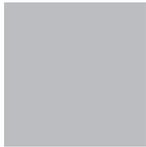




2008 Financial Report

The University of
Alabama at Birmingham



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

This report is published by the UAB
Vice President for Financial Affairs and Administra-
tion. Obtain additional copies by writing:

Vice President for Financial Affairs and Administration
The University of Alabama at Birmingham
Birmingham, Alabama 35294



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Introduction to UAB

The University of Alabama at Birmingham (UAB) was established as a separate campus of The University of Alabama System (the System) in 1966. Three years later, it was given greater autonomy within the System with its own president. Since then, it has grown to become the largest of the three System campuses, with an operating budget of \$2.18 billion. With over 17,300 students, UAB awarded more than 3,000 degrees and certificates during the 2006-2007 academic year. UAB is located in the heart of Alabama's largest metropolitan area, occupying more than 12.8 million square feet in more than 100 major buildings spread across nearly 80 blocks in the downtown area of Birmingham. Including its 908-bed hospital, the University of Alabama Hospital (the Hospital), UAB employs more than 18,200 people, making it one of the largest employers in Alabama.

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

2008 Overview

In fiscal year 2008, UAB opened its first new academic building on the western portion of campus in approximately 30 years. Heritage Hall, located on the northwest corner of the Campus Green on University Boulevard and 14th Street, houses programs within the School of Social and Behavioral science, as well as labs for mathematics and communication studies and faculty offices.

Construction continues on the new women and infants' center. In this facility, UAB will be one of the first hospitals in the Southeast to offer single room Neonatal ICU care in one of the largest units in the country, with 55 RNICU beds, 52 CCN beds and family space in each room. All patient rooms in the center will be private, with

Internet access and daybeds for family members. There also will be dedicated classroom space for community education programs.

UAB maintained its strong position among the top funded research institutions in the nation. The university received nearly \$400 million in total research funding, of which approximately \$300 million coming from federal sources. Of note, UAB received a new five-year \$26.9 million grant to accelerating the pace of turning fundamental scientific discoveries into practical applications that enhance the lives of Alabamians. It is one of the largest single grants from the National Institutes of Health (NIH) in UAB's history. The funds will be used to establish the Center for Clinical and Translational Sciences (CCTS) at UAB. A key focus of the grant is increasing interaction between UAB researchers and the community, and among researchers at UAB and elsewhere, to share information about community needs and available resources, and to enhance collaboration. This new approach to how research is viewed and conducted builds upon UAB's tradition of interdisciplinary work.

UAB raised \$88.6 million in gifts and pledges this past fiscal year, some 4.9 percent more than the year's \$84.5 million goal – and only slightly less than the university's historical best of \$91.5 million in the previous year. In the past five years, UAB has not been in a public campaign, but has continued to raise private funds aggressively in its Maintaining the Momentum initiative. However, UAB did more than maintain the fundraising momentum from its most successful comprehensive campaign, The Campaign for UAB –it exceeded the total amount raised during that drive. UAB raised \$392.4 million since the Maintaining the Momentum effort began in 2004, while The Campaign for UAB raised \$388.7 million between 1998-2003. The

Maintaining the Momentum initiative exceeded its five-year goal by 6.2 percent.

