



# 2009 Financial Report

The University of Alabama at Birmingham



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

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The University of Alabama at Birmingham  
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# Introduction to UAB

The University of Alabama at Birmingham (UAB) became an autonomous campus within the University of Alabama System in 1969 and, in the four decades since, has grown into a world-renowned research university and medical center, occupying 86 city blocks in Alabama's largest metropolitan area. Total enrollment reached a record high 16,874 students in fall 2009, and *The Princeton Review* once again listed UAB among the top 15 percent of all U.S. universities and No. 3 nationally for its "diverse student population." A robust research enterprise, UAB attracts more than \$400 million annually in external research funding, ranking 27th in federal R&D dollars from the National Science Foundation and consistently among the top 25 in funding from the National Institutes of Health. UAB Hospital annually treats some 35,000 patients and its 11-story, 900-bed North Pavilion houses 37 operating suites, four intensive-care units, a football-field-size emergency department, one of the world's busiest kidney transplant centers and Alabama's only Level 1 adult trauma center. With an operating budget exceeding \$2 billion, UAB is the state's single largest employer – with more than 18,000 employees and some 56,000 jobs statewide related to the university and its health system – and it has a \$3.6 billion impact on the state's economy.

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

## 2009 Overview

In 2009, UAB was named to the President's Higher Education Community Service Honor Roll, the highest federal recognition for civic engagement and service learning, and it is among a handful of universities nationally ranked by the Carnegie Foundation for the Advancement of Teaching in both the

highest tier for "research activity" and the "community engagement" classification.

Civic engagement is key in UAB's academic programs and its acclaimed Honors Academy, which enrolled record numbers in fall 2009 and expanded with new offerings such as the Experiential Learning Scholars program. Students continue to garner prestigious awards and honors: In the past three years, UAB has produced six Goldwater scholars, five student Fulbright Scholars, five NSF Graduate Fellows, three *USA Today* Academic Team members and two Rotary Ambassadorial Scholars.

UAB's graduate programs continue to rank highly in *U.S. News and World Report's* "Best Graduate Schools," among them the School of Medicine's AIDS program (6th), Internal Medicine (15th); Master's in Health Administration (7th); Master's in Public Health (16th); Family Medicine Nurse Practitioner program (11th) and Nursing Master's (26th).

UAB's top-quality patient care again earned high marks at the local, state and national level. UAB ranks No. 1 among all Birmingham hospitals in patient satisfaction on Hospital Care Assurance Program (HCAP) surveys; more than two-thirds of all Alabama physicians listed in *Best Doctors in America* practice at UAB; the National Research Corporation awarded UAB its "Consumer Choice Award" for 17 consecutive years; and for the 19th straight year, *U.S. News & World Report* ranked UAB in its "Best Hospitals" issue, in which only 3 percent of hospitals nationwide – and none other in Alabama – are represented.

Construction is nearing completion on two new, state-of-the-art facilities that will further enhance patient care at UAB. The UAB Women and Infants Center features private labor, delivery and recovery rooms for a family-centered birthing experience,

as well as special rooms for Caesarean deliveries, for expectant mothers experiencing severe pregnancy-related complications and for women undergoing advanced gynecological procedures or treatment for gynecologic cancers. The Hazelrig-Salter Radiation Oncology Facility offers state-of-the-art radiation equipment and the newest-generation cancer treatments, as well as patient rooms and an adjoining “Park of Hope” that provide a warm, soothing environment for patients and their families.

The UAB Comprehensive Cancer Center, among the first seven such centers to be designated by the National Cancer Institute (NCI) in the early 1970s, remains the only one in Alabama and a five-state region. In fall 2009, NCI awarded the center another highly competitive Specialized Program of Research Excellence (SPORE) grant for research on cervical cancer. UAB has three other SPOREs – for brain, breast and pancreatic cancers – and only three of the nation’s 41 NCI-designated centers have more of these grants than UAB.

Community support for UAB is at an all-time high. 2009 marked the university’s most successful fundraising year ever, with \$96.5 million raised. In the past 10 years, UAB has raised more than \$850 million.

## Vision

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

## Mission

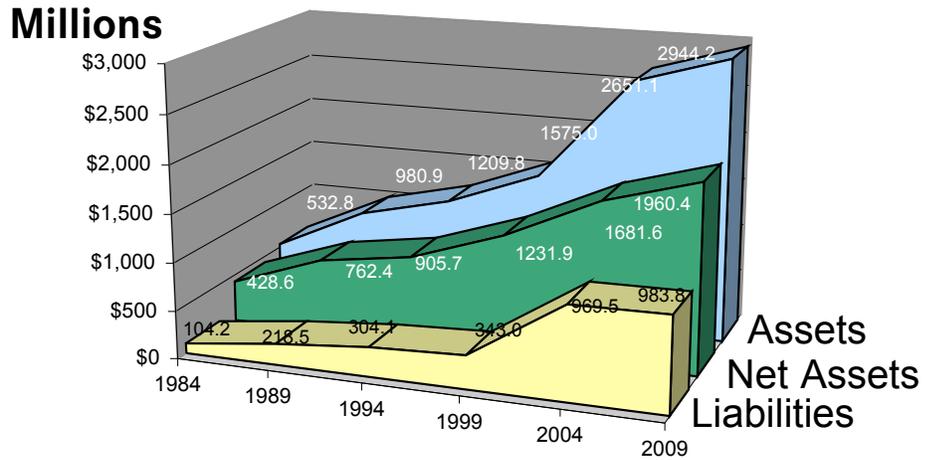
UAB’s mission is to be a research university and academic health center that discovers, teaches and applies knowledge for the intellectual, cultural, social and economic benefit of Birmingham, the state and beyond.



# Financial Highlights

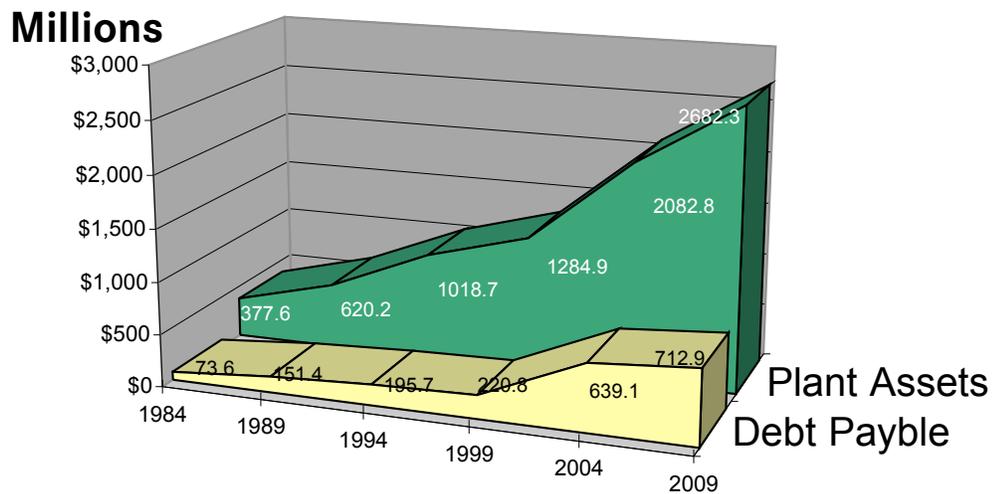
## Assets and Liabilities

Since 1984 UAB's assets have increased by \$2.4 billion, while liabilities increased by only \$0.9 billion. Net assets grew during this time period by \$1.5 billion.



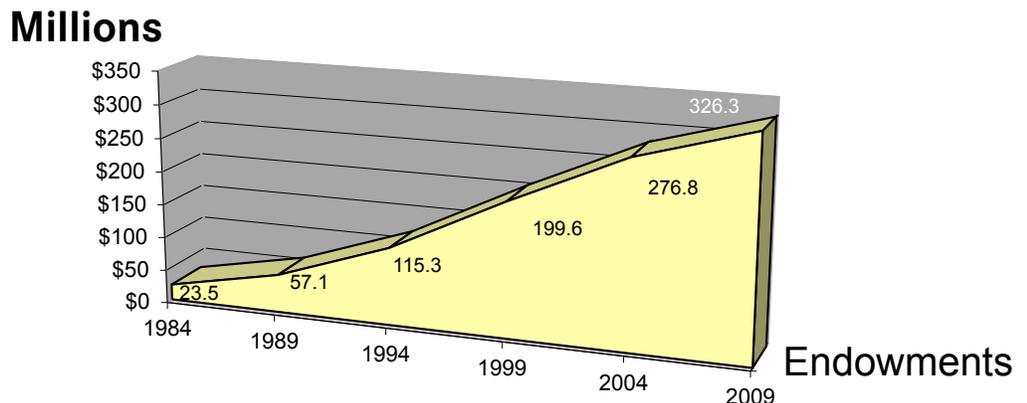
## Capital Expansion

UAB's expansive growth in the areas of instruction, research, and patient care has dictated a need for more and better instructional space, research labs, and patient care facilities. Due to the low level of State funding for capital expenditures by public institutions of higher education, much of UAB's capital expansion has been financed through gifts, UAB funds, and the issuance of long-term bonds. The accompanying chart shows the growth in investment in plant since 1984 and the associated increase in long-term debt. The investment in plant figures do not include the effect of accumulated depreciation.



## Endowment Growth

The increase in the pure endowment and quasi-endowment assets from \$23.5 million to \$326.3 million over the past 25 years reflects the commitment of the community to UAB's ongoing success and sound investment program.



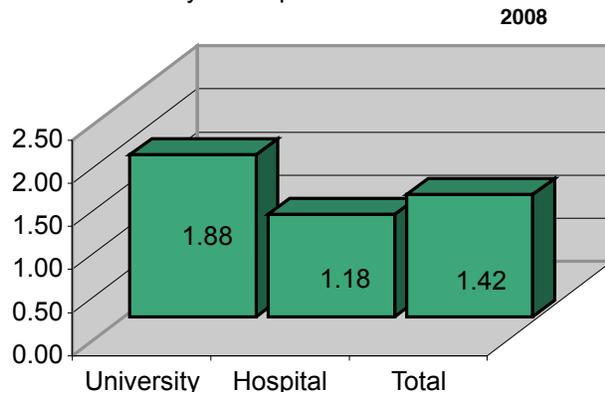
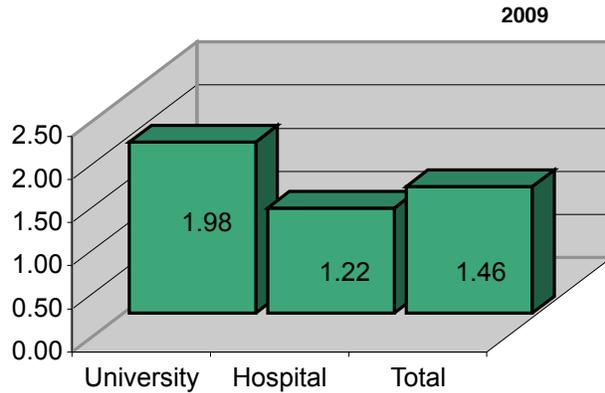
## Financial Ratios

The following selected ratios, calculated for the years ended September 30, 2009 and 2008, are intended to provide a better understanding of UAB's financial strength and to put the financial data into a clearer perspective.

### Ratio of Expendable Financial Resources to Direct Debt

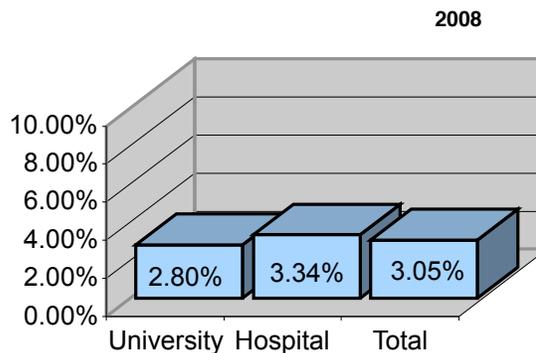
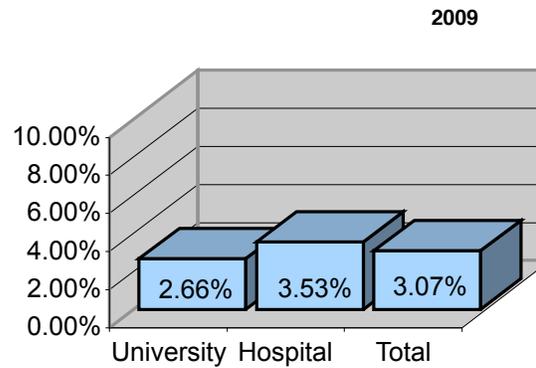
This ratio indicates the relative liquidity of the institution. A ratio of 1:1 or greater indicates that an institution has sufficient liquid assets to satisfy all related liabilities. A ratio of less than 1:1 means that there would not be sufficient liquid assets to satisfy all debts as of the reporting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

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

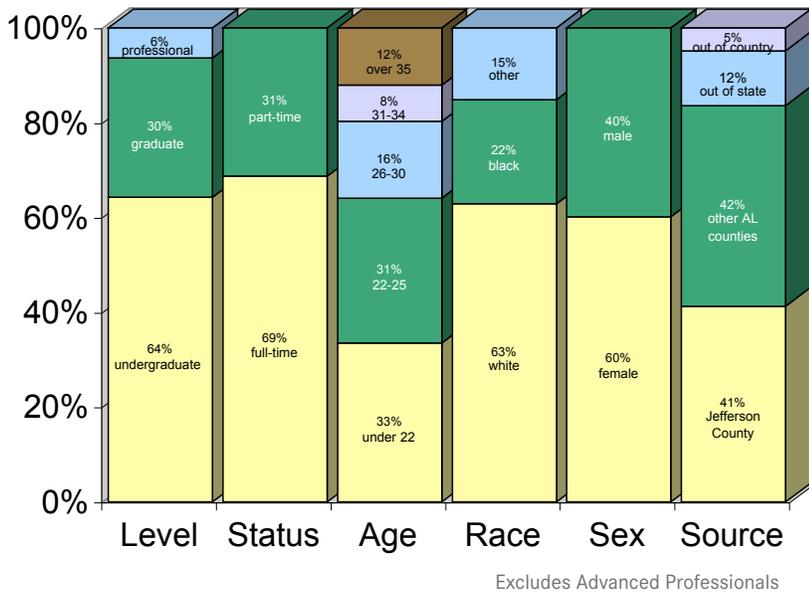


### Ratio of Actual Debt Service to Operations

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



# Nonfinancial Highlights



## Student Profile

Total 16,149  
As of Fall 2008

## Student Financial Aid

In fiscal year 2009, 63.4% of UAB's students received student financial aid from UAB. Financial aid disbursements of \$162.1 million were provided from the following sources:

|                     |                       |
|---------------------|-----------------------|
| Federal Government  |                       |
| Student Loans       | \$ 105,532,604        |
| Grants              | 12,492,216            |
| Work-Study          | <u>1,056,169</u>      |
| Subtotal Federal    | \$ 119,080,989        |
| State Government    | \$ 600,841            |
| University          |                       |
| Loans               | \$ 457,023            |
| Scholarships        | <u>42,006,740</u>     |
| Subtotal University | \$ 42,463,763         |
| Total               | \$ <u>162,145,593</u> |

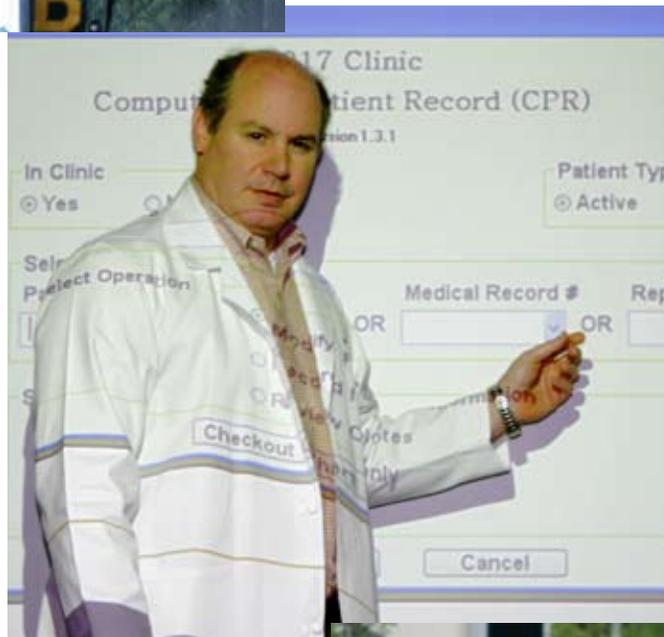


## Student Headcount

Enrollment for the fall semester of the 2008-2009 school year is outlined in the table at right.

| Fall 2008                                  | Undergraduate | Graduate     | First Professional/<br>Advanced<br>Professional* | Total         |
|--|---------------|--------------|--|---------------|
| School of Arts and Humanities              | 1,327         | 83           |  | 1,410         |
| School of Business                         | 1,525         | 345          |  | 1,870         |
| School of Education                        | 782           | 792          |  | 1,574         |
| School of Engineering                      | 728           | 304          | 5  | 1,037         |
| School of Natural Sciences and Mathematics | 1,509         | 190          | 16   | 1,715         |
| School of Social and Behavioral Sciences   | 1,563         | 220          | 3  | 1,786         |
| Unclassified                               | 1,454         | 366          |  | 1,820         |
| <b>Subtotal</b>                            | <b>8,888</b>  | <b>2,300</b> | <b>24</b>  | <b>11,212</b> |
| Adademic Health Center:                    |               |              |  |               |
| School of Medicine                         |               |              | 1,596  | 1,596         |
| School of Dentistry                        | 21            | 2            | 321  | 344           |
| School of Optometry                        |               | 27           | 187  | 214           |
| School of Nursing                          | 473           | 776          |  | 1,249         |
| School of Health Professions               | 987           | 792          | 15   | 1,794         |
| School of Public Health                    |               | 409          | 14   | 423           |
| Joint Health Sciences                      |               | 449          |  | 449           |
| <b>Subtotal, Academic Health Center</b>    | <b>1,481</b>  | <b>2,455</b> | <b>2,133</b>                                     | <b>6,069</b>  |
| <b>Total Enrollment</b>                    | <b>10,369</b> | <b>4,755</b> | <b>2,157</b>                                     | <b>17,281</b> |

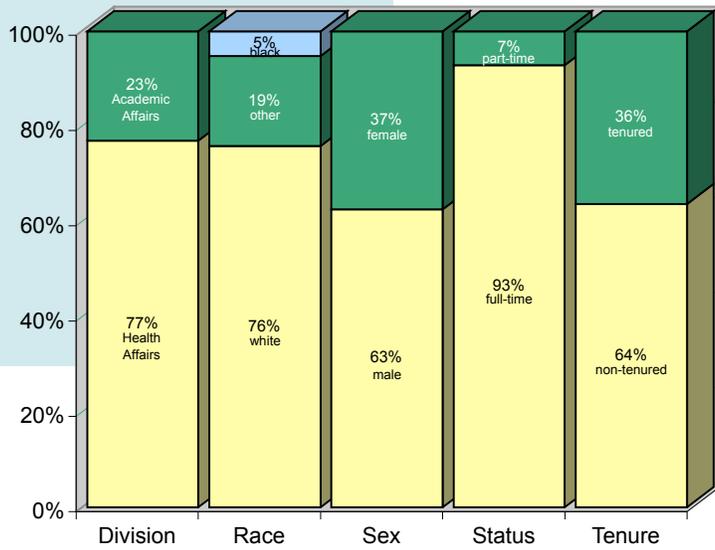
\* Includes 1,025 first professionals and 1,132 advanced professionals



# Faculty Profile

Total 2,249

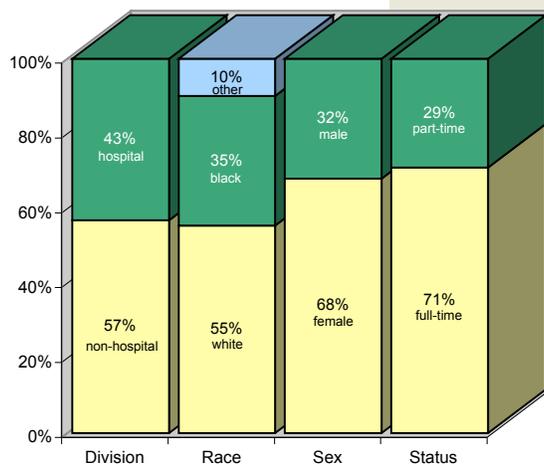
As of Fall 2008



# Staff Profile

Total 16,401

As of Fall 2008



# State Appropriations

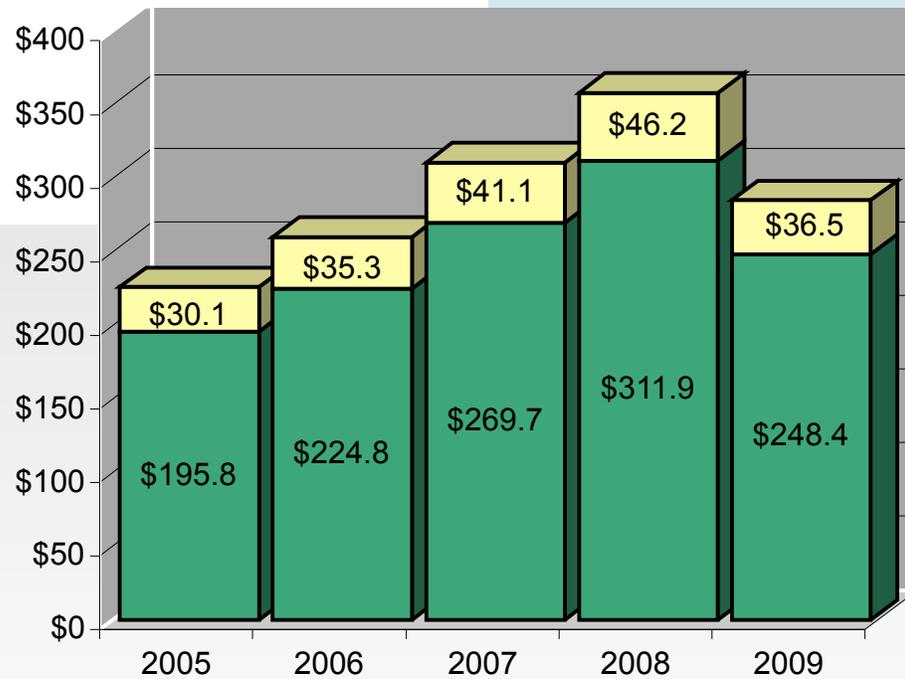
The State appropriations for UAB are made by the Alabama State Legislature based upon a process which involves requests from the Board of Trustees of The University of Alabama, and budget recommendations by the Alabama Commission on Higher Education and the Governor. State funds are appropriated annually from the Educational Trust Fund (ETF) to UAB. For the fiscal year ended September 30, 2009, UAB received direct funding from the ETF in the amount of \$284,944,757.

