal year 2013, the University continued expending federal funding under the American Recovery and Reinvestment Act (ARRA), primarily in the form of sponsored research grants, totaling approximately \$1.9 million. As many ARRA projects have been or will soon be completed, ARRA expenditures are expected to be lower in fiscal year 2014.

## Note 19 – 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 has determined there was no impact from the adoption of GASB 60.

The GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* (“GASB 61”), in November 2010. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, were amended to better meet user need 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 and amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. The Statement also clarifies the reporting of equity interests in legally separate organizations. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. The University has determined there was no impact from the adoption of this Statement on the University’s financial statements.

The GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB 62”), in December 2010. The objective of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

- 1) Financial Accounting Standards Board (FASB) Statements and Interpretation
- 2) Accounting Principles Board Opinions
- 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. The University has determined there was no impact from the adoption of this Statement on the University’s financial statements.

The GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB 63”), in June 2011. The objective of this Statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. GASB 63 also renames the

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measure “net assets” to “net position.” The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The adoption of this Statement is reflected on the Statements of Net Position.

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 does not 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 adoption of this Statement is reflected on the Statements of Net Position. A new section reflecting deferred outflows of resources was also added and is discussed in the management discussion and analysis section of this report.

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 GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”), in January 2013. The objective of this Statement is to establish accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement is effective for fiscal years beginning after December 15, 2013. The University is currently evaluating the impact, if any, that GASB 69 will have on its financial statements.

The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* (“GASB 70”), in April 2013. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for fiscal years beginning after June 13, 2013. The University is currently evaluating the impact, if any, that GASB 70 will have on its financial statements.



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