Vision

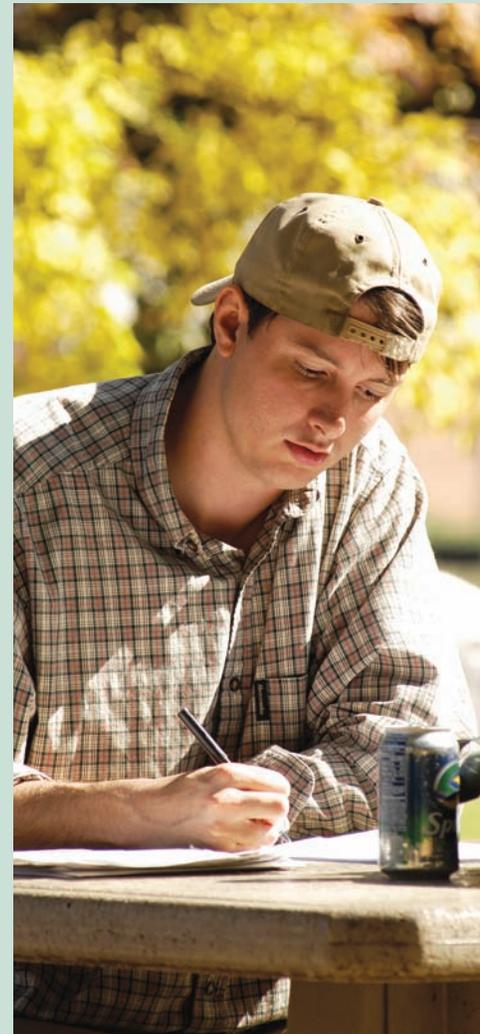
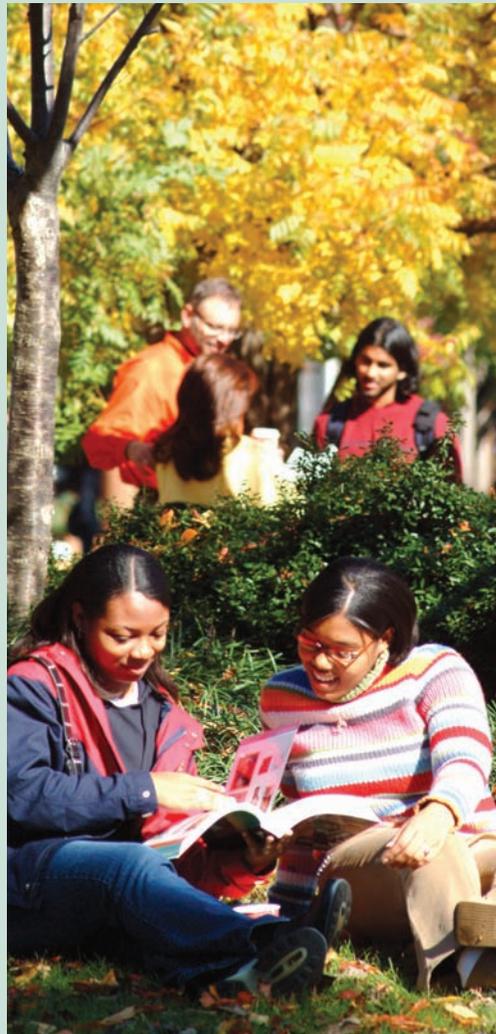
The University of Alabama at Birmingham shall be an internationally renowned research university—a first choice for education and healthcare.

Mission

As an urban research university and academic health center, UAB is committed to the discovery, dissemination, and application of knowledge as a fundamental path to success and to the enhance-

ment of people throughout the world. In so doing, UAB has an enduring commitment to teaching, research and scholarship, creativity, and service to the community.