## Appropriations Received

Fiscal years ended September 30

(Dollars in millions)

■ Universtiy    ■ Hospital



# Sponsored Grants and Contracts

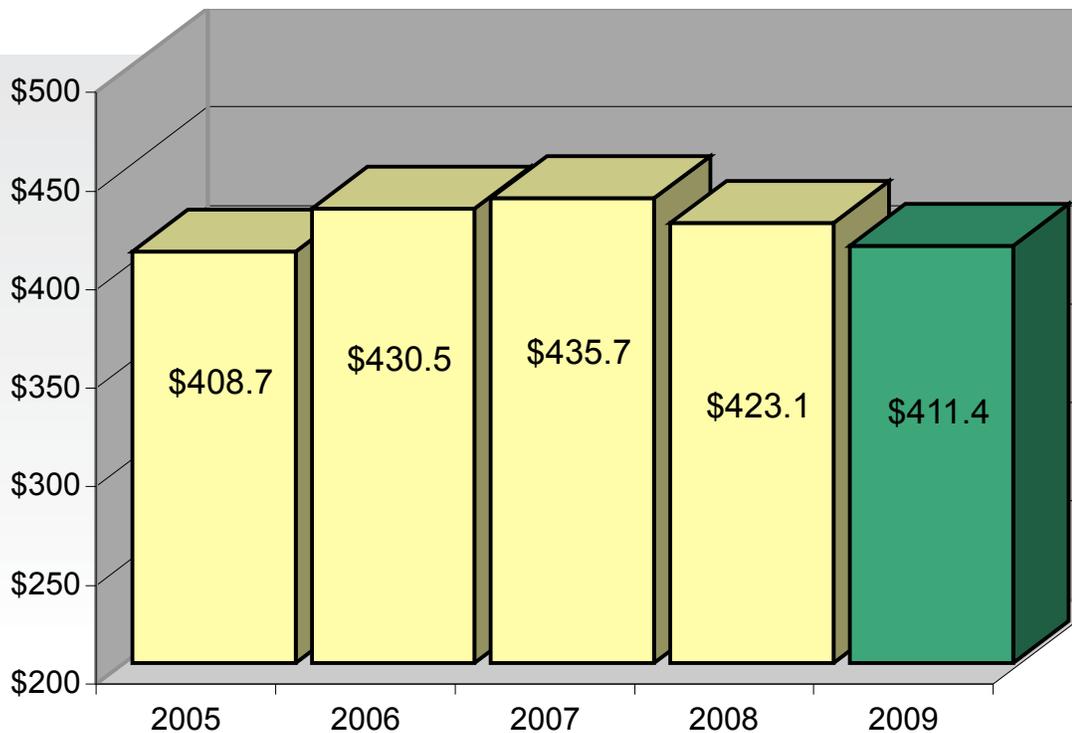
During fiscal year 2009, UAB received \$411 million in sponsored grants and contracts revenues (including \$81.1 million of indirect cost recovery). Various federal agencies provided the majority of support for these projects, with the National Institutes of Health (NIH) being the primary sponsor. Nonfederal funding sources include state agencies, local governmental agencies, and a wide variety of private sponsors.

Revenues from grants and contracts (including indirect cost recovery) increased from \$408.7 million during 2005 to \$411.4 million during 2009, an increase of 0.6% for the period.

## Grants and Contracts Revenues

Fiscal years ended September 30

(Dollars in millions)



# Hospital

The University of Alabama Hospital (the Hospital) is a 908-bed quaternary and tertiary care medical facility and part of the UAB Health System. The Hospital includes North Pavilion, Jefferson Tower, Hillman Building, Spain Wallace Building, Quarterback Tower, North Wing, Spain Rehabilitation Center, West Pavilion, Russell Ambulatory Center, Medical Education Building, and the Center for Psychiatric Medicine. Other clinical facilities in the UAB Academic Health Center include Smolian Psychiatric Clinic, Engel Psychiatric Day Treatment Center, Lurleen B. Wallace Tumor Institute, and the 1917 Clinic. The Hospital also has strong ties with other governmental and private nonprofit institutions located within and adjacent to the UAB campus, including Veterans Affairs Medical Center, Children's Hospital, and Jefferson County's Cooper Green Hospital. Other healthcare facilities in the UAB Health System include The Kirklin Clinic, the Callahan Eye Foundation Hospital, Medical West, Baptist Health (located in Montgomery, Alabama) and UAB Highlands.

## Hospital Awards and Accolades

For the 18th consecutive year, *U.S. News and World Report* ranked the Hospital among America's best, the only Alabama medical center on this prestigious list. Eight UAB Hospital specialty programs made the nation's top 50 and six specialty programs are ranked among the top 25 in this year's annual "America's Best Hospitals" issue. The magazine evaluated 16 categories at 4,861 United States hospitals. The Hospital was one of only 174 hospitals, or about 3 percent of U.S. institutions studied -and the only hospital in Alabama or Mississippi - to rank high enough in even one specialty to make the magazine's national "Best Hospitals" list.

More than two-thirds of the best doctors in Alabama practice at UAB, according to the 2009-10 edition of *The Best Doctors in America*. The new edition recognizes 297 UAB physicians among the nation's best doctors, a total of 67 percent of the 446 physicians selected from the state of Alabama.

The Hospital has been selected as a 2009 recipient of an Alabama Quality Award. The Hospital has been awarded the highest level of the award for 2009, the Level 3 - Alabama Excellence Award. This highest level of recognition is presented to organizations that have demonstrated sustained performance excellence through their practices and achievements. The award is administered by the Alabama Productivity Center at the University of Alabama and is based on the Baldrige

National Quality Award criteria.

In July, the Hospital underwent its triennial survey by the Joint Commission. The hospital was granted full accreditation for another three years effective July 11, 2009.

## Operations

The Hospital's commitment to providing the highest quality of patient care continues to take physical shape with the construction of the new UAB Women and Infants' Facility (WIF). Scheduled for completion in February 2010, this 640,000 square foot facility will house obstetrics and gynecology, neonatology, and radiation oncology services.



Selected Hospital operating statistics are outlined below:

|                             | <b>2009</b> | <b>2008</b> |
|-----------------------------|-------------|-------------|
| Beds in service             | 908         | 908         |
| Patient discharges          | 42,200      | 41,802      |
| Adjusted patient discharges | 54,083      | 53,181      |
| Patient days                | 290,076     | 290,908     |
| Adjusted patient days       | 371,810     | 370,159     |
| Operating room cases        | 22,942      | 22,846      |
| Emergency department visits | 60,457      | 54,654      |
| Patient origin:             |             |             |
| Jefferson County            | 45.1%       | 44.9%       |
| Other Alabama counties      | 47.5%       | 47.2%       |
| Out of state                | 7.4%        | 7.9%        |



# Management's Responsibility for Financial Reporting

The accompanying financial statements of the University of Alabama at Birmingham (UAB) for the years ended September 30, 2009 and 2008, were prepared by UAB's management in conformity with accounting principles generally accepted in the United States of America.

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

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



Richard L. Margison  
Vice President for Financial Affairs  
and Administration



Tricia Raczynski  
Associate Vice President  
for Financial Affairs

To the Board of Trustees of The University of Alabama:

In our opinion, based upon our audit and the report of other auditors, the accompanying statements of net assets and the related statements of revenues, expenses, and changes in net assets, and of cash flows of The University of Alabama at Birmingham (UAB), a campus of The University of Alabama System, present fairly, in all material respects, the financial position of UAB at September 30, 2009 and 2008, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of UAB's management. Our responsibility is to express an opinion on these financial statements based on our audits. For UAB's fiscal year 2009, we did not audit the financial statements of Southern Research Institute, which statements collectively represent 4%, 5%, and 4%, respectively, of the assets, net assets, and revenues of UAB at September 30, 2009 and for the year then ended. For UAB's fiscal year 2008, we did not audit the financial statements of Southern Research Institute, which statements collectively represent 4%, 5%, and 5%, respectively, of the assets, net assets, and revenues of UAB at September 30, 2008 and for the year then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Southern Research Institute for the years ended September 30, 2009 and 2008, is based on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, these financial statements are intended to present the financial position, the changes in financial position, and the cash flows of only that portion of the business type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of UAB. They do not purport to, and do not, present fairly the financial position of The University of Alabama System as of September 30, 2009 and 2008 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and required supplemental information on pages 15 through 21 and on page 59 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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



January 27, 2010

# Management's Discussion and Analysis (Unaudited)

The objective of management's discussion and analysis is to help readers of UAB's financial statements better understand the financial position and operating activities for the fiscal years ended September 30, 2009 and 2008. UAB's financial statements present the financial position, changes in financial position, and the cash flows of the University, the University of Alabama Hospital (the Hospital), and UAB's blended component units. Condensed financial information of UAB's reportable segments is presented at Note 22. GASB Statement No. 14, *The Financial Reporting Entity* (GASB Statement No. 14), requires governmental entities to include in their financial statements as a component unit organizations that are legally separate entities for which the governmental entity, as a primary organization, is financially accountable. Component Units include Triton Health Systems, L.L.C. (Triton), Southern Research Institute (SRI), and UAB Research Foundation (UABRF). The following discussion and analysis provides an overview of UAB's financial activities. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

## Financial Overview

UAB's financial position remained strong, as assets totaled \$3.14, \$3.14, and \$3.24 billion at September 30, 2009, 2008, and 2007. Decreases of \$6.3 and \$91.6 million or 0.2% and 2.8% from 2008 to 2009 and from 2007 to 2008, respectively, were primarily due to the decreasing values in conjunction with the investment market position as of September 30, 2009 and 2008, and offset by continued expansion of capital assets and the growth in accounts receivable.

Total liabilities decreased \$37.4 million or 3.5% from September 30, 2008 to September 30, 2009. The decrease results from reductions in bonds payable related to annual principal payments and decreases in accounts payable and accrued liabilities.

Total liabilities decreased \$36.7 million or 3.4% from September 30, 2007 to September 30, 2008. The decrease results from reductions in bonds payable related to annual principal payments.

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

2009, 2008, and 2007, as follows:

|  | 2009             | 2008             | 2007             |
|--|------------------|------------------|------------------|
| Total operating revenues   | \$ 1,883,781,976 | \$ 1,827,040,334 | \$ 1,726,548,100 |
| Total operating expenses   | \$ 2,196,189,718 | \$ 2,186,284,008 | \$ 2,089,951,082 |
| Net operating loss   | \$ (312,407,742) | \$ (359,243,674) | \$ (363,402,982) |
| Total nonoperating income, capital, endowment and other activities | 343,400,523      | 304,309,631      | 537,857,487      |
| Increase (decrease) in net assets                                  | \$ 30,992,781    | \$ (54,934,043)  | \$ 174,454,505   |

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

## Statements of Net Assets

The statement of net assets presents the financial position of UAB at the end of the fiscal year, and includes all assets and liabilities recorded on the accrual basis of accounting. The changes in net assets are indicators of whether the overall financial condition of UAB has improved or worsened during the year. A summarized comparison of UAB's assets, liabilities, and net assets at September 30, 2009, 2008, and 2007, is as follows:

|   | 2009                    | 2008                    | 2007                    |
|---|-------------------------|-------------------------|-------------------------|
| <b>ASSETS</b>                           |                         |                         |                         |
| Capital assets                          | \$ 1,447,527,872        | \$ 1,442,380,901        | \$ 1,357,730,432        |
| Other assets                            | \$ 1,690,265,319        | \$ 1,701,776,944        | \$ 1,878,034,266        |
| <b>TOTAL ASSETS</b>                     | <b>\$ 3,137,793,191</b> | <b>\$ 3,144,157,845</b> | <b>\$ 3,235,764,698</b> |
| <b>LIABILITIES AND NET ASSETS</b>       |                         |                         |                         |
| Current liabilities                     | \$ 300,410,808          | \$ 327,093,125          | \$ 344,960,898          |
| Noncurrent liabilities                  | 718,192,075             | 728,867,193             | 747,672,230             |
| <b>TOTAL LIABILITIES</b>                | <b>\$ 1,018,602,883</b> | <b>\$ 1,055,960,318</b> | <b>\$ 1,092,633,128</b> |
| Net assets                              | \$ 2,119,190,308        | \$ 2,088,197,527        | \$ 2,143,131,570        |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <b>\$ 3,137,793,191</b> | <b>\$ 3,144,157,845</b> | <b>\$ 3,235,764,698</b> |

At September 30, 2009 the major categories of current assets consist primarily of cash and cash equivalents, short-term investments, and accounts receivable, which totaled \$598.1 million of the \$642.2 million and increased \$34.4 million or 6.1% from 2008. The increase is a result primarily of growth in cash due to maturities of short term investments and an increase in accounts receivable.

At September 30, 2008 the major categories of current assets consist primarily of cash and cash equivalents, short-term investments, and accounts receivable, which totaled \$563.7 million of the \$605.1 million and increased \$49.2 million or 9.6% from 2007. The increase is a result primarily of growth in short term investments due to reclass of short term investments previously classified as cash equivalents, offset by a decrease in accounts receivable.

At September 30, 2009, total current liabilities of \$300.4 million consisted primarily of accounts payable, accrued payroll and related benefits, and deferred revenue, which totaled \$272.7 million, compared to \$300.7 million at September 30, 2008, a decrease of \$28.0 million or 9.3% from 2008.

At September 30, 2008, total current liabilities of \$327.1 million consisted primarily of accounts payable, accrued payroll and related benefits, and deferred revenue, which totaled \$300.7 million, compared to \$317.8 million at September 30, 2007, a decrease of \$17.1 million or 5.4% from 2007.

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

UAB's endowment and life income investments decreased \$70.3 million to \$332.4 million from September 30, 2007 to September 30, 2008. This decrease resulted from net investment losses partially offset by the establishment of new endowment funds through gifts and the creation of Board-designated quasi-endowments. UAB's endowment funds consist of both permanent and quasi-endowments.

At September 30, 2009, 2008, and 2007 respectively, UAB's investment in the Professional Liability Trust Fund (PLTF) and other long-term investments totaled approximately \$39.6, \$57.9, and \$55.1 million. The \$18.3 million decrease is a result of maturities of long-term investments and the offset of investment values at September 30, 2009. The \$2.8 million increase is a result of increased investment

activity with long-term duration offset by the decline of investment values at September 30, 2008.

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

## Capital and Debt Activities

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

Capital assets primarily include land, buildings, fixed equipment systems, and inventoried equipment. The original costs of capital assets increased approximately \$114.2 and \$126.9 million from September 30, 2008 to September 30, 2009 and from September 30, 2007 to September 30, 2008, respectively. This increase consists primarily of capital expenditures and capital additions totaling \$145.1 (offset primarily by \$30.9 in disposals) and \$269.9 (offset primarily by \$143.0 in disposals) in 2009 and 2008. Capital additions are comprised primarily of renovation and new construction of research and health care facilities, as well as additions to improve information technology systems. Annual additions were funded with capital appropriations, grants, gifts of \$15.7 and \$24.2, debt proceeds of \$11.8 and \$72.1, and the remainder by UAB funds designated for capital purchases in 2009 and 2008, respectively.

Capital projects in process at September 30, 2009 and 2008 include construction primarily of the new Radiation Oncology Facility and the new Womens and Infants Facility.

UAB's long-term debt related to capital assets, consisting of bonds and capital leases, totaled \$713.0, \$736.0, and \$754.5 million at September 30, 2009, 2008, and 2007, respectively. The decrease in debt during 2009 and 2008 consisted primarily of the principal payments made in accordance with the debt instruments.

## Net Assets

Net assets represent the residual interest in UAB's assets after liabilities are deducted. UAB's net assets at September 30, 2009, 2008, and 2007, are summarized as follows:

|   | 2009      |                      | 2008      |                      | 2007      |                      |
|---|-----------|----------------------|-----------|----------------------|-----------|----------------------|
| Invested in capital assets, net of related debt | \$        | 743,546,872          | \$        | 730,562,480          | \$        | 693,214,101          |
| Restricted                                      |           |                      |           |                      |           |                      |
| Nonexpendable                                   |           | 223,772,637          |           | 222,397,230          |           | 276,466,236          |
| Expendable                                      |           | 197,833,455          |           | 200,791,863          |           | 209,875,223          |
| Unrestricted                                    |           | 954,037,344          |           | 934,445,954          |           | 963,576,010          |
| <b>TOTAL NET ASSETS</b>                         | <b>\$</b> | <b>2,119,190,308</b> | <b>\$</b> | <b>2,088,197,527</b> | <b>\$</b> | <b>2,143,131,570</b> |

Net assets invested in capital assets, net of related debt, represent UAB's capital assets, net of accumulated depreciation and outstanding principal of debt in excess of related bond proceeds attributable to the acquisition, construction, or improvement of those assets. The \$12.9 and \$37.4 million increase in 2009 and 2008, respectively, reflects the continued capital asset development in accordance with UAB's long-range capital plan.

Restricted nonexpendable net assets include UAB's permanent endowment funds and annuity and life income assets that will ultimately become pure endowment funds. The \$1.4 increase in 2009 results primarily from the increase in fair values of investments and contributions and the \$54.1 million decrease in restricted nonexpendable net assets results primarily from the net decrease in fair value of investments. Restricted expendable net assets are subject to ex-

ternally imposed restrictions governing their use.

Restricted expendable net assets include UAB's assets whose use is restricted by an external restriction. The \$3.0 and \$9.1 million decrease in 2009 and 2008 in restricted expendable net assets results from gifts offsets by the decrease in fair value of investments.

Unrestricted net assets include UAB's assets whose use is not restricted by an external entity. Unrestricted net assets increased \$19.6 million or 2.1% in 2009 and decreased \$29.1 million or 3.0% in 2008.

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

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

The statement of revenues, expenses, and changes in net assets presents UAB's results of operations, as well as the nonoperating revenues and expenses. Annual state appropriations are classified as nonoperating revenues according to governmental accounting

standards, even though the state-appropriated funds are used to support the operations of UAB. Without the nonoperating revenues, in particular the state appropriations and private gifts, UAB would not be able to cover its costs of operations. A summarized comparison of UAB's revenues, expenses and changes in net assets for the years ended September 30, 2009, 2008, and 2007 is presented below:

|  | 2009                    | 2008                    | 2007                    |
|--|-------------------------|-------------------------|-------------------------|
| <b>OPERATING REVENUES</b>                          |                         |                         |                         |
| Student tuition and fees, net                      | \$ 89,433,793           | \$ 77,573,931           | \$ 73,146,945           |
| Grants and contracts                               | 460,473,482             | 463,068,202             | 467,144,164             |
| Sales and services                                 | 962,059,622             | 933,064,060             | 899,647,974             |
| Other revenues                                     | 371,815,079             | 353,334,141             | 286,609,017             |
| <b>REVENUES SUPPORTING CORE ACTIVITIES</b>         | <b>\$ 1,883,781,976</b> | <b>\$ 1,827,040,334</b> | <b>\$ 1,726,548,100</b> |
| <b>OPERATING EXPENSES</b>                          |                         |                         |                         |
| Operating expenses                                 | \$ 2,196,189,718        | \$ 2,186,284,008        | \$ 2,089,951,082        |
| <b>OPERATING LOSS</b>                              | <b>\$ (312,407,742)</b> | <b>\$ (359,243,674)</b> | <b>\$ (363,402,982)</b> |
| <b>NONOPERATING REVENUES (EXPENSES)</b>            |                         |                         |                         |
| State appropriations                               | \$ 284,944,757          | \$ 358,088,951          | \$ 310,834,004          |
| Grants and contracts                               | 21,440,588              | 24,543,181              | 16,132,453              |
| Private gifts                                      | 31,085,870              | 28,536,648              | 31,391,939              |
| Investment income (loss)                           | 10,651,780              | (136,413,807)           | 161,218,111             |
| Interest expense                                   | (27,359,670)            | (27,375,953)            | (28,661,836)            |
| Loss on asset disposition, net                     | (1,844,948)             | (2,186,152)             | (2,648,666)             |
| Capital state appropriations                       | 4,131,110               | 5,096,600               | 22,542                  |
| Capital gifts and grants                           | 11,560,345              | 19,099,511              | 33,860,058              |
| Permanent endowments                               | 5,704,258               | 5,235,022               | 14,341,518              |
| Net nonoperating revenues                          | 1,349,684               | 2,850,129               | 3,117,364               |
| Other changes                                      | 1,736,749               | 26,835,501              | (1,750,000)             |
| <b>NET NONOPERATING REVENUES AND OTHER CHANGES</b> | <b>\$ 343,400,523</b>   | <b>\$ 304,309,631</b>   | <b>\$ 537,857,487</b>   |
| <b>INCREASE (DECREASE) IN NET ASSETS</b>           | <b>\$ 30,992,781</b>    | <b>\$ (54,934,043)</b>  | <b>\$ 174,454,505</b>   |
| Net assets, beginning of year                      | \$ 2,088,197,527        | \$ 2,143,131,570        | \$ 1,968,677,065        |
| <b>NET ASSETS, END OF YEAR</b>                     | <b>\$ 2,119,190,308</b> | <b>\$ 2,088,197,527</b> | <b>\$ 2,143,131,570</b> |

Figures A and A1 are graphic illustrations of revenues by source (both operating and nonoperating), which are used to fund UAB's operating activities for the years ended September 30, 2009 and 2008, respectively.