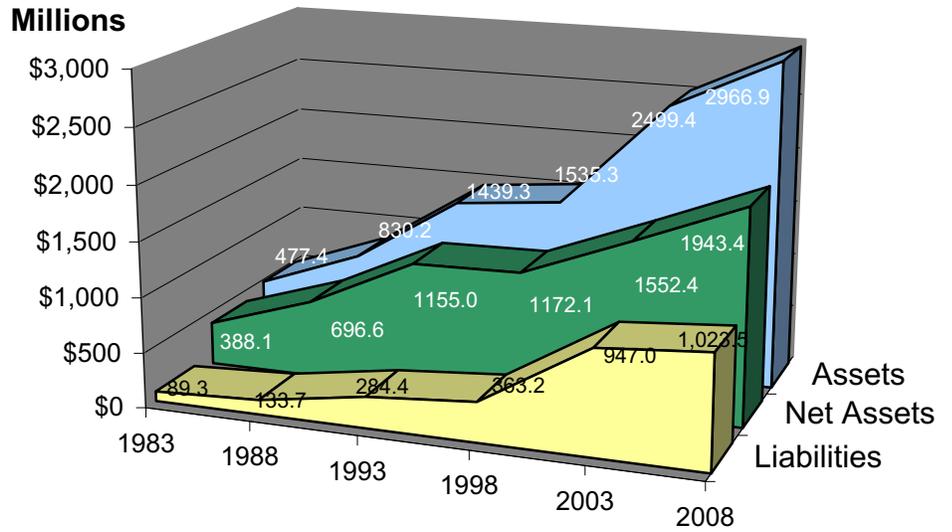
UAB's mission is carried out through its academic, research, and service programs. Undergraduate, graduate, and professional degree programs are offered through the schools of Arts and Humanities, Business, Dentistry, Education, Engineering, Health Professions, Medicine, Natural Sciences and Mathematics, Nursing, Optometry, Public Health, and Social and Behavioral Sciences, as well as the UAB Graduate School.



Financial Highlights

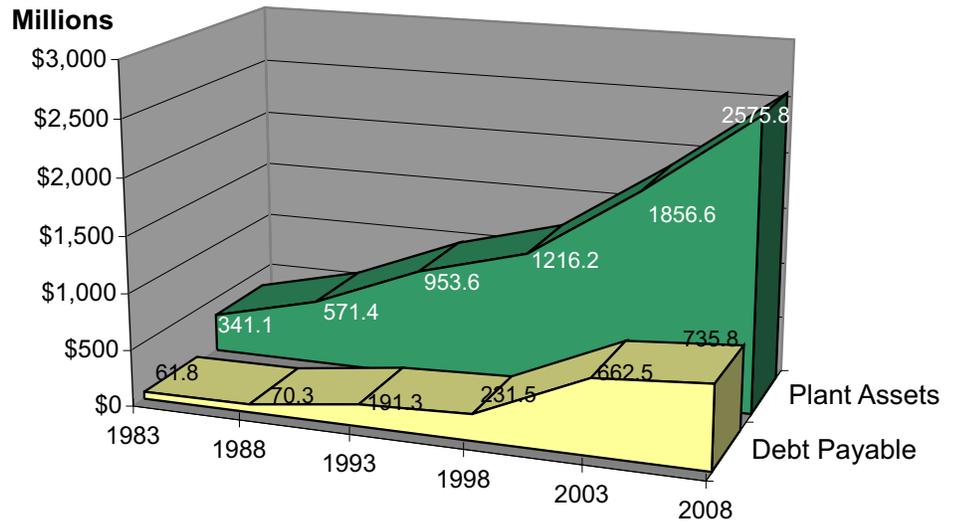
Assets and Liabilities

Since 1983 UAB's assets have increased by \$2.5 billion, while liabilities increased by only \$1.0 billion. Net assets grew during this time period by \$1.5 billion.