Fig. A

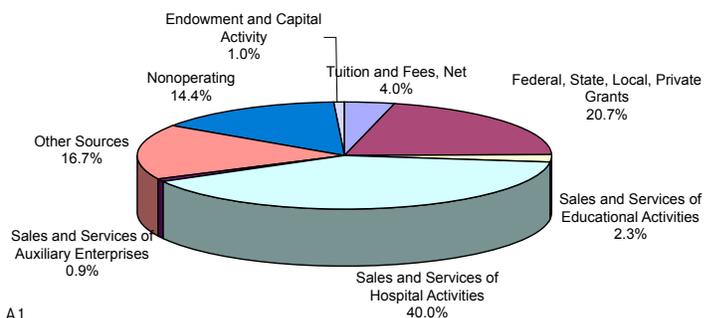
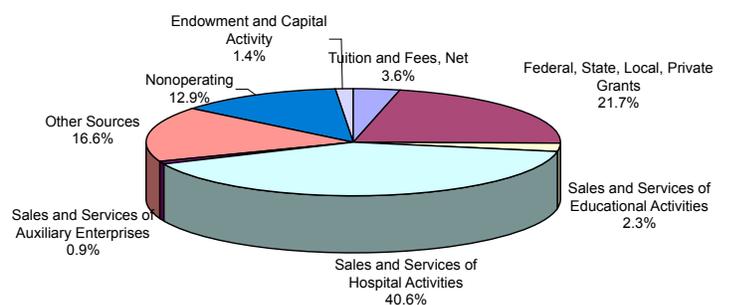


Fig. A1



Gross tuition and fees revenue increased by \$14.3 and \$9.7 million in 2009 and 2008, respectively. Total student headcount of 17,281 and 17,330 decreased by 49 and 261 or 0.3% and .04% in 2009 and 2008, respectively.

UAB recognized \$40.5, \$43.4, and \$46.8 million in gift revenue (composed partially of \$3.7, \$9.6, and \$1.1 million and \$5.7, \$5.2, and \$14.3 million in capital and endowment gifts, respectively) for the years ended September 30, 2009, 2008, and 2007, respectively.

UAB receives State appropriations from State of Alabama. UAB recognized funds from the State of Alabama totaling \$289.0, \$363.1, and \$310.9 million, of which \$284.9, \$358.1, and \$310.8 million was from the ETF, which is included as nonoperating revenue in 2009, 2008, and 2007, respectively. The remaining \$4.1, \$5.0, and \$0.1 million represents Public School and College Authority funds and other state capital

funds in 2009, 2008 and 2007, respectively.

Net hospital sales and service revenue totaled \$891.8, \$864.0, and \$828.8 million, an increase of 3.2% and 4.3% from 2008 to 2009 and 2007 to 2008, respectively. This increase results from increased volume, contract improvements, and ongoing revenue-cycle improvement activities.

UAB receives grant and contract revenue from federal, state, local, and private agencies. These funds are used to further the mission of UAB: research, education, and public service. In addition to the funds received in exchange for services performed, UAB received \$7.9, \$9.5, and \$32.8 million in 2009, 2008, and 2007, respectively, in funds to be used to acquire capital assets. Figures B and B1 are illustrations of the breakout of the funding sources for grant and contract revenue for the years ended September 2009 and 2008, respectively.

Fig. B Grants and Contact Revenue

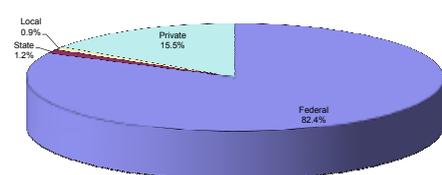
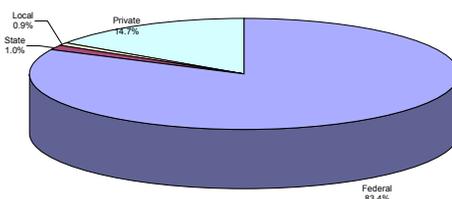


Fig. B1 Grants and Contact Revenue



Net investment income increased \$147.1 million from 2008 to 2009. The increase is primarily a result of growth in the fair value of investments. Net investment income decreased \$297.6 million from 2007 to 2008. The decrease is primarily a result of decline in

the fair value of the investments. Net investment income for the years ended September 30, 2009, 2008, and 2007, consist of the following components:

|  | 2009                 | 2008                    | 2007                  |
|--|----------------------|-------------------------|-----------------------|
| Interest and dividends                                   | \$ 35,771,759        | \$ 57,121,872           | \$ 59,575,978         |
| Net (decrease) increase in the fair value of investments | (31,677,208)         | (187,663,603)           | 95,536,360            |
| Return on equity investments                             | 6,557,230            | (5,872,076)             | 6,105,773             |
|  | <b>\$ 10,651,780</b> | <b>\$ (136,413,807)</b> | <b>\$ 161,218,111</b> |

A comparative summary of UAB's operating expenses for the years ended September 30, 2009, 2008, and 2007, is as follows:

|                                       | 2009                    | 2008                    | 2007                    |
|---------------------------------------|-------------------------|-------------------------|-------------------------|
| Salaries, wages, and benefits         | \$ 1,153,950,363        | \$ 1,150,426,905        | \$ 1,116,592,397        |
| Supplies and services                 | 906,374,156             | 892,634,667             | 820,080,568             |
| Depreciation and amortization         | 115,131,432             | 111,343,621             | 119,319,242             |
| Scholarships and fellowships          | 20,733,767              | 20,498,768              | 22,141,254              |
| Expenses from discontinued operations |                         | 11,380,047              | 11,817,621              |
|                                       | <b>\$ 2,196,189,718</b> | <b>\$ 2,186,284,008</b> | <b>\$ 2,089,951,082</b> |

Salaries, wages, and benefits increased \$3.5 and \$33.8 million or 0.3% and 3.0% during 2009 and 2008, respectively. This increase is due primarily to UAB's continued growth in 2009 and 2008. In addition, supplies and services expenses increased \$13.7 and \$72.6 million or 1.5% and 8.9% during 2009 and 2008, respectively. This increase is primarily attributable to UAB's continued growth.

In addition to their natural classification, it is also informative to review operating expenses by function. Graphic illustrations of UAB's operating expenses by function for the years ended September 30, 2009 and 2008, respectively are presented as follows:

■ Instruction

■ Research

■ Public service

■ Academic support

■ Student services

■ Institutional support

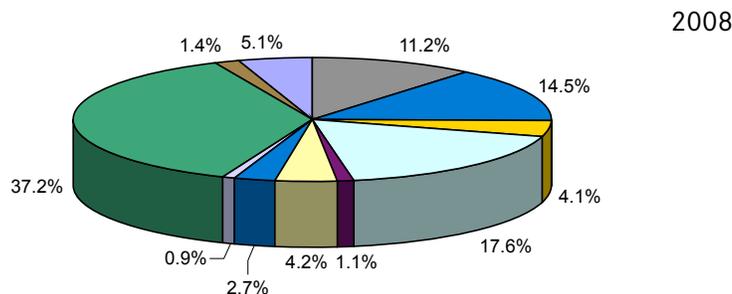
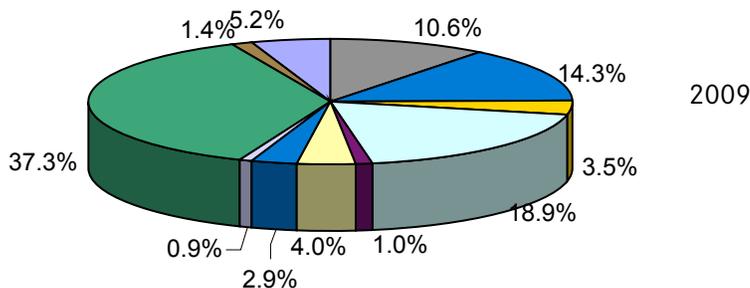
■ Operations and maintenance of plant

■ Scholarships and fellowships

■ Hospital

■ Auxiliary

■ Depreciation



## Statements of Cash Flows

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

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

|   | 2009                  | 2008                    | 2007                  |
|---|-----------------------|-------------------------|-----------------------|
| Net cash used in operating activities                       | \$ (212,880,203)      | \$ (267,839,369)        | \$ (227,403,739)      |
| Net cash used in capital and related financing activities   | (163,430,802)         | (231,988,817)           | (183,900,619)         |
| Net cash provided by noncapital financing activities        | 346,058,526           | 449,896,071             | 351,998,750           |
| Net cash provided by (used in) investing activities         | 161,304,850           | (105,303,778)           | 52,424,262            |
| <b>Net increase (decrease) in cash and cash equivalents</b> | <b>\$ 131,052,371</b> | <b>\$ (155,235,893)</b> | <b>\$ (6,881,346)</b> |
| Cash and cash equivalents, beginning of year                | \$ 55,767,161         | \$ 211,003,054          | \$ 217,884,400        |
| <b>Cash and cash equivalents, end of year</b>               | <b>\$ 186,819,532</b> | <b>\$ 55,767,161</b>    | <b>\$ 211,003,054</b> |

UAB used \$212.9, \$267.8 and \$227.4 million of cash for operating activities, offset by \$346.1, \$449.9, and \$352.0 million of cash provided by noncapital financing activities in 2009, 2008 and 2007, respectively. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses.

2008 and 2007, respectively, was used for capital and related financing activities, primarily purchases of capital assets and principal and interest payments on long-term debt, partially offset by sources that included bond proceeds, gifts, and grants and contracts for capital purposes. Cash provided by investing activities totaled \$161.3 million in 2009, while cash provided by investing activities totaled \$105.3 million in 2008, and cash provided by investing activities totaled \$52.4 million in 2007.

Cash of \$163.4, \$232.0 and \$183.9 million in 2009,

## Economic Factors That Will Affect The Future

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

The State of Alabama appropriates money each year to UAB for operating costs and nonoperating cash requirements, including capital expenditures. Because the State is mandated by its Constitution to operate with a balanced budget, the State occasionally has reduced its appropriations, through a process known as “proration,” when its annual revenues are not expected to meet budgeted appropriations. Subsequent to September 30, 2008, and throughout the year ending September 2009, the State implemented proration. UAB is currently implementing cost-saving measures in order to balance its own budget.

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

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

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

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



# The University of Alabama at Birmingham

## Statements of Net Assets

September 30, 2009 and 2008

|   | 2009                    | 2008                    |
|---|-------------------------|-------------------------|
| <b>ASSETS</b>                                   |                         |                         |
| Current Assets:                                 |                         |                         |
| Cash and cash equivalents                       | \$ 169,579,940          | \$ 26,035,656           |
| Short term investments                          | 219,604,218             | 323,446,981             |
| Accounts receivable, net                        | 208,912,339             | 214,248,200             |
| Loans receivable, current portion               | 4,637,879               | 3,378,820               |
| Pledges receivable, current portion             | 8,258,382               | 8,263,065               |
| Inventories                                     | 10,967,989              | 13,223,851              |
| Other current assets                            | 20,255,923              | 16,532,879              |
| <b>Total current assets</b>                     | <b>\$ 642,216,670</b>   | <b>\$ 605,129,452</b>   |
| Noncurrent Assets:                              |                         |                         |
| Cash designated for capital activities          | \$ 17,211,800           | \$ 29,217,327           |
| Restricted cash and cash equivalents            | 27,792                  | 514,178                 |
| Investments for capital activities              | 577,696,653             | 602,546,671             |
| Endowment and life income investments           | 327,401,937             | 332,356,890             |
| Investment in Professional Liability Trust Fund | 27,593,766              | 22,011,635              |
| Other long-term investments                     | 12,017,205              | 35,871,953              |
| Loans receivable, net                           | 16,388,001              | 15,787,927              |
| Pledges receivable                              | 10,552,121              | 13,282,280              |
| Loans receivable from UAB Highlands             | 48,870,773              | 42,689,000              |
| Capital assets, net                             | 1,447,527,872           | 1,442,380,901           |
| Other long term receivables                     | 7,394,555               |                         |
| Other noncurrent assets                         | 2,894,046               | 2,369,631               |
| <b>Total noncurrent assets</b>                  | <b>\$ 2,495,576,521</b> | <b>\$ 2,539,028,393</b> |
| <b>Total Assets</b>                             | <b>\$ 3,137,793,191</b> | <b>\$ 3,144,157,845</b> |
| <b>LIABILITIES</b>                              |                         |                         |
| Current Liabilities:                            |                         |                         |
| Accounts payable and accrued liabilities        | \$ 186,585,643          | \$ 225,145,031          |
| Deposits  | 3,110,976               | 2,634,124               |
| Deferred revenue-grants                         | 32,415,349              | 29,078,735              |
| Deferred revenue-other                          | 53,715,685              | 46,479,930              |
| Long-term debt, current portion                 | 24,583,155              | 23,755,305              |
| <b>Total current liabilities</b>                | <b>\$ 300,410,808</b>   | <b>\$ 327,093,125</b>   |
| Noncurrent Liabilities:                         |                         |                         |
| Federal advances-loan funds                     | \$ 16,261,897           | \$ 16,309,098           |
| Long-term debt, noncurrent portion              | 688,381,790             | 712,248,464             |
| Other noncurrent liabilities                    | 13,548,388              | 309,631                 |
| <b>Total noncurrent liabilities</b>             | <b>\$ 718,192,075</b>   | <b>\$ 728,867,193</b>   |
| <b>Total Liabilities</b>                        | <b>\$ 1,018,602,883</b> | <b>\$ 1,055,960,318</b> |
| <b>NET ASSETS</b>                               |                         |                         |
| Invested in capital assets, net of related debt | \$ 743,546,872          | \$ 730,562,480          |
| Restricted                                      |                         |                         |
| Nonexpendable                                   | 223,772,637             | 222,397,230             |
| Expendable                                      | 197,833,455             | 200,791,863             |
| Unrestricted                                    | 954,037,344             | 934,445,954             |
| <b>Total Net Assets</b>                         | <b>\$ 2,119,190,308</b> | <b>\$ 2,088,197,527</b> |

See accompanying notes to financial statements.

# The University of Alabama at Birmingham

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

Years Ended September 30, 2009 and 2008

|  | 2009                    | 2008                    |
|--|-------------------------|-------------------------|
| <b>Operating Revenues</b>  |                         |                         |
| Tuition and fees   | \$ 121,375,233          | \$ 107,111,601          |
| Less: scholarship allowances   | (31,538,935)            | (29,135,838)            |
| Less: bad debt expense   | <u>(402,505)</u>        | <u>(401,832)</u>        |
| Tuition and fees, net  | 89,433,793              | 77,573,931              |
| Grants and contracts:  |                         |                         |
| Federal  | \$ 374,470,352          | \$ 381,817,111          |
| State  | 5,710,615               | 4,838,521               |
| Local  | 4,887,952               | 4,232,724               |
| Private  | 75,404,563              | 72,179,846              |
| Sales and services:  |                         |                         |
| Educational activities   | \$ 50,831,174           | \$ 50,025,572           |
| Hospital, net of bad debt expense of \$205,454,383 and \$148,690,483               | 891,786,416             | 864,019,507             |
| Auxiliary enterprises, net of scholarship allowance of \$2,798,463 and \$2,261,288 | 19,442,032              | 19,018,981              |
| Revenue from discontinued operations (Note 1)                                      |                         | 10,767,580              |
| Other operating revenues   | 371,815,079             | 342,566,561             |
| <b>Total operating revenues</b>  | <b>\$ 1,883,781,976</b> | <b>\$ 1,827,040,334</b> |
| <b>Operating Expenses</b>  |                         |                         |
| Salaries, wages and benefits   | \$ 1,153,950,363        | \$ 1,150,426,905        |
| Supplies and services  | 906,374,156             | 892,634,667             |
| Depreciation and amortization  | 115,131,432             | 111,343,621             |
| Scholarships and fellowships   | 20,733,767              | 20,498,768              |
| Expenses from discontinued operations (Note 1)                                     |                         | 11,380,047              |
| <b>Total operating expenses</b>  | <b>\$ 2,196,189,718</b> | <b>\$ 2,186,284,008</b> |
| <b>Operating loss</b>  | <b>\$ (312,407,742)</b> | <b>\$ (359,243,674)</b> |
| <b>Nonoperating Revenues (Expenses)</b>  |                         |                         |
| Gains and losses   |                         |                         |
| State appropriations   | \$ 284,944,757          | \$ 358,088,951          |
| Federal grants and contracts   | 20,931,822              | 23,985,867              |
| State grants and contracts   | 101,950                 | 124,584                 |
| Local grants and contracts   | 29,185                  |                         |
| Private grants and contracts   | 377,631                 | 432,730                 |
| Gifts  | 31,085,870              | 28,536,648              |
| Investment income (loss)   | 10,651,780              | (136,413,807)           |
| Interest expense   | (27,359,670)            | (27,375,953)            |
| Loss on asset dispositions, net  | (1,844,948)             | (2,186,152)             |
| Gain on sale of discontinued operations (Note 1)                                   | 1,736,749               | 26,066,601              |
| Net other nonoperating revenue (expense)   | 1,349,684               | 2,850,129               |
| <b>Net nonoperating revenues</b>   | <b>\$ 322,004,810</b>   | <b>\$ 274,109,598</b>   |
| <b>Income (Loss) before other revenues, expenses, gains, losses, and transfers</b> | <b>\$ 9,597,068</b>     | <b>\$ (85,134,076)</b>  |
| <b>Other Changes in Net Assets</b>   |                         |                         |
| Capital and endowment activities   |                         |                         |
| State funds-capital  | \$ 4,131,110            | \$ 5,096,600            |
| Capital grants and contracts   | 7,883,724               | 9,457,633               |
| Capital gifts  | 3,676,621               | 9,641,878               |
| Endowment gifts  | 5,704,258               | 5,235,022               |
| Other revenue  |                         | 768,900                 |
| <b>Net other changes in net assets</b>   | <b>\$ 21,395,713</b>    | <b>\$ 30,200,033</b>    |
| <b>Increase (Decrease) in net assets</b>   | <b>\$ 30,992,781</b>    | <b>\$ (54,934,043)</b>  |
| <b>Net Assets, beginning of year</b>   | <b>\$ 2,088,197,527</b> | <b>\$ 2,143,131,570</b> |
| <b>Net Assets, end of year</b>   | <b>\$ 2,119,190,308</b> | <b>\$ 2,088,197,527</b> |

See accompanying notes to financial statements.