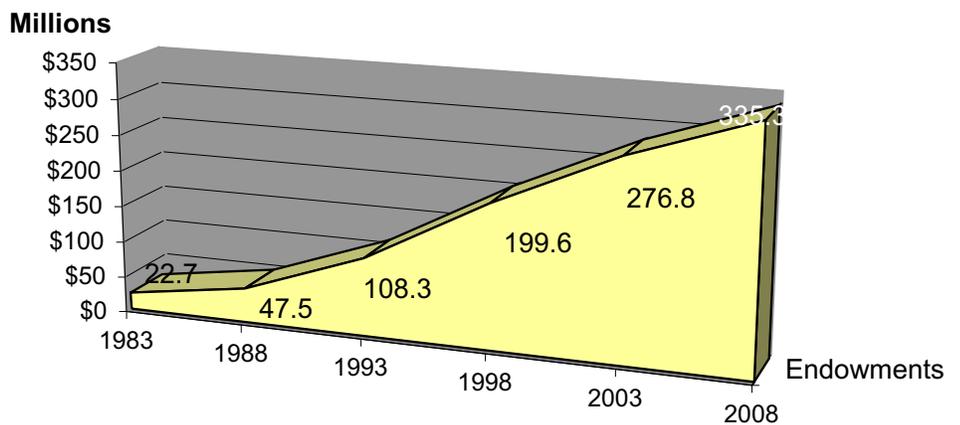
Capital Expansion

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 1983 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 \$22.7 million to \$335.3 million over the past 25 years reflects the commitment of the community to UAB's ongoing success and sound investment program.



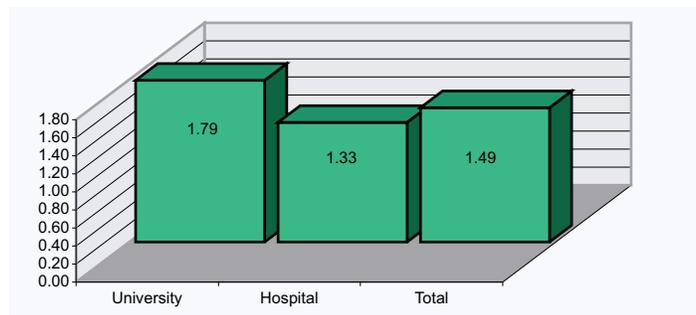
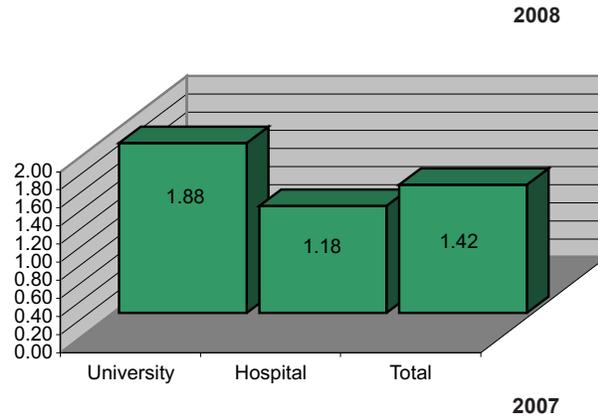
Financial Ratios

The following selected ratios, calculated for the years ended September 30, 2008 and 2007, 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

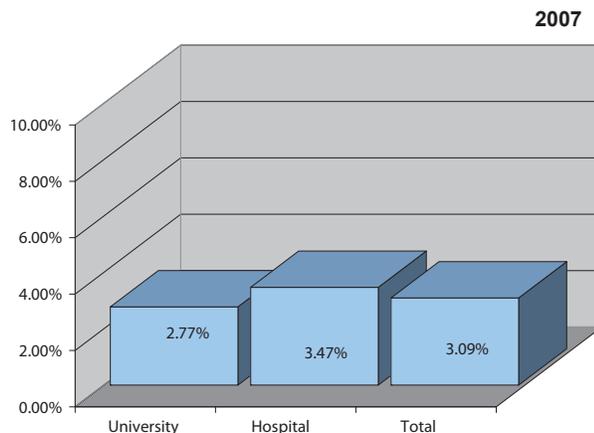
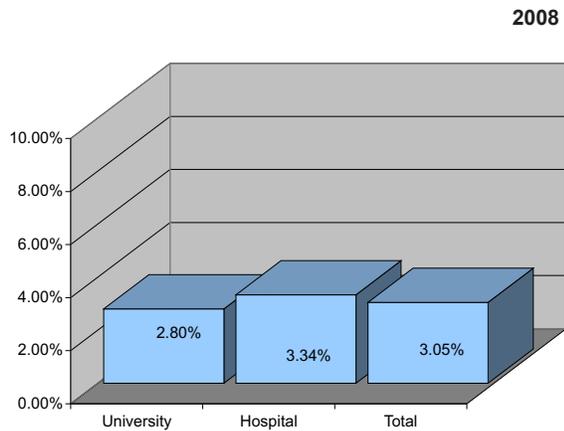
This ratio indicates the relative liquidity of the institution. A ratio of 1:1 or greater indicates that an institution has sufficient liquid assets to satisfy all related liabilities. A ratio of less than 1:1 means that there would not be sufficient liquid assets to satisfy all debts as of the reporting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