# The University of Alabama at Birmingham

## Statements of Cash Flows

Years Ended September 30, 2009 and 2008

|  | 2009                    | 2008                    |
|--|-------------------------|-------------------------|
| <b>Cash flows from operating activities</b>  |                         |                         |
| Student tuition and fees   | \$ 95,680,419           | \$ 83,914,860           |
| Grants and contracts   | 451,851,164             | 476,610,325             |
| Receipts from sales and services of:   |                         |                         |
| Educational activities   | \$ 49,282,829           | \$ 50,210,159           |
| Patient services   | 904,810,882             | 858,167,431             |
| Auxiliary enterprises, net   | 23,140,103              | 22,249,186              |
| Premium and administrative fees collected  | 313,974,315             | 279,893,130             |
| Payment to employees and related benefits  | (1,158,169,623)         | (1,158,334,270)         |
| Payment to suppliers   | (931,819,234)           | (922,028,738)           |
| Payment for scholarships and fellowships   | (20,733,767)            | (20,498,768)            |
| Receipts (disbursements) from discontinued operations (Note 1)                                 | (612,467)               | (612,467)               |
| Other receipts   | 59,102,709              | 62,589,783              |
| <b>Net cash used in operating activities</b>   | <b>\$ (212,880,203)</b> | <b>\$ (267,839,369)</b> |
| <b>Cash flows from capital and related financing activities</b>                                |                         |                         |
| Proceeds from issuance of capital debt   | \$                      | \$ 441,805,000          |
| State capital appropriations   | 4,131,110               | 5,096,600               |
| Federal grants & contracts   | 9,445,076               | 8,741,228               |
| Private gifts  | 5,226,777               | 2,854,044               |
| Proceeds from sale of capital assets   | 117,909                 | 1,703,161               |
| Purchases of capital assets  | (126,098,897)           | (193,812,820)           |
| Principal payments on capital debt   | (23,805,681)            | (465,695,126)           |
| Interest payments on capital debt  | (32,447,096)            | (32,680,904)            |
| <b>Net cash used in capital and related financing activities</b>                               | <b>\$ (163,430,802)</b> | <b>\$ (231,988,817)</b> |
| <b>Cash flows from noncapital financing activities</b>   |                         |                         |
| State appropriations   | \$ 284,944,757          | \$ 358,088,951          |
| Private gifts  | 37,734,814              | 34,996,319              |
| Student direct lending receipts  | 104,371,117             | 116,283,215             |
| Student direct lending disbursements   | (103,270,878)           | (88,906,854)            |
| Other deposits   | 29,203,642              | 30,029,724              |
| Deposits (to) from affiliates  | (6,924,926)             | (595,284)               |
| <b>Net cash provided by noncapital financing activities</b>                                    | <b>\$ 346,058,526</b>   | <b>\$ 449,896,071</b>   |
| <b>Cash flows from investing activities</b>  |                         |                         |
| Interest and dividends from investments, net   | \$ 48,359,476           | \$ 61,222,060           |
| Payments for intangibles   | (116,822)               | (296,429)               |
| Collections on note receivable   | 164,664                 | 129,125                 |
| Cash distributions from equity investments   | 975,583                 | 1,747,998               |
| Loan to UAB Highlands HCA  | (9,000,000)             | (19,000,000)            |
| Proceeds from sales and maturities of investments  | 459,582,931             | 1,022,884,573           |
| Proceeds (purchases) of system pooled investment funds   | 20,674,177              | (165,079,761)           |
| Purchases of investments   | (361,866,811)           | (1,040,635,598)         |
| Proceeds from sale of discontinued operations  | 1,736,749               | 33,724,254              |
| Proceeds from repayment of loan by UAB Highlands HCA   | 794,903                 |                         |
| <b>Net cash provided by (used in) investing activities</b>                                     | <b>\$ 161,304,850</b>   | <b>\$ (105,303,778)</b> |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                    | <b>\$ 131,052,371</b>   | <b>\$ (155,235,893)</b> |
| <b>Cash and cash equivalents, beginning of year</b>  | <b>\$ 55,767,161</b>    | <b>\$ 211,003,054</b>   |
| <b>Cash and cash equivalents, end of year</b>  | <b>\$ 186,819,532</b>   | <b>\$ 55,767,161</b>    |
| <b>Reconciliation of operating loss to net cash used in operating activities</b>               |                         |                         |
| Operating loss   | \$ (312,407,742)        | \$ (359,243,674)        |
| Adjustments to reconcile operating loss to net cash provided by (used in) operating activities |                         |                         |
| Depreciation expense   | \$ 115,131,432          | \$ 111,343,621          |
| Changes in assets and liabilities:   |                         |                         |
| Accounts receivable, net   | \$ 4,392,452            | \$ 15,146,747           |
| Prepaid expenses and other assets  | (6,982,995)             | (5,295,010)             |
| Accounts payable and accrued liabilities   | (22,086,351)            | (29,383,807)            |
| Deferred Revenue   | \$ 9,073,001            | \$ (407,246)            |
| <b>Net cash used in operating activities</b>   | <b>\$ (212,880,203)</b> | <b>\$ (267,839,369)</b> |

See accompanying notes to financial statements.

# The University of Alabama at Birmingham

## Statements of Cash Flows (continued)

Years Ended September 30, 2009 and 2008

|   | 2009         | 2008          |
|---|--------------|---------------|
| <b>Supplemental noncash activities information</b>  |              |               |
| Capital assets acquired included in accounts payable  | \$ 4,677,272 | \$ 13,690,930 |
| Capital assets acquired through capital lease   | 162,458      | 5,140,001     |
| Capital assets acquired through donations   |              | 1,124,155     |
| Interest capitalized, net of qualifying interest income on municipal bonds of \$3,405,224 in 2008 | 4,877,630    | 2,340,912     |

*See accompanying notes to financial statements.*



# The University of Alabama at Birmingham Notes to Financial Statements

September 30, 2009

## (1) Summary of Significant Accounting Policies

The University of Alabama at Birmingham (UAB) is one of three campuses of The University of Alabama System (the System), which is a discretely presented component unit of the State of Alabama (the State). The financial statements of UAB are intended to present the financial position, changes in financial position, and the cash flows of only that portion of the business-type activities of the financial reporting entity of the System that is attributable to the transactions of UAB. The System is recognized as an organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code.

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

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

- **Invested in Capital Assets, Net of Related Debt:**

Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

- **Restricted:**

Nonexpendable: Net assets subject to externally imposed stipulations that they be maintained permanently by UAB. Such assets include UAB's permanent endowment funds.

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

tions or that expire by the passage of time.

- **Unrestricted:**

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

- **Reclassifications:**

Certain amounts in the financial statements for the prior period have been reclassified to conform to the current year presentation. UAB reclassified \$13,400,000 in 2008 of Pell grant revenue from operating to nonoperating Federal Grant Revenue. The impact of this reclassification was not considered material.

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

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

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

### Scope of Statements

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

of the University, the Hospital, and UAB's blended component units. Condensed financial information of UAB's reportable segments is presented at Note 22. GASB Statement No. 14, *The Financial Reporting Entity* (GASB Statement No. 14), requires governmental entities to include in their financial statements as a component unit, organizations that are legally separate entities for which the governmental entity, as a primary organization, is financially accountable.

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

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

#### **Discontinued Operations**

Effective July 31, 2007, SRI sold all of the capital stock of its wholly owned subsidiary, Brookwood Pharmaceuticals, Inc. (Brookwood), to Surmodics, Inc. (Surmodics) pursuant to the terms of a stock purchase agreement between SRI and Surmodics (the Purchase Agreement). SRI determined that the sale of stock of Brookwood met the criteria for discontinued operations. Accordingly, the results of operations for Brookwood for 2008 are presented as discontinued operations. The gain on the sale of Brookwood is included in nonoperating revenue. See Note 20 for further discussion of a related contingency.

Other significant accounting policies are as follows:

**Cash and cash equivalents:** For purposes of the

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

**Investments:** UAB accounts for its investments, other than land and other real estate held as investments by endowments, in accordance with the provisions of GASB Statement No. 31, *Accounting and Reporting for Certain Investments and For External Investment Pools* (see Note 4). Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at their fair value. UAB invests certain amounts in a commingled investment pool sponsored by the System. The value of the investments in the pools is determined by the System and based on UAB's proportionate share of the net asset value of the investment pools. The investment pools invest in various investment securities, including both marketable and non-marketable securities. The System values investments which have readily determinable market values at fair value. Investments which do not have readily determinable market values are reported at cost. Investments which do not have readily determinable market values are held within the Endowment Fund and Prime Fund (Note 4).

UAB accounts for its land and other real estate held as investments by endowments in accordance with GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Investments are reported in four categories in the statement of net assets. Investments recorded as endowment and life income investments are those invested funds considered by management to be of long duration. Other long-term investments include amounts resulting from UAB's equity investment in other entities, as discussed in Note 4 and Note 19. Investments for capital projects are included in non-current assets. All other investments are included as short-term investments.

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

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

ful lives to inventoried equipment.

Capital assets acquired under capital leases are amortized over the shorter of the lives of the respective leases or the estimated useful lives of the assets. Capital assets acquired through federal grants and contracts in which the federal government retains a reversionary interest are capitalized and depreciated. Interest costs, net of any related investment earnings, for certain assets acquired with the proceeds of tax-exempt borrowings are capitalized as a component of the cost of acquiring those assets.

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

**Pledges:** UAB receives gift pledges and bequests of financial support. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Pledges are recorded at their gross, undiscounted amount. Endowment pledges do not meet eligibility requirements and are not recorded as assets until the related gift is received in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* (GASB Statement No. 33).

**Endowment spending:** The Alabama Uniform Prudent Management of Institutional Funds Act (UPMIFA) was enacted by the State Legislature and signed into law effective January 1, 2009. UPMIFA prescribes new guidelines for the expenditure of a donor-restricted endowment funds in the absence of overriding, explicit donor stipulations. Its predecessor, UMIFA, focused on the prudent spending of the net appreciation of the fund. UPMIFA instead focuses on the entirety of a donor-restricted endowment fund, that is, both the original gift amount(s) and net appreciation. UPMIFA eliminates UMIFA's historic-dollar-value threshold, an amount below which an organization could not spend from the fund, in favor of a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund.

UPIFMA permits the Board of Trustees of the University of Alabama (the "Board") to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. The Hospital's policy is to retain the endowment realized and unrealized appreciation with the endowment after the spending rate distributions in manner consistent with the standards of prudence prescribed by UPMIFA. The Board approved a spending rate for the fiscal years September 30, 2009 and 2008 of 5%

of a moving three-year average of the market (unit) value.

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

**Federal refundable loans:** Certain loans to students are administered by UAB with funding primarily supported by the federal government. UAB's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

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

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

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

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

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

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

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

**Equity investments:** Investments in affiliated companies where UAB can exercise significant influence and for which UAB's ownership interest is 50% or

less are accounted for using the equity method. The investment in the Professional Liability Trust Fund (PLTF) also is accounted for using the equity method. See Notes 4 and 19.

## (2) Related Parties

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

The purpose of UABEF is to operate exclusively for the benefit of UAB. UABEF provides funds and certain facilities to UAB for its educational and scientific functions and provides support for UAB athletic programs. UABEF is not disclosed as a component unit under GASB No. 39 as UABEF is not deemed significant to UAB. UABEF has 13 board members, including seven outside members not affiliated with UAB. UABEF leases certain facilities to UAB, with annual rental expense of approximately \$1,786,000 and \$1,770,000 for 2009 and 2008, respectively. UAB expects to receive title to certain of the properties upon retirement of the related debt. These properties have been appropriately capitalized by UAB as assets acquired under capital leases. UABEF made contributions to UAB which totaled approximately \$4,709,000 and \$4,722,000 in 2009 and 2008, respectively. UABEF's total assets were approximately \$48,081,000 and \$48,760,000 at September 30, 2009 and 2008, respectively. UABEF's total liabilities were approximately \$17,862,000 and \$19,198,000 at September 30, 2009 and 2008, respectively.

HSF's primary purpose is to provide a group medical practice for physicians who are members of the regular faculty of the School of Medicine at UAB and serve on the University of Alabama Hospital's medical staff. It is governed by a 19-member board of directors, 16 of whom are not affiliated with UAB. An affiliation agreement (the Agreement) documents the relationship between HSF and UAB. The University's other operating revenues include approximately \$40,576,000 and \$35,872,000 of funding from HSF in 2009 and 2008, respectively, which is used to support the educational and research activities of UAB. These funds were paid by HSF pursuant to its tax-exempt purpose and in recognition of the mutual benefit derived by the two organizations

from the enhancement and continued development of UAB's programs. The funds were negotiated with HSF as part of UAB's budget development process. In the normal course of business, HSF purchases various services from the Hospital, aggregating approximately \$2,003,000 and \$2,010,000 in 2009 and 2008, respectively, and the Hospital purchases various services from HSF, aggregating approximately \$19,831,000 and \$17,562,000 for the years ended September 30, 2009 and 2008, respectively. As a result of these transactions, the Hospital had a net payable to HSF of approximately \$3,886,000 and \$797,000 at September 30, 2009 and 2008, respectively.

During 2009, the Hospital entered into an operating agreement with HSF whereby HSF will lease two floors of the UAB Women and Infants' Facility once construction is completed in February 2010. HSF reimburses the Hospital for construction costs of this space as they are incurred on a square-footage basis. Total reimbursements will be amortized as rent revenue on a straight-line basis over a period equal to the 90 year total lease term, commencing when the building is placed into service. As of September 30, 2009, the Hospital had received reimbursements from HSF totaling approximately \$13,229,000, which is included in the accompanying statement of net assets as deferred revenue-other.

The Board and the HSF's board have entered into an agreement, under which UAB and HSF have established a common management group, the UAB Health System, to provide management for their existing and future health care delivery operations. The UAB Health System Board of Directors is composed of 18 members, of whom nine are appointed by the Board. For the fiscal years ended September 30, 2009 and 2008, respectively, UAB contributed approximately \$6,364,000 and \$4,889,000 to the UAB Health System Board to support Health System administrative functions. In addition, at September 30, 2009 and 2008, respectively, the Hospital had a receivable from the Health System of approximately \$6,000 and \$1,783,000.

VF's primary purpose is to provide a group medical practice for physicians who are faculty members in the UAB School of Medicine Huntsville program. It is governed by a 17-member board of directors, consisting of three nonvoting members and 14 voting members, of whom seven are affiliated with UAB. VF's total assets were approximately \$7,096,000 (unaudited) and \$6,628,000 and total liabilities were approximately \$1,090,000 (unaudited) and \$1,149,000 at September 30, 2009 and 2008, respectively.

The Hospital received premium revenue (capitation fees) of approximately \$52,985,000 and \$51,347,000 from Triton during the years ended September 30, 2009 and 2008.

The Health Care Authority for UAB Highlands, An

Affiliate of UAB Health System (“UAB Highlands”), doing business as “UAB Highlands” was established on January 26, 2006 by the Board for purposes of acquiring and operating the HealthSouth Medical Center (“HMC”). The Board appoints all members of UAB Highlands’ board of directors. UAB Highlands purchased the assets of HMC, including the hospital, buildings, and land effective April 1, 2006. The Board and UAB Highlands entered into a loan agreement dated March 31, 2006 whereby the Board, through the Hospital, agreed to loan UAB Highlands up to \$48,000,000 at an annual interest rate of 5% for the acquisition, improvement and start-up expenses of HMC. Interest only is payable through the loan advance period which ended April 1, 2009. Beginning May 1, 2009, UAB Highlands began making equal monthly payments sufficient to pay both principal and interest by April 1, 2026. The aggregate outstanding loan balance due from UAB Highlands was \$50,894,000 and \$42,689,000 as of September 30, 2009 and 2008, respectively. During 2009 and 2008, the Board approved additional loans of \$12,000,000 and \$25,000,000, respectively to UAB Highlands under the same terms as the original loan. The Hospital loaned UAB Highlands \$19,000,000 during 2008 and \$9,000,000 in 2009. In September 2007, UAB Highlands paid the Hospital \$39,311,000 after it issued \$40,000,000 in bonded debt. The Hospital guaranteed this debt on behalf of UAB Highlands in September 2007. Unpaid interest related to the loans to UAB Highlands was \$212,000 and \$577,000 as of September 30, 2009 and 2008, respectively.

The Hospital pays various operating expenses on behalf of UAB Highlands such as certain payroll costs, contract services and professional fees. These amounts totaled approximately \$13,300,000 and \$452,000 during 2009 and 2008, respectively. Approximately \$7,394,555 and \$452,000 are outstanding at September 30, 2009 and 2008, respectively, related to these services. These amounts have been recorded as other long term receivables in the accompanying statement of net assets.

As members of the Health System, the Hospital and UAB Highlands also share certain members of management. Also certain services have been moved to Highlands and certain accounting functions are shared as a result of common management and the intent to create synergies between the two entities.

Separate financial statements are available for this entity.

## (3) Cash and Cash Equivalents

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

The System sponsors a short-term investment pool for the System entities to invest operating cash reserves. The Short-Term Fund is invested in a money market fund held with Federated and a bank common trust fund held with Law Debenture. As of September 30, 2009, the University had approximately \$81,400,991 in the Short-Term Fund of which \$70,018,402 was invested in the money market fund and \$11,382,589 in the bank common trust fund. The assets held in the money market fund are presented in cash and cash equivalents and restricted cash and cash equivalents. The assets held in the bank common trust fund, formerly held within the Commonfund, are frozen in regards to withdrawals due to the decision made by the Commonfund’s trustee in September 2008 to terminate the Commonfund and distribute assets based on the investors’ proportional interest as assets of the bank common trust fund mature or are sold. Given the aforementioned event, the liquidity of the bank common trust fund no longer meets the University’s criteria to be considered a cash equivalent. As of September 30, 2008, the Short-Term Fund was invested exclusively in the Commonfund. As of September 30, 2009, the University had \$10,324,008 of holdings in the Short-Term Fund classified as short term investments and \$1,058,581 as other long-term investments. As of September 30, 2008, the University had \$89,364,795 as short term investments and approximately \$25,352,529 as other

long-term investments.

As of September 30, 2009 and 2008, respectively, UAB had cash and cash equivalents totaling \$186,819,532 and \$55,767,161.

## (4) Investments

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

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

### Endowment Fund

The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, the Hospital and related entities in carrying out their respective missions over an indefinite 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 satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocations are established to meet targeted returns while providing adequate diversification in order to minimize investment volatility. As discussed in Note 1, certain investments within the Endowment Fund are valued at cost. UAB's portion of investments in the Endowment Fund which are measured at cost totaled approximately \$28,000,000 and \$23,000,000 and at September 30, 2009 and 2008, respectively.

### Prime Fund

The Prime Fund is a longer-term fund used as a source of funds to meet projected cash reserve needs over a period of seven to ten years. This fund has an investment objective of growth and income and is invested in a diversified asset mix of liquid and semi-liquid securities. This fund is not currently invested in long-term lockup funds with liquid. As discussed in Note 1, certain investments in the Prime Fund are valued at cost. UAB's portion of investments which are measured at cost totaled approximately \$8,200,000 at September 30, 2009.

### Intermediate Fund

The Intermediate Fund serves as a source of funds to meet projected cash reserve needs over a two to six year period. This fund is also used to balance the other funds when looking at the System's entire asset allocation of cash 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 cash reserves of the various System entities. Because of the different income and disbursement requirements of each entity, consolidation of these funds reduces daily cash fluctuations and minimizes the amount of short-term cash reserves needed. Assets held in the Short-Term Fund are invested with the primary objective of stability of principal and liquidity. Such investments are restricted to high quality, liquid, money market funds and other fixed income obligations with a maturity of one year or less. Refer to Note 3 for additional information related to the Short-Term Fund.

Although the investment philosophy of the Board is to minimize the direct ownership of investment vehicles, preferring ownership in appropriate investment fund groups, there are certain direct investments that are held in the name of the Board. All other investments in the System Pools are classified as commingled funds.



The composition of investments, by investment type, for the System Pools at September 30, 2009 and 2008 is as follows:

## September 30, 2009

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

## September 30, 2008

|  | ENDOWMENT FUND          | PRIME FUND            | INTERMEDIATE FUND     | SHORT TERM FUND       |
|--|-------------------------|-----------------------|-----------------------|-----------------------|
| <b>Receivables:</b>                          |                         |                       |                       |                       |
| Accrued Income Receivables                   | \$ 999,238              | \$ 750,868            | \$ 2,665,378          | \$                    |
| <b>TOTAL RECEIVABLES</b>                     | <b>\$ 999,238</b>       | <b>\$ 750,868</b>     | <b>\$ 2,665,378</b>   | <b>\$</b>             |
| <b>Cash Equivalents:</b>                     |                         |                       |                       |                       |
| Certificates Of Deposit                      | \$                      | \$                    | \$ 329,820            |                       |
| Commercial Paper                             |                         |                       | 1,119,712             |                       |
| Money Market Funds                           | 5,615,914               | 10,060,065            | 71,165,106            |                       |
| <b>TOTAL CASH EQUIVALENTS</b>                | <b>\$ 5,615,914</b>     | <b>\$ 10,060,065</b>  | <b>\$ 72,614,638</b>  | <b>\$</b>             |
| <b>Equities:</b>                             |                         |                       |                       |                       |
| U S Common Stock                             | \$ 55,668,249           | \$ 41,908,374         | \$                    | \$                    |
| Non-U S Stock                                | 5,684,166               | 4,175,631             |                       |                       |
| <b>TOTAL EQUITIES</b>                        | <b>\$ 61,352,415</b>    | <b>\$ 46,084,005</b>  | <b>\$</b>             | <b>\$</b>             |
| <b>Fixed Income Securities:</b>              |                         |                       |                       |                       |
| U S Government Obligations                   | \$ 11,602,531           | \$ 8,106,008          | \$ 70,477,571         | \$                    |
| Mortgage Backed Securities                   | 27,790,776              | 21,397,318            | 37,701,180            |                       |
| Collateralized Mortgage Obligations          | 3,755,744               | 3,382,381             | 128,683,240           |                       |
| Corporate Bonds                              | 17,049,235              | 12,611,963            | 77,691,890            |                       |
| Non-US Bonds                                 | -                       | -                     | 2,073,278             |                       |
| <b>TOTAL FIXED INCOME SECURITIES</b>         | <b>\$ 60,198,286</b>    | <b>\$ 45,497,670</b>  | <b>\$ 316,627,159</b> | <b>\$</b>             |
| <b>Commingled Funds:</b>                     |                         |                       |                       |                       |
| Bank Common Fund Trust Fund                  |                         |                       |                       | \$ 169,596,433        |
| U S Equity Funds                             | \$ 159,917,048          | \$ 115,921,624        | \$                    |                       |
| Non-U S Equity Funds                         | 199,693,579             | 152,668,048           |                       |                       |
| U S Bond Funds                               | 57,529,479              | 77,708,466            |                       |                       |
| Non-U S Bond Funds                           | 53,291,125              | 40,219,402            |                       |                       |
| Hedge Funds                                  | 128,532,775             | 99,689,372            |                       |                       |
| Private Equity Funds                         | 42,024,540              |                       |                       |                       |
| Timberland Funds                             | 8,527,229               |                       |                       |                       |
| Real Estate Funds                            | 70,317,580              | 57,320,225            |                       |                       |
| <b>TOTAL COMMINGLED FUNDS</b>                | <b>\$ 719,833,355</b>   | <b>\$ 543,527,137</b> | <b>\$</b>             | <b>\$ 169,596,433</b> |
| <b>TOTAL FUND INVESTMENTS</b>                | <b>\$ 846,999,970</b>   | <b>\$ 645,168,877</b> | <b>\$ 389,241,797</b> | <b>\$ 169,596,433</b> |
| <b>TOTAL FUND ASSETS</b>                     | <b>\$ 847,999,208</b>   | <b>\$ 645,919,745</b> | <b>\$ 391,907,175</b> | <b>\$ 169,596,433</b> |
| <b>TOTAL FUND LIABILITIES</b>                | <b>\$ (183,225)</b>     | <b>\$ (141,142)</b>   | <b>\$ (229,248)</b>   | <b>\$</b>             |
| <b>AFFILIATED ENTITY INVESTMENT IN FUNDS</b> | <b>\$ (103,271,212)</b> | <b>\$</b>             | <b>\$</b>             | <b>\$</b>             |
| <b>TOTAL NET ASSET VALUE</b>                 | <b>\$ 744,544,771</b>   | <b>\$ 645,778,603</b> | <b>\$ 391,677,927</b> | <b>\$ 169,596,433</b> |

The composition of investments, by investment type, of UAB's separately held investments, and UAB's interest in the System Pools, at September 30, 2009 and 2008 is as follows:

|   | 2009                    | 2008                    |
|---|-------------------------|-------------------------|
| Receivables                                       |                         |                         |
| Accrued Income Receivables                        | \$ 2,643                | \$ 512                  |
| <b>TOTAL RECEIVABLES</b>                          | <b>\$ 2,643</b>         | <b>\$ 512</b>           |
| Cash and equivalents                              |                         |                         |
| Commerical paper                                  | \$ 1,087,209            | \$ 8,076,727            |
| Money market funds                                | 405,768                 | 89,542                  |
| <b>TOTAL CASH AND EQUIVALENTS</b>                 | <b>\$ 1,492,977</b>     | <b>\$ 8,166,269</b>     |
| Equities:   |                         |                         |
| Common stock                                      | \$ 141,662              | \$ 143,637              |
| Equity investment in partnerships                 | 33,494,728              | 27,913,082              |
| <b>TOTAL EQUITIES</b>                             | <b>\$ 33,636,390</b>    | <b>\$ 28,056,719</b>    |
| Fixed Income Securities:                          |                         |                         |
| US government obligations                         | \$ 44,511,702           | \$ 25,047,356           |
| Mortgage backed securities                        |                         | 1,999,826               |
| Collateralized mortgage obligations               | 246,253                 |                         |
| Corporate bonds                                   | 163,150                 |                         |
| Foreign bonds                                     | 1,740,130               | 2,294,542               |
| <b>TOTAL FIXED INCOME SECURITIES</b>              | <b>\$ 46,661,235</b>    | <b>\$ 29,341,724</b>    |
| Commingled Funds:                                 |                         |                         |
| US equity funds                                   | \$ 28,228,522           | \$ 27,196,476           |
| Non-US equity funds                               | 11,124,424              | 10,618,196              |
| US bond funds                                     | 33,905,848              | 43,730,321              |
| Liquid Alternatives                               | 5,929,718               | 6,345,555               |
| Private equity funds                              | 647,938                 | 300,243                 |
| Real estate funds                                 | 1,521,533               | 2,374,359               |
| <b>TOTAL COMMINGLED FUNDS</b>                     | <b>\$ 81,357,983</b>    | <b>\$ 90,565,150</b>    |
| <b>REAL ESTATE</b>                                | <b>\$ 4,852,000</b>     | <b>\$ 781,179</b>       |
| Portion of System Pooled Investments              |                         |                         |
| Endowment Fund                                    | \$ 290,298,793          | \$ 292,188,755          |
| Prime Fund  | 445,844,218             | 461,992,871             |
| Intermediate Fund                                 | 248,784,951             | 290,423,627             |
| Short-Term Fund                                   | 81,400,991              | 114,717,324             |
| <b>Total Portion of System Pooled Investments</b> | <b>\$ 1,066,328,953</b> | <b>\$ 1,159,322,577</b> |
| <b>Total Cash and Investments</b>                 | <b>\$ 1,234,332,181</b> | <b>\$ 1,316,234,130</b> |
| Less Short-Term Fund                              | 70,018,402              |                         |
| <b>TOTAL INVESTMENTS</b>                          | <b>\$ 1,164,313,779</b> | <b>\$ 1,316,234,130</b> |

### Investment Risk Factors

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

### Credit Risk

Fixed income securities are subject to credit risk,

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

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluat-

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

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

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

with a minimum BBB- rating and an average duration of four years. In addition, approximately \$47,000,000 and \$52,000,000 in the Endowment and Prime Funds, at September 30, 2009 and 2008, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$292,000,000 and \$244,000,000 in the Endowment and Prime Funds, at September 30, 2009 and 2008, respectively.

The Intermediate Fund is benchmarked against the Barclays 1-3 Government Index, with funds invested with three separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with an average minimum rating of BB or higher. For September 30, 2009 and 2008, approximately \$36,000,000, each year, 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 \$68,000,000 and \$72,000,000 at September 30, 2009 and 2008, respectively.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the system campuses and the Hospital. The Short-Term Fund is principally invested in a money market fund which invests in U.S. Treasury Securities and repurchase agreements that are collateralized by U.S. Treasury Securities. These funds are all commingled with funds of other investors. Refer to Note 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, 2009 and 2008 is as follows:

## September 30, 2009 and 2008

|                                     | ENDOWMENT FUND        |                       | PRIME FUND            |                       | INTERMEDIATE FUND     |                       | SHORT TERM FUND       |                       |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                                     | 2009                  | 2008                  | 2009                  | 2008                  | 2009                  | 2008                  | 2009                  | 2008                  |
| Fixed or Variable Income Securities |                       |                       |                       |                       |                       |                       |                       |                       |
| U.S. Government Obligations         | \$ 11,842,720         | \$ 11,602,531         | \$ 11,091,835         | \$ 8,106,008          | \$ 82,914,102         | \$ 70,477,571         | \$                    | \$                    |
| Municipal Government Obligations    |                       |                       |                       |                       | 1,232,148             |                       |                       |                       |
| Other U.S. Denominated:             |                       |                       |                       |                       |                       |                       |                       |                       |
| AAA                                 | 1,146,081             | 1,991,776             | 1,039,859             | 2,937,280             | 87,267,735            | 124,766,118           |                       |                       |
| AA                                  | 3,100,959             | 2,515,965             | 2,614,022             | 1,549,234             | 23,482,064            | 29,334,331            |                       |                       |
| A                                   | 11,437,198            | 11,662,185            | 9,890,797             | 8,916,570             | 66,550,612            | 38,431,441            |                       |                       |
| BBB                                 | 4,940,707             | 2,341,498             | 3,895,704             | 1,750,120             | 4,915,130             | 17,705,467            |                       |                       |
| B                                   |                       |                       |                       |                       | 16,308,295            | 278,409               |                       |                       |
| C and < C                           |                       |                       |                       |                       | 5,056,801             | 62,500                |                       |                       |
| Unrated                             | 24,694,940            | 30,084,331            | 22,258,650            | 22,238,458            | 35,809,585            | 35,571,322            |                       |                       |
| Commingled Funds:                   |                       |                       |                       |                       |                       |                       |                       |                       |
| Bank Common Trust Fund: Unrated     |                       |                       |                       |                       |                       |                       | 16,004,639            | 169,596,433           |
| U.S. Bond Funds: Unrated            | 56,912,057            | 57,529,479            | 79,196,422            | 77,708,466            | 55,722,603            |                       |                       |                       |
| Non-U.S. Bond Funds: Unrated        | 49,688,842            | 53,291,125            | 40,741,576            | 40,219,402            |                       |                       |                       |                       |
| Money Market Funds: Unrated         | 42,002,374            | 5,615,914             | 23,706,508            | 10,060,065            | 8,444,513             | 71,165,106            | 130,246,378           |                       |
| Commercial Paper: Unrated           |                       |                       |                       |                       | 3,660,924             | 1,119,712             |                       |                       |
| <b>TOTAL</b>                        | <b>\$ 205,765,878</b> | <b>\$ 176,634,804</b> | <b>\$ 194,435,373</b> | <b>\$ 173,485,603</b> | <b>\$ 391,364,512</b> | <b>\$ 388,911,977</b> | <b>\$ 146,251,017</b> | <b>\$ 169,596,433</b> |

The credit risk for fixed and variable income securities of UAB's separately held investments at September 30, 2009 and 2008 is as follows:

| <b>September 30, 2009 and 2008</b>         |             |                   |             |                   |
|--|-------------|-------------------|-------------|-------------------|
|  | <b>2009</b> |                   | <b>2008</b> |                   |
| <b>Fixed or Variable Income Securities</b> |             |                   |             |                   |
| U.S. Government Guaranteed                 | \$          | 44,511,702        | \$          | 25,047,356        |
| Other U.S. Denominated:                    |             |                   |             |                   |
| AAA  |             | 1,985,529         |             | 4,632,467         |
| AA   |             | 2,286,641         |             | 3,047,245         |
| A  |             | 2,173             |             |                   |
| BBB  |             | 80,086            |             |                   |
| BB   |             | 50,303            |             |                   |
| B  |             | 27,454            |             |                   |
| CCC  |             | 15,250            |             |                   |
| CC   |             | 118,506           |             |                   |
| Unrated                                    |             | 63,832            |             |                   |
| Commingled Funds:                          |             |                   |             |                   |
| U.S. Bond Funds: Unrated                   |             | 29,685,477        |             | 38,050,435        |
| Non-U.S. Bond Funds: Unrated               |             | 1,740,130         |             | 2,294,542         |
| Money Market Funds: Unrated                |             | 405,768           |             | 89,542            |
| Commercial Paper: Unrated                  |             | 1,087,209         |             | 8,076,727         |
| <b>TOTAL</b>                               | <b>\$</b>   | <b>82,060,060</b> | <b>\$</b>   | <b>81,238,314</b> |

### Custodial Credit Risk

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

Investment securities in the System Pools are registered in the Board's name by the custodial bank as an agent for the System. Other types of investments (e.g. open-ended mutual funds, common collective trusts) represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

### Concentration of Credit Risk

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

As previously mentioned, credit risk in each investment pool and UAB's separately held portfolio is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2009 and 2008, there was no invest-

ment in a single issuer that represents 5% or more of total investments in the System Pools or UAB's separately held investments.

### Interest Rate Risk

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

The information presented does not take into account the relative weighting of the portfolio components to the total portfolio. The effective durations for fixed or variable income securities, for the System Pools at September 30, 2009 and 2008 are as follows:

### September 30, 2009 and 2008

|                            | <b>ENDOWMENT FUND</b> |             | <b>PRIME FUND</b> |             | <b>INTERMEDIATE FUND</b> |             |
|----------------------------|-----------------------|-------------|-------------------|-------------|--------------------------|-------------|
|                            | <b>2009</b>           | <b>2008</b> | <b>2009</b>       | <b>2008</b> | <b>2009</b>              | <b>2008</b> |
| U S government obligations | 4.8                   | 3.4         | 4.4               | 3.5         | 1.4                      | 2.0         |
| Corporate bonds            | 5.4                   | 4.9         | 5.6               | 5.3         | 1.2                      | 1.9         |
| Commingled bond funds      | 5.0                   | 4.2         | 4.5               | 4.5         | 1.9                      | -           |

There are no fixed or variable income securities in the Short-Term Fund at September 30, 2009 and 2008.

While the Board does not have a specific policy relative to interest rate risk, UAB has historically invested funds outside of the investment pools in fixed

income and variable income securities with short maturity terms.

The effective durations for fixed or variable income securities for UAB's separately held investments at September 30, 2009 and 2008 are as follows:

### September 30, 2009 and 2008

|                            | 2009 | 2008 |
|----------------------------|------|------|
| U S government obligations | 1.0  | 1.0  |
| Commingled bond funds      | 4.4  | 4.5  |

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, 2009 and 2008, the fair market values of these investments in the System Pools are as follows:

### September 30, 2009 and 2008

|                                     | ENDOWMENT FUND       |                      | PRIME FUND           |                      | INTERMEDIATE FUND    |                       |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
|                                     | 2009                 | 2008                 | 2009                 | 2008                 | 2009                 | 2008                  |
| Mortgage backed securities          | \$ 20,187,898        | \$ 27,790,776        | \$ 18,945,890        | \$ 21,397,318        | \$ 27,260,836        | \$ 37,701,180         |
| Collateralized mortgage obligations | 4,507,042            | 3,755,744            | 3,312,760            | 3,382,381            | 64,674,578           | 128,683,240           |
| <b>TOTAL</b>                        | <b>\$ 24,694,940</b> | <b>\$ 31,546,520</b> | <b>\$ 22,258,650</b> | <b>\$ 24,779,699</b> | <b>\$ 91,935,414</b> | <b>\$ 166,384,420</b> |

At September 30, 2009 and 2008, the fair market value of these investments in UAB's separately held investments is as follows:

### September 30, 2009 and 2008

|                            | 2009        | 2008                |
|----------------------------|-------------|---------------------|
| Mortgage backed securities | \$ -        | \$ 1,999,826        |
| <b>TOTAL</b>               | <b>\$ -</b> | <b>\$ 1,999,826</b> |

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

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

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

At September 30, 2009 and 2008, the effective durations for these securities held in the System Pools are as follows:

### September 30, 2009 and 2008

|                                     | ENDOWMENT FUND |      | PRIME FUND |      | INTERMEDIATE FUND |      |
|-------------------------------------|----------------|------|------------|------|-------------------|------|
|                                     | 2009           | 2008 | 2009       | 2008 | 2009              | 2008 |
| Mortgage backed securities          | 2.7            | 3.5  | 2.7        | 3.6  | 1.3               | 2.0  |
| Collateralized mortgage obligations | 1.5            | 3.4  | 0.3        | 2.8  | 1.0               | 2.0  |

There are no mortgage backed securities or CMO's in the Short Term Fund at September 30, 2009 and 2008.

At September 30, 2009 and 2008, the effective duration for these securities held in UAB's separately held investments are as follows:

| <b>September 30, 2009 and 2008</b> |      |      |
|------------------------------------|------|------|
|                                    | 2009 | 2008 |
| Mortgage backed securities         | -    | 1.0  |

### Foreign Currency Risk

The strategic asset allocation policy for the Endowment Fund and the Prime Fund includes an allocation to non-United States equity securities. Under Board policy, foreign equity holdings in a single industry should not exceed 25% of the investment manager's portfolio measured at market value, with 50% of portfolio's holdings representing EAFE Index firms. Each investment manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager's portfolio, measured at market value. Hedging of foreign currency risks is allowed at the investment manager's discretion. In addition, investments in foreign bonds are allowed under Board policy. Foreign bonds denominated in U.S. dollars are limited to 10% of the investment manager's portfolio, and bonds denominated in currencies other than U.S. dollars are generally limited to 20% of the investment manager's portfolio, measured at market value. As of September 30, 2009 and 2008, all foreign investments denominated in U.S. dollars are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately \$2,400,000 and \$2,100,000 of foreign bonds denominated in U.S. dollars and are held by the Intermediate Fund at September 30, 2009 and 2008, respectively.

### Securities Lending

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

At September 30, 2009 and 2008, there were no securities on loan from the investment pools.

### Joint Ventures

UAB and HealthSouth Corporation were awarded a joint state Certificate of Need to operate a Gamma Knife. HealthSouth and UAB are equal members in a joint venture, HealthSouth/UAB Gamma Knife L.L.C., that leases the Gamma Knife to HealthSouth, which manages the operations. Effective December 31, 2006, HealthSouth's interest in the Gamma Knife was transferred to UAB Highlands. The clinical portion of the Gamma Knife program is administered jointly by HealthSouth and UAB. Since UAB did not acquire a majority ownership in the joint venture of the Gamma Knife program, UAB has recorded its ownership as an equity investment. Accordingly, UAB's investment in Gamma Knife is carried at original cost plus or minus equity in undistributed earnings or losses since the date of acquisition and is presented in other long-term investments in these financial statements in the amount of approximately \$657,600 and \$907,300 at September 30, 2009 and 2008, respectively. Separate financial statements are available for this entity by contacting UAB.

Effective July 1, 1997, UAB, in an equal partnership with HSF, acquired The Eye Foundation, Inc. (EFI). UAB's investment, accounted for using the equity method, was approximately \$5,243,000 and \$4,994,000 at September 30, 2009 and 2008, respectively. Summary financial information of EFI as of and for the years ended September 30, 2009 and 2008, respectively, include total assets of approximately \$28,569,000 and \$29,014,000, total liabilities of approximately \$18,083,000 and \$18,336,000, and total net assets of \$10,486,000 and \$10,678,000. Separate financial statements are available for this entity by contacting UAB.

UAB accounts for its ownership of the PLTF as a joint venture, using the equity method in the amount of approximately \$27,594,000 and \$22,012,000 at September 30, 2009 and 2008, respectively. See Note 19 for further discussion of the PLTF.

## (5) Accounts Receivable

The composition of accounts receivable at September 30, 2009 and 2008 is summarized as follows:

|   | 2009           | 2008           |
|---|----------------|----------------|
| Patient care  | \$ 280,215,171 | \$ 261,727,695 |
| Receivables from sponsoring agencies                        | 57,030,509     | 53,493,463     |
| Student accounts  | 9,184,649      | 10,311,332     |
| Other   | 39,826,758     | 31,356,855     |
|   | \$ 386,257,087 | \$ 356,889,345 |
| Less: Provision for doubtful accounts from patient care     | 167,002,412    | 139,795,416    |
| Less: Provision for doubtful accounts from student accounts | 2,306,571      | 2,540,521      |
| Less: Provision for doubtful accounts Other                 | 641,210        | 305,208        |
| Total accounts receivable                                   | \$ 216,306,894 | 214,248,200    |
| Less accounts receivable, noncurrent                        | 7,394,555      |                |
| Total account receivable current                            | \$ 208,912,339 | \$ 214,248,200 |

## (6) Loans and Pledges Receivable

The composition of loans and pledges receivable at September 30, 2009 and 2008, is summarized below:

The principal repayment and interest rate terms of federal and university loans vary considerably. The allowance for doubtful accounts only applies to University-funded notes and the University portion of

federal student loans, since the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to UAB under the Perkins and various health professions loan programs.

Pledges for permanent endowments do not meet eligibility requirements, as defined by GASB Statement No. 33, until the related gift is received. Due to uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met.

|  | 2009          | 2008          |
|--|---------------|---------------|
| <b>LOANS RECEIVABLE:</b>                       |               |               |
| Federal loan program                           | \$ 18,871,684 | \$ 18,868,494 |
| University loan funds                          | 1,634,434     | 1,562,414     |
| Loan receivable from UAB Highlands             | 50,894,097    | 42,689,000    |
| Other  | 1,365,855     | 1,464,203     |
| Total loans receivable                         | \$ 72,766,070 | \$ 64,584,111 |
| Less allowance for doubtful accounts           | 2,869,417     | 2,728,364     |
| Total loans receivable, net                    | \$ 69,896,653 | \$ 61,855,747 |
| Less: current portion                          | 4,637,879     | 3,378,820     |
| Total loans receivable outstanding, noncurrent | \$ 65,258,774 | \$ 58,476,927 |
| <b>GIFT PLEDGES OUTSTANDING:</b>               |               |               |
| Operations                                     | \$ 9,828,041  | \$ 11,012,727 |
| Capital  | 8,982,462     | 10,532,618    |
| Total gift pledges                             | \$ 18,810,503 | \$ 21,545,345 |
| Less: current portion                          | 8,258,382     | 8,263,065     |
| Total gift pledges, noncurrent                 | \$ 10,552,121 | \$ 13,282,280 |

# (7) Capital Assets

Capital assets activity for the years ended September 30, 2009 and 2008 is summarized at right and below:

There were no net interest costs capitalized in 2009 for the University and Component Units. Net interest costs capitalized in 2009 and 2008, respectively, were approximately \$4,877,630 and \$1,610,000 (\$4,877,630 and \$4,928,000 interest cost net of \$0 and \$3,318,000 investments earnings) for the Hospital.