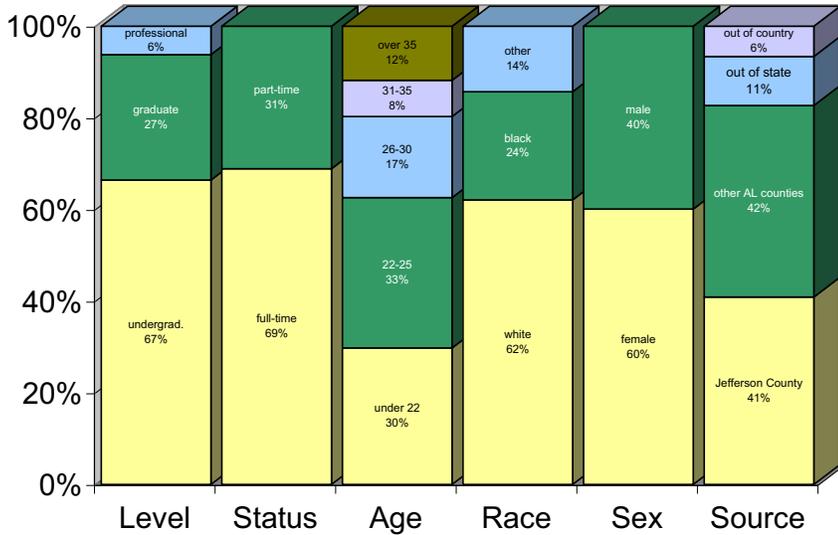


Ratio of Actual Debt Service to Operations

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 16,246
As of Fall 2007

Excludes Advanced Professionals

Student Financial Aid

In fiscal year 2008, 65.4% of UAB's students received student financial aid from UAB. Financial aid disbursements of \$146.0 million were provided from the following sources:

Federal Government	
Student Loans	\$ 92,297,105
Grants	10,465,854
Work-Study	<u>951,534</u>
Subtotal Federal	\$ 103,714,493
State Government	\$ 949,789
University	
Loans	\$ 275,491
Scholarships	<u>41,066,720</u>
Subtotal University	\$ 41,342,211
Total	\$ <u>146,006,493</u>

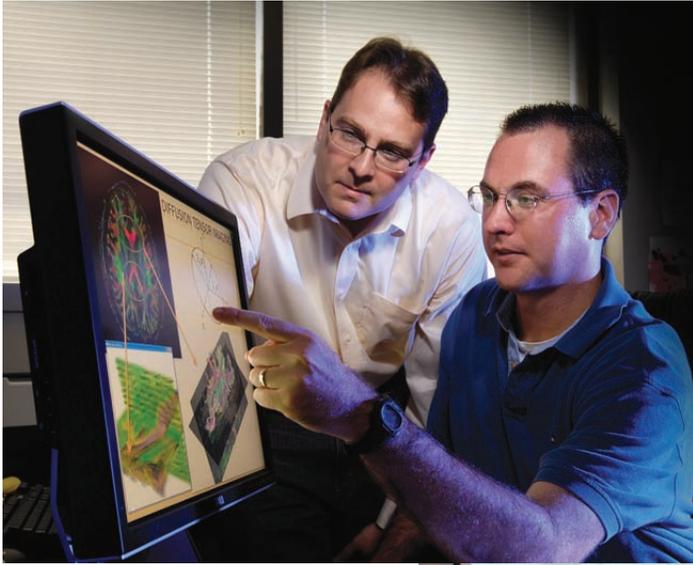


Student Headcount

Enrollment for the fall semester of the 2007-2008 school year is outlined in the table at right.