## September 30, 2009

|                                       | BEGINNING BALANCE |               | ADDITIONS |             | SALES/RETIREMENTS/<br>TRANSFERS |            | ENDING BALANCE |               |
|---------------------------------------|-------------------|---------------|-----------|-------------|---------------------------------|------------|----------------|---------------|
| <b>UNIVERSITY AND COMPONENT UNITS</b> |                   |               |           |             |                                 |            |                |               |
| Capital assets not being depreciated  |                   |               |           |             |                                 |            |                |               |
| Land                                  | \$                | 45,439,170    | \$        | 943,728     | \$                              | 26,222     | \$             | 46,356,676    |
| Construction in progress              |                   | 25,653,353    |           | 17,127,824  |                                 | 14,590,366 |                | 28,190,811    |
|                                       | \$                | 71,092,523    | \$        | 18,071,552  | \$                              | 14,616,588 | \$             | 74,547,487    |
| Capital assets being depreciated      |                   |               |           |             |                                 |            |                |               |
| Land Improvements                     | \$                | 18,886,220    | \$        | 1,965,719   | \$                              |            | \$             | 20,851,939    |
| Buildings                             |                   | 1,073,653,228 |           | 23,475,425  |                                 | 1,705,053  |                | 1,095,423,600 |
| Fixed Equipment Systems               |                   | 81,523,141    |           | 1,436,164   |                                 | 74,124     |                | 82,885,181    |
| Equipment                             |                   | 335,300,752   |           | 19,035,209  |                                 | 4,377,937  |                | 349,958,024   |
| Library Materials                     |                   | 81,278,078    |           | 3,245,073   |                                 |            |                | 84,523,151    |
|                                       | \$                | 1,590,641,419 | \$        | 49,157,590  | \$                              | 6,157,114  | \$             | 1,633,641,895 |
| Total Capital Assets                  | \$                | 1,661,733,942 | \$        | 67,229,142  | \$                              | 20,773,702 | \$             | 1,708,189,382 |
| Less: Accumulated Depreciation        |                   | 820,321,908   |           | 72,192,243  |                                 | 4,550,572  |                | 887,963,579   |
| Total Net Capital Assets              | \$                | 841,412,034   | \$        | (4,963,101) | \$                              | 16,223,130 | \$             | 820,225,803   |
| <b>HOSPITAL</b>                       |                   |               |           |             |                                 |            |                |               |
| Capital assets not being depreciated  |                   |               |           |             |                                 |            |                |               |
| Land                                  | \$                | 17,312,628    | \$        |             | \$                              |            | \$             | 17,312,628    |
| Construction in progress              |                   | 118,867,992   |           | 63,777,203  |                                 | 8,466,914  |                | 174,178,281   |
|                                       | \$                | 136,180,620   | \$        | 63,777,203  | \$                              | 8,466,914  | \$             | 191,490,909   |
| Capital assets being depreciated      |                   |               |           |             |                                 |            |                |               |
| Land Improvements                     | \$                | 129,467       | \$        |             | \$                              |            | \$             | 129,467       |
| Buildings                             |                   | 594,453,772   |           | 1,685,295   |                                 |            |                | 596,139,067   |
| Fixed Equipment Systems               |                   | 10,404,654    |           | 64,199      |                                 |            |                | 10,468,853    |
| Equipment                             |                   | 267,683,770   |           | 12,426,770  |                                 | 1,736,218  |                | 278,374,322   |
|                                       | \$                | 872,671,663   | \$        | 14,176,264  | \$                              | 1,736,218  | \$             | 885,111,709   |
| Total Capital Assets                  | \$                | 1,008,852,283 | \$        | 77,953,467  | \$                              | 10,203,132 | \$             | 1,076,602,618 |
| Less: Accumulated Depreciation        |                   | 407,883,416   |           | 42,823,257  |                                 | 1,406,124  |                | 449,300,549   |
| Total Net Capital Assets              | \$                | 600,968,867   | \$        | 35,130,210  | \$                              | 8,797,008  | \$             | 627,302,069   |
| <b>TOTAL UAB</b>                      |                   |               |           |             |                                 |            |                |               |
| Capital assets not being depreciated  |                   |               |           |             |                                 |            |                |               |
| Land                                  | \$                | 62,751,798    | \$        | 943,728     | \$                              | 26,222     | \$             | 63,669,304    |
| Construction in progress              |                   | 144,521,345   |           | 80,905,027  |                                 | 23,057,280 |                | 202,369,092   |
|                                       | \$                | 207,273,143   | \$        | 81,848,755  | \$                              | 23,083,502 | \$             | 266,038,396   |
| Capital assets being depreciated      |                   |               |           |             |                                 |            |                |               |
| Land Improvements                     | \$                | 19,015,687    | \$        | 1,965,719   | \$                              |            | \$             | 20,981,406    |
| Buildings                             |                   | 1,668,107,000 |           | 25,160,720  |                                 | 1,705,053  |                | 1,691,562,667 |
| Fixed Equipment Systems               |                   | 91,927,795    |           | 1,500,363   |                                 | 74,124     |                | 93,354,034    |
| Equipment                             |                   | 602,984,522   |           | 31,461,979  |                                 | 6,114,155  |                | 628,332,346   |
| Library Materials                     |                   | 81,278,078    |           | 3,245,073   |                                 |            |                | 84,523,151    |
|                                       | \$                | 2,463,313,082 | \$        | 63,333,854  | \$                              | 7,893,332  | \$             | 2,518,753,604 |
| Total Capital Assets                  | \$                | 2,670,586,225 | \$        | 145,182,609 | \$                              | 30,976,834 | \$             | 2,784,792,000 |
| Less: Accumulated Depreciation        |                   | 1,228,205,324 |           | 115,015,500 |                                 | 5,956,696  |                | 1,337,264,128 |
| Total Net Capital Assets              | \$                | 1,442,380,901 | \$        | 30,167,109  | \$                              | 25,020,138 | \$             | 1,447,527,872 |

## September 30, 2008

|                                       | BEGINNING BALANCE |               | ADDITIONS |             | SALES/RETIREMENTS/<br>TRANSFERS |             | ENDING BALANCE   |
|---------------------------------------|-------------------|---------------|-----------|-------------|---------------------------------|-------------|------------------|
| <b>UNIVERSITY AND COMPONENT UNITS</b> |                   |               |           |             |                                 |             |                  |
| Capital assets not being depreciated  |                   |               |           |             |                                 |             |                  |
| Land                                  | \$                | 44,049,572    | \$        | 1,687,376   | \$                              | 297,778     | \$ 45,439,170    |
| Construction in progress              |                   | 75,589,508    |           | 16,035,068  |                                 | 65,971,223  | 25,653,353       |
|                                       | \$                | 119,639,080   | \$        | 17,722,444  | \$                              | 66,269,001  | \$ 71,092,523    |
| Capital assets being depreciated      |                   |               |           |             |                                 |             |                  |
| Land Improvements                     | \$                | 15,622,285    | \$        | 3,606,207   | \$                              | 342,272     | \$ 18,886,220    |
| Buildings                             |                   | 990,953,611   |           | 88,182,492  |                                 | 5,482,875   | 1,073,653,228    |
| Fixed Equipment Systems               |                   | 78,611,654    |           | 2,911,487   |                                 |             | 81,523,141       |
| Equipment                             |                   | 331,987,088   |           | 22,899,782  |                                 | 19,586,118  | 335,300,752      |
| Library Materials                     |                   | 76,337,347    |           | 4,940,731   |                                 |             | 81,278,078       |
|                                       | \$                | 1,493,511,985 | \$        | 122,540,699 | \$                              | 25,411,265  | \$ 1,590,641,419 |
| Total Capital Assets                  | \$                | 1,613,151,065 | \$        | 140,263,143 | \$                              | 91,680,266  | \$ 1,661,733,942 |
| Less: Accumulated Depreciation        |                   | 772,286,470   |           | 68,591,744  |                                 | 20,556,306  | 820,321,908      |
| Total Net Capital Assets              | \$                | 840,864,595   | \$        | 71,671,399  | \$                              | 71,123,960  | \$ 841,412,034   |
| <b>HOSPITAL</b>                       |                   |               |           |             |                                 |             |                  |
| Capital assets not being depreciated  |                   |               |           |             |                                 |             |                  |
| Land                                  | \$                | 17,312,628    | \$        |             | \$                              |             | \$ 17,312,628    |
| Construction in progress              |                   | 36,979,971    |           | 83,353,027  |                                 | 1,465,006   | 118,867,992      |
|                                       | \$                | 54,292,599    | \$        | 83,353,027  | \$                              | 1,465,006   | \$ 136,180,620   |
| Capital assets being depreciated      |                   |               |           |             |                                 |             |                  |
| Land Improvements                     | \$                | 129,467       | \$        |             | \$                              |             | \$ 129,467       |
| Buildings                             |                   | 576,072,114   |           | 18,381,658  |                                 |             | 594,453,772      |
| Fixed Equipment Systems               |                   | 9,283,381     |           | 1,121,273   |                                 |             | 10,404,654       |
| Equipment                             |                   | 290,752,790   |           | 26,756,107  |                                 | 49,825,127  | 267,683,770      |
|                                       | \$                | 876,237,752   | \$        | 46,259,038  | \$                              | 49,825,127  | \$ 872,671,663   |
| Total Capital Assets                  | \$                | 930,530,351   | \$        | 129,612,065 | \$                              | 51,290,133  | \$ 1,008,852,283 |
| Less: Accumulated Depreciation        |                   | 413,664,514   |           | 42,641,507  |                                 | 48,422,605  | 407,883,416      |
| Total Net Capital Assets              | \$                | 516,865,837   | \$        | 86,970,558  | \$                              | 2,867,528   | \$ 600,968,867   |
| <b>TOTAL UAB</b>                      |                   |               |           |             |                                 |             |                  |
| Capital assets not being depreciated  |                   |               |           |             |                                 |             |                  |
| Land                                  | \$                | 61,362,200    | \$        | 1,687,376   | \$                              | 297,778     | \$ 62,751,798    |
| Construction in progress              |                   | 112,569,479   |           | 99,388,095  |                                 | 67,436,229  | 144,521,345      |
|                                       | \$                | 173,931,679   | \$        | 101,075,471 | \$                              | 67,734,007  | \$ 207,273,143   |
| Capital assets being depreciated      |                   |               |           |             |                                 |             |                  |
| Land Improvements                     | \$                | 15,751,752    | \$        | 3,606,207   | \$                              | 342,272     | \$ 19,015,687    |
| Buildings                             |                   | 1,567,025,725 |           | 106,564,150 |                                 | 5,482,875   | 1,668,107,000    |
| Fixed Equipment Systems               |                   | 87,895,035    |           | 4,032,760   |                                 |             | 91,927,795       |
| Equipment                             |                   | 622,739,878   |           | 49,655,889  |                                 | 69,411,245  | 602,984,522      |
| Library Materials                     |                   | 76,337,347    |           | 4,940,731   |                                 |             | 81,278,078       |
|                                       | \$                | 2,369,749,737 | \$        | 168,799,737 | \$                              | 75,236,392  | \$ 2,463,313,082 |
| Total Capital Assets                  | \$                | 2,543,681,416 | \$        | 269,875,208 | \$                              | 142,970,399 | \$ 2,670,586,225 |
| Less: Accumulated Depreciation        |                   | 1,185,950,984 |           | 111,233,251 |                                 | 68,978,911  | 1,228,205,324    |
| Total Net Capital Assets              | \$                | 1,357,730,432 | \$        | 158,641,957 | \$                              | 73,991,488  | \$ 1,442,380,901 |

## (8) Long-Term Debt

Long-term debt activity for the years ended September 30, 2009 and 2008 is summarized as follows:

A portion of UAB's long term debt has been issued with variable interest rates. The interest rates are determined in accordance with the individual related indenture of the related outstanding debt. UAB's bonds are collateralized by pledged revenues as defined in the applicable indentures. See Note 10 for information regarding the pledged revenues, which collateralize certain outstanding debt.

### September 30, 2009

|   | BEGINNING<br>BALANCE  | NEW DEBT          | PRINCIPAL<br>REPAYMENT | ENDING<br>BALANCE     |
|---|-----------------------|-------------------|------------------------|-----------------------|
| <b>UNIVERSITY</b>   |                       |                   |                        |                       |
| Leases Payable for purchase of equipment, 4.55% to 5.04%, due various dates through 2010  | \$ 255,317            | \$                | \$ 159,665             | \$ 95,652             |
| Lease Payable Medical Advancement Foundation, variable rate interest, (3.25% at September 30, 2009) due annually through 2030   | 19,735,000            |                   | 510,000                | 19,225,000            |
| Birmingham General Revenue Bonds Series 1993B, variable rate interest(3.50% at September 30, 2009), due annually through 2013   | 6,200,000             |                   | 1,000,000              | 5,200,000             |
| Birmingham General Revenue Bonds Series 2001, 5.00% due annually through 2027   | 40,393,640            |                   | 2,223,389              | 38,170,251            |
| Birmingham General Revenue Bonds Series 2002, 3.0% to 3.8%, due annually through 2013   | 6,645,000             |                   | 1,020,000              | 5,625,000             |
| Birmingham General Revenue Bonds Series 2003A, 3.0% due annually through 2027   | 62,525,000            |                   | 2,380,000              | 60,145,000            |
| Birmingham General Revenue Bonds Series 2003B, 2.5% to 3% due annually through 2009   | 4,962,209             |                   | 2,449,297              | 2,512,912             |
| Birmingham General Revenue Bonds Series 2005A, 4.0% to 5% principal due annually from 2007 through 2020                         | 52,675,000            |                   | 4,065,000              | 48,610,000            |
| Birmingham General Revenue Bonds Series 2005B, 3.25% principal due annually from 2008 through 2020                              | 52,760,000            |                   | 1,970,000              | 50,790,000            |
|   | \$ 246,151,166        | \$                | \$ 15,777,351          | \$ 230,373,815        |
| Less: unamortized bond discount   |                       |                   |                        | 655,058               |
| <b>TOTAL UNIVERSITY DEBT</b>  |                       |                   |                        | <b>\$ 229,718,757</b> |
| Less: current portion   |                       |                   |                        | 16,208,003            |
| <b>TOTAL UNIVERSITY DEBT, NONCURRENT</b>  |                       |                   |                        | <b>\$ 213,510,754</b> |
| <b>HOSPITAL</b>   |                       |                   |                        |                       |
| Lease Payable, 3.75% due monthly at through 2019  | \$ 7,403,396          | \$ 162,458        | \$ 1,285,465           | \$ 6,280,389          |
| Birmingham General Revenue Bonds Series 2001, 5.00% due annually through 2027   | 2,221,360             |                   | 176,611                | 2,044,749             |
| Birmingham General Revenue Bonds Series 2003B, 2.5% to 3% due annually through 2009   | 497,791               |                   | 245,703                | 252,088               |
| Birmingham Hospital Revenue Bonds Series 2004A, 5% due annually through 2014  | 27,825,000            |                   | 4,120,000              | 23,705,000            |
| Birmingham Hospital Revenue Bonds Series 2006A, 4% due annually through 2041  | 245,000,000           |                   | 580,000                | 244,420,000           |
| Birmingham Hospital Revenue Bonds Series 2008A, 4% to 5.75% due annually through 2025   | 107,700,000           |                   | 1,545,000              | 106,155,000           |
| Birmingham Hospital Revenue Bonds Series 2008B, variable interest rate (1.60% at September 30, 2009), due annually through 2031 | 109,930,000           |                   | -                      | 109,930,000           |
|   | \$ 500,577,547        | \$ 162,458        | \$ 7,952,779           | \$ 492,787,226        |
| Less: unamortized bond discount   |                       |                   |                        | 9,655,464             |
| <b>TOTAL HOSPITAL DEBT</b>  |                       |                   |                        | <b>\$ 483,131,762</b> |
| Less: current portion   |                       |                   |                        | 8,311,398             |
| <b>TOTAL HOSPITAL DEBT, NONCURRENT</b>  |                       |                   |                        | <b>\$ 474,820,364</b> |
| <b>COMPONENT UNITS</b>  |                       |                   |                        |                       |
| Leases Payable for purchase of equipment, 3.68% to 5.45%, due various dates through 2010  | \$ 189,977            |                   | 75,551                 | \$ 114,426            |
|   | \$ 189,977            | \$                | \$ 75,551              | \$ 114,426            |
| Less: unamortized bond discount   |                       |                   |                        |                       |
| <b>TOTAL COMPONENT UNITS DEBT</b>   |                       |                   |                        | <b>114,426</b>        |
| Less: current portion   |                       |                   |                        | \$ 63,754             |
| <b>TOTAL COMPONENT UNITS DEBT, NONCURRENT</b>   |                       |                   |                        | <b>\$ 50,672</b>      |
| <b>TOTAL UAB</b>  | <b>\$ 746,918,690</b> | <b>\$ 162,458</b> | <b>\$ 23,805,681</b>   | <b>\$ 723,275,467</b> |
| Less: unamortized bond discount   |                       |                   |                        | 10,310,522            |
| <b>TOTAL UAB DEBT</b>   |                       |                   |                        | <b>\$ 712,964,945</b> |
| Less: current portion   |                       |                   |                        | 24,583,155            |
| <b>TOTAL UAB DEBT, NONCURRENT</b>   |                       |                   |                        | <b>\$ 688,381,790</b> |

## September 30, 2008

|   | BEGINNING<br>BALANCE | NEW DEBT       | PRINCIPAL<br>REPAYMENT | ENDING<br>BALANCE     |
|---|----------------------|----------------|------------------------|-----------------------|
| <b>UNIVERSITY</b>   |                      |                |                        |                       |
| Leases Payable for purchase of equipment, 4.55% to 5.04%, due various dates through 2010  | \$ 451,432           | \$             | \$ 196,115             | \$ 255,317            |
| Lease Payable Medical Advancement Foundation, variable rate interest, (3.71% at September 30, 2008), due annually through 2030                      | 20,220,000           |                | 485,000                | 19,735,000            |
| Birmingham General Revenue Bonds Series 1993B, variable rate interest (8.25% at September 30, 2008), due annually through 2013                      | 7,100,000            |                | 900,000                | 6,200,000             |
| Birmingham General Revenue Bonds Series 2001, 5.25% due annually through 2027   | 42,515,382           |                | 2,121,742              | 40,393,640            |
| Birmingham General Revenue Bonds Series 2002, 3.0% to 3.8%, due annually through 2013   | 7,635,000            |                | 990,000                | 6,645,000             |
| Birmingham General Revenue Bonds Series 2003A, 4.5% due annually through 2029   | 64,860,000           |                | 2,335,000              | 62,525,000            |
| Birmingham General Revenue Bonds Series 2003B, 2.5% to 3% due annually through 2009   | 9,633,592            |                | 4,671,383              | 4,962,209             |
| Birmingham General Revenue Bonds Series 2005A, 4.0% to 5% principal due annually from 2007 through 2020   | 56,620,000           |                | 3,945,000              | 52,675,000            |
| Birmingham General Revenue Bonds Series 2005B, 4.5% principal due annually from 2008 through 2027   | 53,525,000           |                | 765,000                | 52,760,000            |
|   | \$ 262,560,406       | \$             | \$ 16,409,240          | \$ 246,151,166        |
| Less: unamortized bond discount   |                      |                |                        | 733,542               |
| <b>TOTAL UNIVERSITY DEBT</b>  |                      |                |                        | <b>\$ 245,417,624</b> |
| Less: current portion   |                      |                |                        | 15,777,348            |
| <b>TOTAL UNIVERSITY DEBT, NONCURRENT</b>  |                      |                |                        | <b>\$ 229,640,276</b> |
| <b>HOSPITAL</b>   |                      |                |                        |                       |
| Leases Payable, 3.75% due monthly at through 2019   | \$ 3,470,013         | \$ 5,089,517   | \$ 1,156,134           | \$ 7,403,396          |
| Birmingham Hospital Revenue Bonds Series 2000B, variable interest rate (3.86% at September 30, 2007), principal due annually from 2016 through 2031 | 107,800,000          |                | 107,800,000            |                       |
| Birmingham Hospital Revenue Bonds Series 2000C, variable interest rate (3.88% at September 30, 2007), due annually through 2031                     | 38,200,000           |                | 38,200,000             |                       |
| Birmingham Hospital Revenue Bonds Series 2000D, variable interest rate (3.80% at September 30, 2007), due annually through 2031                     | 72,450,000           |                | 72,450,000             |                       |
| Birmingham General Revenue Bonds Series 2001, 5.25% due annually through 2027   | 2,389,618            |                | 168,258                | 2,221,360             |
| Birmingham General Revenue Bonds Series 2003B, 2.5% to 3% due annually through 2009   | 966,408              |                | 468,617                | 497,791               |
| Birmingham Hospital Revenue Bonds Series 2004A, 5% due annually through 2014  | 31,750,000           |                | 3,925,000              | 27,825,000            |
| Birmingham Hospital Revenue Bonds Series 2006A, 5% due annually through 2041  | 245,325,000          |                | 325,000                | 245,000,000           |
| Birmingham Hospital Revenue Bonds Series 2008A Taxable Loan   |                      | 218,450,000    | 218,450,000            |                       |
| Birmingham Hospital Revenue Bonds Series 2008A, 4% to 5.75% due annually through 2025   |                      | 109,925,000    | 2,225,000              | 107,700,000           |
| Birmingham Hospital Revenue Bonds Series 2008B, variable interest rate (8.01% at September 30, 2008), due annually through 2031                     |                      | 109,930,000    |                        | 109,930,000           |
|   | \$ 502,351,039       | \$ 443,394,517 | \$ 445,168,009         | \$ 500,577,547        |
| Less: unamortized bond discount   |                      |                |                        | 10,181,379            |
| <b>TOTAL HOSPITAL DEBT</b>  |                      |                |                        | <b>\$ 490,396,168</b> |
| Less: current portion   |                      |                |                        | 7,902,406             |
| <b>TOTAL HOSPITAL DEBT, NONCURRENT</b>  |                      |                |                        | <b>\$ 482,493,762</b> |
| <b>COMPONENT UNITS</b>  |                      |                |                        |                       |
| Note Payable, variable rate interest (LIBOR rate plus 1.75%), matured November 2007   |                      | \$ 3,500,000   | \$ 3,500,000           |                       |
| Leases Payable for purchase of equipment, 3.75% to 5.04%, due various dates through 2010  | \$ 757,370           | 50,484         | 617,877                | \$ 189,977            |
|   | \$ 757,370           | \$ 3,550,484   | \$ 4,117,877           | \$ 189,977            |
| Less: unamortized bond discount   |                      |                |                        |                       |
| <b>TOTAL COMPONENT UNITS DEBT</b>   |                      |                |                        | <b>\$ 189,977</b>     |
| Less: current portion   |                      |                |                        | 75,551                |
| <b>TOTAL COMPONENT UNITS DEBT, NONCURRENT</b>   |                      |                |                        | <b>\$ 114,426</b>     |
| <b>TOTAL UAB</b>  |                      |                |                        |                       |
|   | \$ 765,668,815       | \$ 446,945,001 | \$ 465,695,126         | \$ 746,918,690        |
| Less: unamortized bond discount   |                      |                |                        | 10,914,921            |
| <b>TOTAL UAB DEBT</b>   |                      |                |                        | <b>\$ 736,003,769</b> |
| Less: current portion   |                      |                |                        | 23,755,305            |
| <b>TOTAL UAB DEBT, NONCURRENT</b>   |                      |                |                        | <b>\$ 712,248,464</b> |

Maturities and interest on notes, leases, and bonds payable for the next five years and in the subsequent five-year incremental periods are presented in the table below. Future interest payments for variable rate debt are computed by applying the rate in effect at September 30, 2009.

| <b>UNIVERSITY</b>            |                       |                       |                         |  |
|------------------------------|-----------------------|-----------------------|-------------------------|--|
| YEAR                         | PRINCIPAL             | INTEREST              | TOTAL                   |  |
| 2010                         | \$ 16,208,003         | \$ 9,045,233          | \$ 25,253,236           |  |
| 2011                         | 14,060,490            | 8,498,698             | 22,559,188              |  |
| 2012                         | 14,565,346            | 7,942,455             | 22,507,801              |  |
| 2013                         | 15,215,203            | 7,323,832             | 22,539,035              |  |
| 2014                         | 15,859,463            | 6,673,388             | 22,532,851              |  |
| 2015-2019                    | 66,360,310            | 24,306,400            | 90,666,710              |  |
| 2020-2024                    | 52,260,000            | 11,682,203            | 63,942,203              |  |
| 2025-2029                    | 33,145,000            | 353,187               | 33,498,187              |  |
| 2030-2033                    | 2,700,000             | -                     | 2,700,000               |  |
| <b>TOTAL UNIVERSITY</b>      | <b>\$ 230,373,815</b> | <b>\$ 75,825,396</b>  | <b>\$ 306,199,211</b>   |  |
| <b>HOSPITAL</b>              |                       |                       |                         |  |
| YEAR                         | PRINCIPAL             | INTEREST              | TOTAL                   |  |
| 2010                         | \$ 8,311,398          | \$ 20,978,343         | \$ 29,289,741           |  |
| 2011                         | 117,796,687           | 20,665,094            | 138,461,781             |  |
| 2012                         | 8,185,201             | 18,549,595            | 26,734,796              |  |
| 2013                         | 8,580,598             | 18,158,899            | 26,739,497              |  |
| 2014                         | 8,986,984             | 17,752,871            | 26,739,855              |  |
| 2015-2019                    | 50,832,861            | 81,952,114            | 132,784,975             |  |
| 2020-2024                    | 63,014,705            | 67,327,988            | 130,342,693             |  |
| 2025-2029                    | 5,555,000             | 55,844,788            | 61,399,788              |  |
| 2030-2034                    | 55,825,000            | 52,628,850            | 108,453,850             |  |
| 2035-2039                    | 112,470,000           | 30,732,500            | 143,202,500             |  |
| 2040-2042                    | 53,228,793            | 4,026,500             | 57,255,293              |  |
| <b>TOTAL HOSPITAL</b>        | <b>\$ 492,787,226</b> | <b>\$ 388,617,542</b> | <b>\$ 881,404,768</b>   |  |
| <b>COMPONENT UNITS</b>       |                       |                       |                         |  |
| YEAR                         | PRINCIPAL             | INTEREST              | TOTAL                   |  |
| 2010                         | \$ 63,754             | \$ 5,439              | \$ 69,193               |  |
| 2011                         | 50,672                | 1,581                 | 52,253                  |  |
| <b>TOTAL COMPONENT UNITS</b> | <b>\$ 114,426</b>     | <b>\$ 7,020</b>       | <b>\$ 121,446</b>       |  |
| <b>TOTAL UAB</b>             |                       |                       |                         |  |
| YEAR                         | PRINCIPAL             | INTEREST              | TOTAL                   |  |
| 2010                         | \$ 24,583,156         | \$ 30,029,015         | \$ 54,612,171           |  |
| 2011                         | 131,907,848           | 29,165,373            | 161,073,221             |  |
| 2012                         | 22,750,547            | 26,492,050            | 49,242,597              |  |
| 2013                         | 23,795,801            | 25,482,731            | 49,278,532              |  |
| 2014                         | 24,846,447            | 24,426,259            | 49,272,706              |  |
| 2015-2019                    | 117,193,171           | 106,258,514           | 223,451,685             |  |
| 2020-2024                    | 115,274,705           | 79,010,191            | 194,284,896             |  |
| 2025-2029                    | 38,700,000            | 56,197,975            | 94,897,975              |  |
| 2030-2034                    | 58,525,000            | 52,628,850            | 111,153,850             |  |
| 2035-2039                    | 112,470,000           | 30,732,500            | 143,202,500             |  |
| 2040-2042                    | 53,228,793            | 4,026,500             | 57,255,293              |  |
| <b>TOTAL UAB</b>             | <b>\$ 723,275,467</b> | <b>\$ 464,449,958</b> | <b>\$ 1,187,725,425</b> |  |

The University defeased certain indebtedness by depositing funds in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreements, all funds deposited in the trust accounts are invested in obligations of the U.S. government. Neither the assets of the trust accounts nor the defeased indebtedness are included in the accompanying statement of net assets as of September 30, 2009 and 2008. The principal outstanding on the defeased indebtedness at September 30, 2009 and 2008, respectively, was approximately \$183,425,000 and \$190,260,000 (\$48,725,000 and \$52,470,000 related to University and \$134,700,000 and \$137,790,000 related to Hospital, respectively).

During fiscal year 2008, the Hospital obtained interim financing totaling \$218,839,000 and refunded Series 2000 B, Series 2000 C and Series 2000 D Hospital Revenue Bonds. In July 2008, the Hospital issued \$109,925,000 in Series 2008 B Hospital Revenue Bonds to provide permanent financing for the refunded bonds. The 2008 A bonds pay interest at varying rates from 4% to 5.25% with principal due annually through 2025. The 2008 B bonds were issued in the weekly rate mode backed by a bank letter of credit with the average interest rate including fees being 3.35% through September 30, 2008. Principal repayment begins in 2025 and is completed in 2031.

The 2008B bonds include a demand obligation feature that allows the bondholder to tender the bonds back to the Hospital at any date. The Hospital has obtained a letter of credit (LOC) in the aggregate amount of the bonds to repay any tendered amounts in the event the remarketing agent is unable to resell the bonds in the allotted time (7 days from the notice of intent to tender). Amounts outstanding under the LOC are due within 367 days of the draw. At September 30, 2008, approximately \$9,900,000 of 2008B bonds had been tendered, and approximately \$9,900,000 was outstanding under the LOC. All of these bonds were remarketed during fiscal year 2009. No bonds were tendered and no amounts were outstanding under the LOC as of September 30, 2009.

The Hospital Series 2000A, 2000B, 2000C, 2000D, 2004A, 2006A, 2008A and 2008B Revenue Trust Indentures contain certain restrictive financial covenants (see Note 10). The Hospital's management believes that it was in compliance with respect to these covenants at September 30, 2009 and 2008.

## (9) Other Noncurrent Liabilities

The activity with respect to other noncurrent liabilities not presented as part of Note 19 for the year ended September 30, 2009 and 2008, is as follows for UAB:

### September 30, 2009

|  | BEGINNING<br>BALANCE | ADDITIONS            | DEDUCTIONS          | ENDING<br>BALANCE    |
|--|----------------------|----------------------|---------------------|----------------------|
| Advances federal loans   | \$ 16,309,098        | \$ 643,104           | \$ (690,305)        | \$ 16,261,897        |
| Deferred revenue (note 2)  |                      | 13,142,272           |                     | 13,142,272           |
| Other noncurrent liabilities   | 309,631              | 316,304              | (219,819)           | 406,116              |
| <b>Total advances federal loans and other noncurrent liabilities</b> | <b>\$ 16,618,729</b> | <b>\$ 14,101,680</b> | <b>\$ (910,124)</b> | <b>\$ 29,810,285</b> |

### September 30, 2008

|  | BEGINNING<br>BALANCE | ADDITIONS         | DEDUCTIONS            | ENDING<br>BALANCE    |
|--|----------------------|-------------------|-----------------------|----------------------|
| Advances federal loans   | \$ 16,422,623        | \$ 585,314        | \$ (698,839)          | \$ 16,309,098        |
| Other noncurrent liabilities   | 846,617              |                   | (536,986)             | 309,631              |
| <b>Total advances federal loans and other noncurrent liabilities</b> | <b>\$ 17,269,240</b> | <b>\$ 585,314</b> | <b>\$ (1,235,825)</b> | <b>\$ 16,618,729</b> |

## (10) Pledged Revenues

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

| HOSPITAL BONDS         | 2009           | 2008           |
|------------------------|----------------|----------------|
| Total pledged revenues | \$ 902,573,463 | \$ 810,408,583 |

Pledged revenues for 2009 and 2008, as defined by the Series 1993B, 2001, 2002, 2003A, 2003B, 2005A and 2005B General Revenue Trust Indentures, are as follows:

| <b>UNIVERSITY BONDS</b>                     | <b>2009</b>           | <b>2008</b>           |
|---|-----------------------|-----------------------|
| Tuition fees                                | \$ 121,375,233        | \$ 107,111,601        |
| Indirect cost recovery                      | 81,136,651            | 83,131,576            |
| Sales and service of educational activities | 50,831,174            | 50,025,572            |
| Auxiliary sales and service                 | 19,442,032            | 19,018,981            |
| Endowment and investment income             | 23,880,352            | 33,488,663            |
| Other sources                               | 51,381,996            | 48,963,979            |
| <b>TOTAL PLEDGED REVENUES</b>               | <b>\$ 348,047,438</b> | <b>\$ 341,740,372</b> |

## (11) Employee Benefits

### Retirement and Pension Plans

Most employees of UAB participate in the Teachers' Retirement System of Alabama (TRS), a cost-sharing, multiple-employer public retirement system. Certain employees also participate in an optional plan with the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). TRS is a defined benefit plan and the TIAA-CREF 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 provided retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control

Participants in TRS who retire at age 60 with 10 years of credited service, or after completing 25 years of credited service, regardless of age, are entitled to an annual benefit, payable monthly for life. Service retirement benefits are calculated by three methods, with the participants receiving payments under the method which yields the highest monthly benefit. These methods include (1) minimum guaranteed, (2) money purchase, or (3) formula. Under the formula method, participants are allowed 2.0125% of their final average salary (average of three highest years of annual compensation during the last 10 years of service) for each year of service. A participant ter-

minating before reaching retirement age, but after completing 10 years of credited service, is eligible for a vested allowance at age 60 provided accumulated employee contributions are not withdrawn. TRS also provides death and disability benefits.

Covered employees are required by statute to contribute to TRS. UAB, as the employer, contributes to TRS. The contribution requirements for fiscal years 2009, 2008, and 2007, respectively, were approximately \$124,574,000, \$121,847,000, and \$99,552,000 which consisted of \$88,060,000, \$85,454,000, and \$64,871,000 from UAB and \$36,514,000, \$36,093,000, and \$36,669,000 from employees. UAB's contribution was 12.07%, 11.75%, and 9.36% of salaries and wages for covered employees in 2009, 2008, and 2007, respectively. Covered employees (except for law enforcement employees) are required by statute to contribute 5% of earned compensation to TRS. The contribution by law enforcement employees is 6% of earned compensation. All regular employees of UAB are members of TRS, with the exception of temporary employees who, by definition, are those employees hired for a predetermined period of employment of less than one year and employees working less than one half of a regular schedule.

The 10-year historical trend information shows TRS's progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases, and postretirement benefit increases presented in the September 30, 2008, annual financial report of the TRS. That report is publicly available and may be obtained by contacting TRS.

As previously noted, some employees participate in

the optional TIAA-CREF programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All full-time regular monthly employees are eligible to participate from the date of employment. UAB contributes a matching amount of up to 5% of total salaries for participating employees. UAB's contribution is funded as it accrues and, along with that of the employee, is immediately and fully vested. The contributions for 2009 and 2008, respectively, excluding employee amounts not eligible for matching, were approximately \$29,986,000 and \$30,096,000 which included approximately \$14,993,000 and \$15,048,000 each from UAB and its employees.

UAB's total salaries and wages for fiscal year 2009 and 2008, respectively, were approximately \$838,659,000 and \$837,242,000. Total salaries and wages during fiscal years 2009 and 2008, respectively, for covered employees participating in TRS were approximately \$729,576,000 and \$727,266,000, respectively. Total salaries and wages during fiscal years 2009 and 2008 for covered employees participating in TIAA CREF were approximately \$311,992,000 and \$311,483,000, respectively.

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

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

### **Compensated Absences**

Certain UAB employees accumulate vacation and sick leave at varying rates depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the financial statements include accruals of approximately \$48,109,100 and \$49,781,500 as of September 30, 2009 and 2008, respectively, for accrued vacation pay and salary-related payments associated with vacation pay. There is no such accrual recognized for sick leave benefits because there is no terminal cash benefit available to employees for accumulated sick leave.

## (12) Other Postemployment Benefits

UAB offers other postemployment health care benefits (OPEB) to all employees who officially retire from UAB. Health care benefits are offered through the Alabama Retired Education Employees Health Core Trust Plan (PEEHIP) with TRS or certain retired employees may elect to continue to participate in UAB's group health plan until they are eligible for Medicare by paying the full cost of the plan premium. Retired employees age 65 or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer and UAB's health care plan becomes the secondary insurer. Despite the availability of the UAB plan, most retirees elect to participate in the PEEHIP with TRS, in which case the retirees pay a portion of the PEEHIP premium, with UAB paying an allocation towards the cost of retiree coverage.

Certain retirees may also elect to continue their basic term life insurance coverage and accidental death and dismemberment insurance up to certain maximum amounts. The retirees pay the full amount of the premiums in such cases. Retirees are not eligible for tuition assistance benefits themselves. However, their unmarried dependent children may qualify in some cases.

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

PEEHIP is a cost-sharing multiple-employer defined benefit OPEB plan administered by the Public Education Employees Health Insurance Board. PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan are subject

to a lifetime contract maximum of \$1,000,000 for each covered individual. The financial report for PEEHIP can be obtained by contacting TRS. The Code of Alabama 1975, Section 16-25-A-8 provides authority to set the contribution requirements for retirees and employers. The required contribution rates of retirees are as follows as of September 30, 2009 and 2008:

Retired Member Rates

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

The required contribution rates of the employer were \$382 and \$367 per employee per month in the years ended September 30, 2009 and 2008, respectively. 100% of 2009 and 2008 contributions were paid in 2009 and 2008, respectively. UAB contributed \$14,788,351 and \$13,562,852 to PEEHIP in 2009

and 2008, respectively. The required contribution rate is determined by PEEHIP in accordance with State statute.

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

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

In accordance with GASB Statement No. 45, UAB accrued an additional \$2,827,119 and \$2,491,845 in retiree healthcare and benefit expense during the years ended September 30, 2009 and 2008, respectively.

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

UAB's annual retiree health and life insurance benefit expense and related information for the years ended September 30, 2009 and 2008 is as follows:

|   | 2009         | 2008         |
|---|--------------|--------------|
| Annual required contribution                        | \$ 6,286,225 | \$ 5,767,855 |
| Interest on obligations for retiree benefits        | 174,429      | 403,750      |
| Adjustment to annual required contribution          | (114,620)    |              |
| Annual retiree benefit costs                        | 6,346,034    | 6,171,605    |
| UAB Contributions                                   | (3,518,915)  | (3,679,760)  |
| Increase in obligations for retiree benefits        | 2,827,119    | 2,491,845    |
| Obligations for retiree benefits, beginning of year | 2,491,845    |              |
| Total obligations for retiree benefits, end of year | \$ 5,318,964 | \$ 2,491,845 |

The annual retiree benefit cost, percentage of the annual retiree benefit cost contributed to the retiree benefit plan and the net obligation for retiree benefits for UAB for year ended September 30, 2009 and 2008 are as follows:

|  | 2009         | 2008         |
|--|--------------|--------------|
| Annual retiree benefit cost                | \$ 6,346,034 | \$ 6,171,605 |
| Percentage of annual cost contributed      | 55.5%        | 59.6%        |
| Net obligation to the retiree benefit plan | \$ 5,318,964 | \$ 2,491,845 |

## Funded Status

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

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

The funded status of the plan as of October 1, 2007 and 2008 was as follows:

|   | 2009 |             | 2008 |             |
|---|------|-------------|------|-------------|
| Actuarial accrued liability   | \$   | 53,920,021  | \$   | 53,739,237  |
| Actuarial value of plan assets  |      | -           |      | -           |
| Unfunded actuarial accrued liability                                    | \$   | 53,920,021  | \$   | 53,739,237  |
| Funded ratio  |      | ZERO        |      | ZERO        |
| Covered payroll   |      | 838,658,508 |      | 837,241,519 |
| Unfunded actuarial accrued liability as a percentage of covered payroll |      | 6.43%       |      | 6.42%       |

## Actuarial Methods and Assumptions

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

Significant actuarial methods and assumptions used in the valuation were :

- actuarial valuation date, October 1, 2007
- actuarial cost method-projected unit cost method;
- assumed return on investment of 7% per year, based on the estimated return on UAB's assets expected to be used to finance benefits;
- health care cost trend rate 8% and 9% for the years ended September 30, 2009 and 2008, respectively reduced by increments to an ultimate rate of 5% over years through 2015;
- amortization of the initial unfunded actuarial liability over 30 years on a level percent of pay method with payroll growth rate of 4.5%

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

## (13) Federal Direct Student Loan Program

The Federal Direct Student Loan Program (FDSLP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the university rather than through private lenders. UAB began participation in the FDSLP on July 1, 1994. As a university qualified to originate loans, UAB is responsible for handling the complete loan process, including funds management, as well as promissory note functions. UAB is not responsible for collection of these loans. During the years ended September 30, 2009 and 2008, respectively, UAB disbursed approximately \$103,271,000 and \$88,907,000 under the FDSLP.

## (14) Grants and Contracts

At September 30, 2009 and 2008, UAB had been awarded approximately \$448,748,000 (unaudited) and \$395,390,000 (unaudited) in grants and contracts which had not been expended. These awards, which represent commitments of sponsors to provide funds for specific research, training, and service projects, have not been reflected in the financial statements.

During fiscal year 2009 the University began receiving and expending federal funding under the American Recovery and Reinvestment Act (ARRA), primarily in

the form of sponsored research grants and State Fiscal Stabilization Funds. Significant ARRA funds were not expended during fiscal year 2009 and, therefore, have no material impact on the fiscal year 2009 financial statements. Based on awards received during fiscal year 2009 and at the beginning of fiscal year 2010, ARRA expenditures are expected to be significant in fiscal year 2010 and fiscal year 2011.

## (15) Net Patient Service Revenue

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

**Medicare**—Substantially all acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Additionally, the Hospital is reimbursed for both its direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Hospital generally is reimbursed for certain retroactively settled items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. The Hospital's cost reports have been audited and settled for all fiscal years through 2006. Revenue from the Medicare program accounted for approximately 27% of the Hospital's net patient service revenue for the years ended September 30, 2009 and 2008.

**Blue Cross**—Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services are reimbursed at a prospectively determined rate or under a cost reimbursement methodology. The method of reimbursement is determined by the procedures that are performed. For outpatient services reimbursed

under a cost reimbursement methodology, the Hospital is reimbursed at a tentative rate with a final settlement determined after submission of annual cost reports by the Hospital and audits thereof by Blue Cross. The Hospital's Blue Cross cost reports have been audited and settled for all fiscal years through 2008. Revenue from the Blue Cross program accounted for approximately 31% and 30% of the Hospital's net patient service revenue for each of the years ended September 30, 2009 and 2008.

**Medicaid**—Inpatient services rendered to Medicaid program beneficiaries are reimbursed at all-inclusive prospectively determined per diem rates. Outpatient services are reimbursed based on an established fee schedule. The Hospital qualifies as a Medicaid essential provider and therefore also receives supplemental payments based on formulas established by the Alabama Medicaid Agency. As a Medicaid essential provider, the Hospital is required to make an intragovernmental transfer of funds to the State Treasurer's Office and receives corresponding supplemental payments in excess of the amounts transferred. The Hospital anticipates it will continue to be a Medicaid essential provider hospital based on the present formulas provided by the Agency and the State of Alabama. The net benefit associated with the Hospital's essential provider designation, totaling approximately \$11,753,000 and \$11,926,000 in 2009 and 2008, respectively, is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net assets. There can be no assurance that the Hospital will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Revenue from the Medicaid program accounted for approximately 14% and 15% of the Hospital's net patient service revenue for years ended September 30, 2009 and 2008, respectively.

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

The composition of Hospital operating revenue follows:

|  | 2009                  | 2008                  |
|--|-----------------------|-----------------------|
| Gross Patient Service Revenue                        | \$ 2,916,752,220      | \$ 2,791,886,226      |
| Less provision for contractual and other adjustments | (1,932,214,504)       | (1,826,966,007)       |
| Less provision for bad debts                         | (205,454,384)         | (206,628,468)         |
| Total Net Patient Service Revenue                    | \$ 779,083,332        | \$ 758,291,751        |
| Capitation Revenue                                   | 52,984,872            | 51,346,767            |
| Other Revenue  | 60,502,757            | 55,824,280            |
| <b>TOTAL HOSPITAL SALES REVENUE</b>                  | <b>\$ 892,570,961</b> | <b>\$ 865,462,798</b> |

## (16) Charity Care

The Hospital maintains records to identify and moni-

tor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services, and supplies and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30, 2009 and 2008:

|   | 2009           | 2008           |
|---|----------------|----------------|
| Approximate charges forgone, based on established rates | \$ 156,799,000 | \$ 119,715,000 |
| Percentage of charity charges to total charges          | 5.4%           | 4.3%           |

## (17) Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2009 and 2008 follows:

|            | 2009        | 2008        |
|------------|-------------|-------------|
| Other      | 20%         | 19%         |
| Commercial | 17          | 20          |
| Medicare   | 20          | 20          |
| Blue Cross | 33          | 31          |
| Medicaid   | 10          | 10          |
|            | <b>100%</b> | <b>100%</b> |

## (18) Construction Commitments and Financing

UAB has contracted for the construction and renovation of several facilities. At September 30, 2009 and 2008, the estimated remaining cost to complete the construction and renovation of these facilities was

approximately \$133,359,000 (unaudited) and \$159,247,000 (unaudited), respectively, which is expected to be financed from private gifts, grants, bond proceeds, and UAB reserves.

## (19) Risk Management and Self-Insurance

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

UAB's medical malpractice liability is managed by PLTF, a professional liability trust fund. PLTF functions as a risk-sharing vehicle for UAB and more than ten nongovernmental organizations. PLTF covers liabilities of the covered parties, including UAB, arising from reported claims, claims that are incurred but not reported, and future costs of handling these claims. The liabilities are generally based on present value actuarial valuations discounted using interest rates from 2% to 5%. The discount rate used in 2009 and 2008 was 2% and 4%, respectively. The associated risks of claims are subject to aggregate limits, with excess liability coverage provided by independent insurers to protect participants against losses should a claim arise that exceeds PLTF coverage limits. Although UAB is the sponsor of PLTF, it is not the predominant

participant in the fund.

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

The PLTF agreement requires 10% of all PLTF assets to be held in liquid assets. At September 30, 2009 and 2008, the liquid assets of the PLTF, as defined by the agreement, were in compliance with the agreement.

General liability is subject to various claims and aggregate limits, with excess liability coverage provided

by an independent insurer. General liability and employee health care claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Those losses include an estimate of claims that have been incurred but not reported and the future costs of handling claims. The general liability liabilities are generally based on actuarial valuations and are reported at presented value. The discount rate used for the general liability was 2% and 4% in 2009 and 2008, respectively.

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

Changes in the total self-insured liabilities for the year ended September 30, 2009 and 2008 are presented as follows for UAB:

| SELF INSURED LIABILITIES                 | 2009      |                   | 2008      |                   |
|--|-----------|-------------------|-----------|-------------------|
| Balance, beginning of year               | \$        | 14,660,238        | \$        | 9,016,871         |
| Claims incurred and changes in estimates |           | 56,707,928        |           | 56,286,745        |
| Claim payments                           |           | (56,516,005)      |           | (50,643,378)      |
| <b>BALANCE, END OF YEAR</b>              | <b>\$</b> | <b>14,852,161</b> | <b>\$</b> | <b>14,660,238</b> |

## (20) Contingencies

UAB has sovereign immunity and is, therefore, in the opinion of UAB counsel, immune to ordinary tort actions including those based on medical malpractice or general injury to patients. Consequently, while UAB is sometimes named as defendant in malpractice actions and other actions for injuries arising in the Hospital, it has consistently been dismissed from those lawsuits on the basis of the sovereign immunity doctrine. That doctrine also protects UAB from vicarious liability arising from the negligence of its employees. While UAB is not aware of any impending threat to this doctrine, UAB is a named insured under the terms of the PLTF and GLTF and excess insurance purchased from commercial companies (Note 19). There are some exceptions to the sovereign immunity doctrine, most notably federal court cases arising under the federal constitution or federal statutes.

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

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

SRI is involved in an environmental remediation site where SRI voluntarily elected to clean up the site in accordance with applicable federal and state laws. Additionally, SRI has voluntarily elected to decommission a laboratory facility formerly used for projects involving toxic agents. Uncertainties about the status of laws and regulations, technology, the magnitude of possible contamination and the extent of the correction actions make it difficult to develop estimates of probable future remediation and decommissioning costs. While the actual costs of remediation and decommissioning may vary from management's estimates because of these uncertainties, SRI has accrued \$181,000 at September 30, 2009 and

\$308,000 at September 30, 2008, respectively, included in accounts payable and accrued liabilities in the accompanying statement of net assets, based on management's best estimate of the exposures.

As stated in Note 1, effective July 31, 2007, SRI sold all of the capital stock of its wholly owned subsidiary, Brookwood Pharmaceuticals, Inc. (Brookwood), to Surmodics, Inc. (Surmodics) pursuant to the terms of a stock purchase agreement between SRI and Surmodics (the Purchase Agreement). Surmodics paid to SRI \$40 million in cash at the closing of the transaction and agreed to pay SRI up to \$22 million of additional consideration (the Contingent Consideration), of which SRI received approximately \$1,700,000 during 2009, based on the achievement of certain revenue and project milestones by certain dates in the future. The last of these milestones must be achieved on or before December 31, 2011.

Approximately 12.73 % of any Contingent Consideration received by SRI will be owed to individuals who were employed by Brookwood as of the date of the Purchase Agreement.

See note 2 for discussion of the guarantee of the UAB Highlands debt.

See note 24 for discussion of University and UABRF subsequent events.

## (21) Operating Expenses by Function

Total operating expenses by functional classification for the years ended September 30, 2009 and 2008 are as follow for UAB:

| <b>September 30, 2009</b>           | <b>SALARIES, WAGES, AND BENEFITS</b> | <b>SUPPLIES AND SERVICES</b> | <b>DEPRECIATION AND AMORTIZATION</b> | <b>SCHOLARSHIPS AND FELLOWSHIPS</b> | <b>TOTAL</b>            |
|-------------------------------------|--------------------------------------|------------------------------|--------------------------------------|-------------------------------------|-------------------------|
| Instruction                         | \$ 204,730,310                       | \$ 27,190,092                |                                      |                                     | \$ 231,920,402          |
| Research                            | 206,667,598                          | 107,262,441                  |                                      |                                     | 313,930,039             |
| Public service                      | 47,322,161                           | 28,385,129                   |                                      |                                     | 75,707,290              |
| Academic support                    | 109,548,674                          | 305,557,956                  |                                      |                                     | 415,106,630             |
| Student services                    | 14,167,763                           | 7,876,959                    |                                      |                                     | 22,044,722              |
| Institutional support               | 67,864,263                           | 20,749,664                   |                                      |                                     | 88,613,927              |
| Operations and maintenance of plant | 27,944,655                           | 35,919,329                   |                                      |                                     | 63,863,984              |
| Scholarships and fellowships        |                                      |                              |                                      | \$ 20,733,767                       | 20,733,767              |
| Hospital                            | 460,201,642                          | 358,225,050                  |                                      |                                     | 818,426,692             |
| Auxiliary                           | 15,503,297                           | 15,207,536                   |                                      |                                     | 30,710,833              |
| Depreciation and amortization       |                                      |                              | \$ 115,131,432                       |                                     | 115,131,432             |
| <b>TOTAL OPERATING EXPENSES</b>     | <b>\$ 1,153,950,363</b>              | <b>\$ 906,374,156</b>        | <b>\$ 115,131,432</b>                | <b>\$ 20,733,767</b>                | <b>\$ 2,196,189,718</b> |

| <b>September 30, 2008</b>           | <b>SALARIES, WAGES, AND BENEFITS</b> | <b>SUPPLIES AND SERVICES</b> | <b>DEPRECIATION AND AMORTIZATION</b> | <b>SCHOLARSHIPS AND FELLOWSHIPS</b> | <b>DISCONTINUED OPERATIONS</b> | <b>TOTAL</b>            |
|-------------------------------------|--------------------------------------|------------------------------|--------------------------------------|-------------------------------------|--------------------------------|-------------------------|
| Instruction                         | \$ 212,062,367                       | \$ 32,170,657                |                                      |                                     |                                | \$ 244,233,024          |
| Research                            | 198,072,997                          | 107,743,002                  |                                      |                                     | \$ 11,380,047                  | 317,196,046             |
| Public service                      | 47,991,239                           | 41,557,777                   |                                      |                                     |                                | 89,549,016              |
| Academic support                    | 106,812,159                          | 278,527,827                  |                                      |                                     |                                | 385,339,986             |
| Student services                    | 14,555,508                           | 9,218,711                    |                                      |                                     |                                | 23,774,219              |
| Institutional support               | 69,011,335                           | 22,640,409                   |                                      |                                     |                                | 91,651,744              |
| Operations and maintenance of plant | 30,103,700                           | 28,910,030                   |                                      |                                     |                                | 59,013,730              |
| Scholarships and fellowships        |                                      |                              |                                      | \$ 20,498,768                       |                                | 20,498,768              |
| Hospital                            | 456,032,605                          | 356,313,973                  |                                      |                                     |                                | 812,346,578             |
| Auxiliary                           | 15,784,995                           | 15,552,281                   |                                      |                                     |                                | 31,337,276              |
| Depreciation and amortization       |                                      |                              | \$ 111,343,621                       |                                     |                                | 111,343,621             |
| <b>TOTAL OPERATING EXPENSES</b>     | <b>\$ 1,150,426,905</b>              | <b>\$ 892,634,667</b>        | <b>\$ 111,343,621</b>                | <b>\$ 20,498,768</b>                | <b>\$ 11,380,047</b>           | <b>\$ 2,186,284,008</b> |

## (22) Segment Reporting

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

Condensed financial statement information related to the University and Hospital for the years ended September 30, 2009 and 2008 is as follows:

| UNIVERSITY   | 2009                    | 2008                    |
|--|-------------------------|-------------------------|
| <b>CONDENSED STATEMENT OF NET ASSETS</b>                                   |                         |                         |
| Current assets   | \$ 321,556,315          | \$ 290,673,062          |
| Capital assets, net  | 766,648,239             | 789,891,751             |
| Other assets   | 549,723,462             | 584,917,770             |
| <b>TOTAL ASSETS</b>  | <b>\$ 1,637,928,016</b> | <b>\$ 1,665,482,583</b> |
| Current liabilities  | \$ 191,714,455          | \$ 190,416,264          |
| Long-term debt   | 213,510,754             | 229,640,276             |
| Other noncurrent liabilities   | 16,261,897              | 16,309,098              |
| <b>TOTAL LIABILITIES</b>   | <b>\$ 421,487,106</b>   | <b>\$ 436,365,638</b>   |
| Invested in capital net of related debt                                    | \$ 537,738,503          | \$ 546,061,114          |
| Restricted nonexpendable   | 223,544,538             | 222,169,131             |
| Restricted expendable  | 164,740,433             | 164,281,871             |
| Unrestricted   | 290,417,436             | 296,604,829             |
| <b>TOTAL NET ASSETS</b>  | <b>\$ 1,216,440,910</b> | <b>\$ 1,229,116,945</b> |
| <b>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</b> |                         |                         |
| Tuition and fees, net  | \$ 89,433,794           | \$ 77,573,931           |
| Grant and contract revenue   | 382,974,216             | 389,085,457             |
| Sales and services, auxiliary  | 19,442,032              | 19,018,981              |
| Other operating revenues   | 102,213,173             | 98,989,551              |
| Salaries, wages, and benefits  | (635,922,614)           | (639,904,393)           |
| Supplies and services  | (238,041,048)           | (251,125,286)           |
| Depreciation expense   | (66,452,790)            | (63,116,441)            |
| Scholarships and fellowships   | (20,733,767)            | (20,498,768)            |
| <b>OPERATING LOSS</b>  | <b>\$ (367,087,004)</b> | <b>\$ (389,976,968)</b> |
| State appropriations   | 248,446,253             | 311,931,425             |
| Investment income (loss)   | 8,493,991               | (88,013,023)            |
| Interest expense   | (9,795,868)             | (9,627,324)             |
| Gifts  | 30,500,828              | 28,018,234              |
| Other nonoperating revenues(expenses)                                      | 23,771,588              | 27,307,698              |
| <b>LOSS BEFORE OTHER CHANGES IN NET ASSETS</b>                             | <b>\$ (65,670,212)</b>  | <b>\$ (120,359,958)</b> |
| Capital gifts  | \$ 255,745              | \$ 8,085,085            |
| Endowment gifts  | 5,704,258               | 5,235,022               |
| Other  | 11,151,648              | 14,554,233              |
| Intergovernmental transfers  | 35,882,526              | 42,843,757              |
| <b>DECREASE IN NET ASSETS</b>  | <b>\$ (12,676,035)</b>  | <b>\$ (49,641,861)</b>  |
| Net assets, beginning of year  | \$ 1,229,116,945        | \$ 1,278,758,806        |
| <b>NET ASSETS, END OF YEAR</b>   | <b>\$ 1,216,440,910</b> | <b>\$ 1,229,116,945</b> |
| <b>CONDENSED STATEMENT OF CASH FLOWS</b>                                   |                         |                         |
| Net cash provided (used) by:   |                         |                         |
| Operating activities   | \$ (306,268,636)        | \$ (319,224,964)        |
| Noncapital financing activities  | 352,252,060             | 446,063,886             |
| Capital and related financing activities                                   | (57,770,798)            | (80,762,709)            |
| Investing activities   | 62,339,910              | (46,828,270)            |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                | <b>\$ 50,552,536</b>    | <b>\$ (752,057)</b>     |
| Cash and cash equivalents, beginning of year                               | \$ 58,572,834           | \$ 59,324,891           |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                              | <b>\$ 109,125,370</b>   | <b>\$ 58,572,834</b>    |

**HOSPITAL****2009****2008****CONDENSED STATEMENT OF NET ASSETS**

|                     |                         |                         |
|---------------------|-------------------------|-------------------------|
| Current assets      | \$ 184,346,878          | \$ 180,802,069          |
| Capital assets, net | 627,302,069             | 600,968,867             |
| Other assets        | 494,644,916             | 504,785,825             |
| <b>TOTAL ASSETS</b> | <b>\$ 1,306,293,863</b> | <b>\$ 1,286,556,761</b> |

|                              |                       |                       |
|------------------------------|-----------------------|-----------------------|
| Current liabilities          | \$ 74,337,839         | \$ 89,775,003         |
| Long-term debt               | 474,820,364           | 482,493,762           |
| Other noncurrent liabilities | 13,142,272            |                       |
| <b>TOTAL LIABILITIES</b>     | <b>\$ 562,300,475</b> | <b>\$ 572,268,765</b> |

|   |                       |                       |
|---|-----------------------|-----------------------|
| Invested in capital net of related debt | \$ 152,345,231        | \$ 133,171,058        |
| Restricted nonexpendable                | 128,099               | 128,099               |
| Restricted expendable                   | 26,232,057            | 27,617,956            |
| Unrestricted                            | 565,288,001           | 553,371,883           |
| <b>TOTAL NET ASSETS</b>                 | <b>\$ 743,993,388</b> | <b>\$ 714,288,996</b> |

**CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

|                         |                      |                      |
|-------------------------|----------------------|----------------------|
| Operating revenues      | \$ 892,570,961       | \$ 865,462,798       |
| Operating expenses      | (818,426,692)        | (812,346,578)        |
| Depreciation expense    | (42,823,257)         | (42,641,507)         |
| <b>OPERATING INCOME</b> | <b>\$ 31,321,012</b> | <b>\$ 10,474,713</b> |

|   |                      |                        |
|---|----------------------|------------------------|
| State appropriations                                    | 36,498,504           | 46,157,526             |
| Investment Income                                       | 6,302,225            | (53,693,984)           |
| Interest Expense  | (17,546,626)         | (17,638,303)           |
| Gifts   | 480,774              | 375,301                |
| Other Nonoperating revenues(expenses)                   | (180,559)            | (1,360,231)            |
| <b>INCOME (LOSS) BEFORE OTHER CHANGES IN NET ASSETS</b> | <b>\$ 56,875,330</b> | <b>\$ (15,684,978)</b> |

|  |                      |                        |
|--|----------------------|------------------------|
| Capital and endowment gifts              | \$ 3,420,875         | \$ 1,556,792           |
| Other                                    | 863,186              |                        |
| Intergovernmental transfers              | (31,454,999)         | (33,223,948)           |
| <b>INCREASE (DECREASE) IN NET ASSETS</b> | <b>\$ 29,704,392</b> | <b>\$ (47,352,134)</b> |

|                                |                       |                       |
|--------------------------------|-----------------------|-----------------------|
| Net assets, beginning of year  | \$ 714,288,996        | \$ 761,641,130        |
| <b>NET ASSETS, END OF YEAR</b> | <b>\$ 743,993,388</b> | <b>\$ 714,288,996</b> |

**CONDENSED STATEMENT OF CASH FLOWS**

|   |                      |                         |
|---|----------------------|-------------------------|
| Net cash provided (used) by:                                |                      |                         |
| Operating activities  | \$ 28,294,901        | \$ 96,857,132           |
| Noncapital financing activities                             | (7,420,276)          | 9,170,879               |
| Capital and related financing activities                    | (92,183,986)         | (136,473,434)           |
| Investing activities  | 106,068,658          | (79,564,754)            |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>\$ 34,759,297</b> | <b>\$ (110,010,177)</b> |
| Cash and cash equivalents, beginning of year                | 27,480,902           | 137,491,079             |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>               | <b>\$ 62,240,199</b> | <b>\$ 27,480,902</b>    |

## (23) Recently Issued Pronouncements

GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued by the GASB in July 2004. This statement requires governmental entities to recognize and match other post employment benefit costs, for example health and life insurance expense, with related services received and also to provide information regarding the actuarial accrued liability and funding level of the benefits associated with past services. GASB Statement No. 45 is effective for financial statement periods beginning after December 15, 2006. UAB adopted GASB Statement No. 45 as of October 1, 2007. The impact of GASB Statement No. 45 includes increases to operating expense and liabilities. Refer to Note 12 for additional information. Most retirees elect to participate in the State-sponsored PEEHIP (Note 12) which is a multi-employer plan. GASB Statement No. 45 did not materially affect UAB's accounting for the PEEHIP.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was issued by the GASB in December 2006. This statement requires that governments provide more detailed information regarding the effect of environmental cleanups and will be effective for financial periods beginning after December 15, 2007. UAB adopted GASB Statement No. 49 as of October 1, 2009. The adoption of this statement had no material impact on UAB's financial statements.

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

in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The statement is effective for financial statements for periods beginning after June 15, 2009. The provisions of this statement generally are required to be applied retroactively. UAB is currently evaluating the impact that GASB Statement No. 51 will have on its financial statements.

The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, in November 2007. Accounting standards have historically required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes—pension and other postemployment benefit plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans—however, report land and other real estate held as investments at their fair value. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The statement is effective for financial statements for periods beginning after June 15, 2008. UAB adopted GASB Statement No. 52 as of October 1, 2008. The adoption of this statement had no material impact on UAB's financial statements.

The GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in June 2008. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this statement is that derivative instruments cov-

ered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. UAB adopted GASB Statement No. 53 as of October 1, 2009. The adoption of this statement had no material impact on UAB's financial statements.

The GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, in March 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. UAB is currently evaluating the impact, if any, that GASB 54 will have on its financial statements.

The GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, in March 2009. This statement was effective upon issuance. The objective of this statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. The GASB does not expect that this statement will result in a change of current practice. UAB adopted GASB Statement No. 55 effective March 2009. The adoption of this statement had no material impact on UAB's financial statements.

The GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, in March 2009. This statement was effective upon issuance. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statement on Auditing Standards. This statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. UAB adopted GASB Statement No. 56 effective March 2009. The adoption of this statement had no material impact on UAB's financial statements.

## (24) Subsequent Events

The State of Alabama declared proration of 7.5% effective October 1, 2009. The impact of this declaration on the University totaled a \$20.6 million reduction in appropriations from the State Legislature. In the past, when proration was announced by the State, the University responded by modifying amounts budgeted for contingency purposes, applying unrestricted fund balances carried over from previous years, deferring equipment purchases, reducing operational expenses, not filling vacant positions and increasing tuition. The University will adjust for this and future prorations, if any, by taking similar action.

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

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

**The University of Alabama at Birmingham**  
**Required Supplementary Information**  
**September 30, 2009 and 2008**

**Required Supplementary Information**

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

**Actuarial Methods and Assumptions**

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

Significant actuarial methods and assumptions used in the valuation were :

- actuarial valuation date, October 1, 2007
- actuarial cost method-projected unit cost method;
- assumed return on investment of 7% per year, representing the return on UAB’s asset expected to be used to finance benefits;
- health care cost trend rate 8% and 9% for the years ended September 30, 2009 and 2008 respectively reduced by increments to an ultimate rate of 5% over eight years;
- amortization of the initial unfunded actuarial liability over 30 years on a level percent of pay method with payroll growth rate of 4.5%;

**Schedule of Funding Progress**

| RETIREE HEALTH AND LIFE INSURANCE PLAN |                             |                 |              |                        |                           |  |
|--|-----------------------------|-----------------|--------------|------------------------|---------------------------|--|
| Actuarial Value of Assets              | Actuarial Accrued Liability | (Deficit)       | Funded Ratio | Annual Covered Payroll | (Deficit)/Covered Payroll |  |
| None                                   | \$ 53,920,021               | \$ (53,920,021) | Zero         | \$ 838,658,508         | -6.4%                     |  |
| None                                   | \$ 53,739,237               | \$ (53,739,237) | Zero         | \$ 837,241,519         | -6.4%                     |  |

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As of September 30, 2009



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As of September 30, 2009

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