Fall 2007	Undergraduate	Graduate	Professional*	Total
School of Arts and Humanities	1,346	94		1,440
School of Business	1,536	357		1,893
School of Education	788	786		1,574
School of Engineering	680	229		909
School of Natural Sciences and Mathematics	1,490	190		1,680
School of Social and Behavioral Sciences	1,706	216		1,922
Unclassified	1,744	432		2,176
Subtotal	9,290	2,304		11,594
Academic Health Center				
School of Medicine			1,592	1,592
School of Dentistry	22	3	315	340
School of Optometry		25	178	203
School of Nursing	385	475		860
School of Health Related Professions	1,099	775		1,874
School of Public Health		426		426
Joint Health Sciences		441		441
Subtotal Academic Health Center	1,506	2,145	2,085	5,736
Total Enrollment	10,796	4,449	2,085	17,330

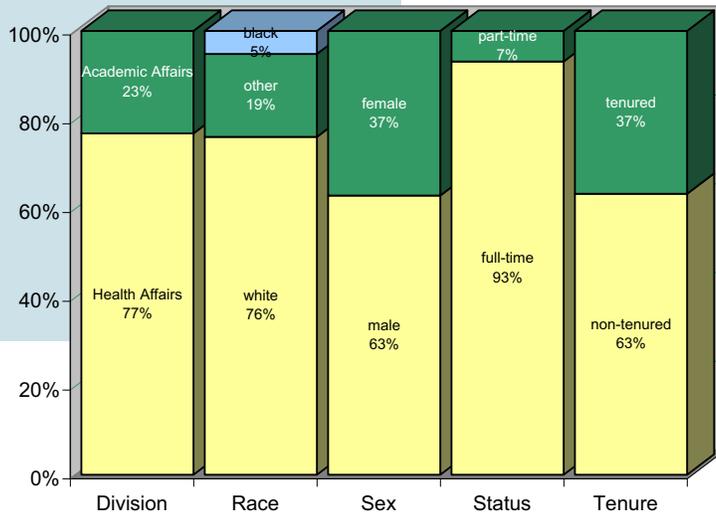
* Includes 1,001 first professionals and 1,084 advanced professionals



Faculty Profile

Total 2,248

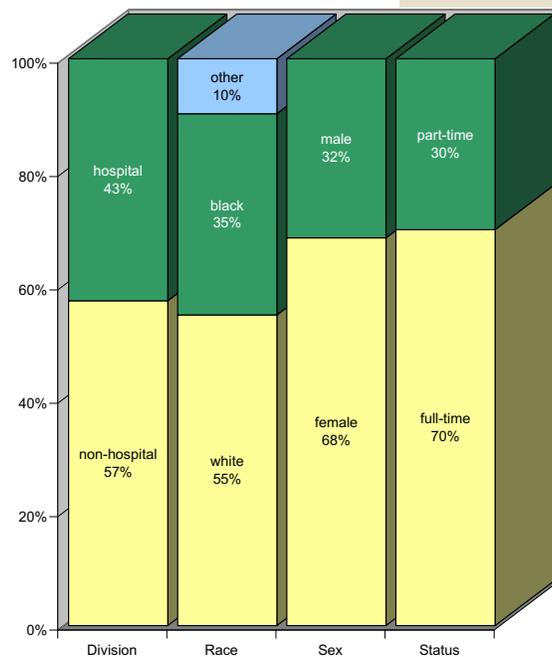
As of Fall 2007



Staff Profile

Total 16,560

As of Fall 2007



State Appropriations

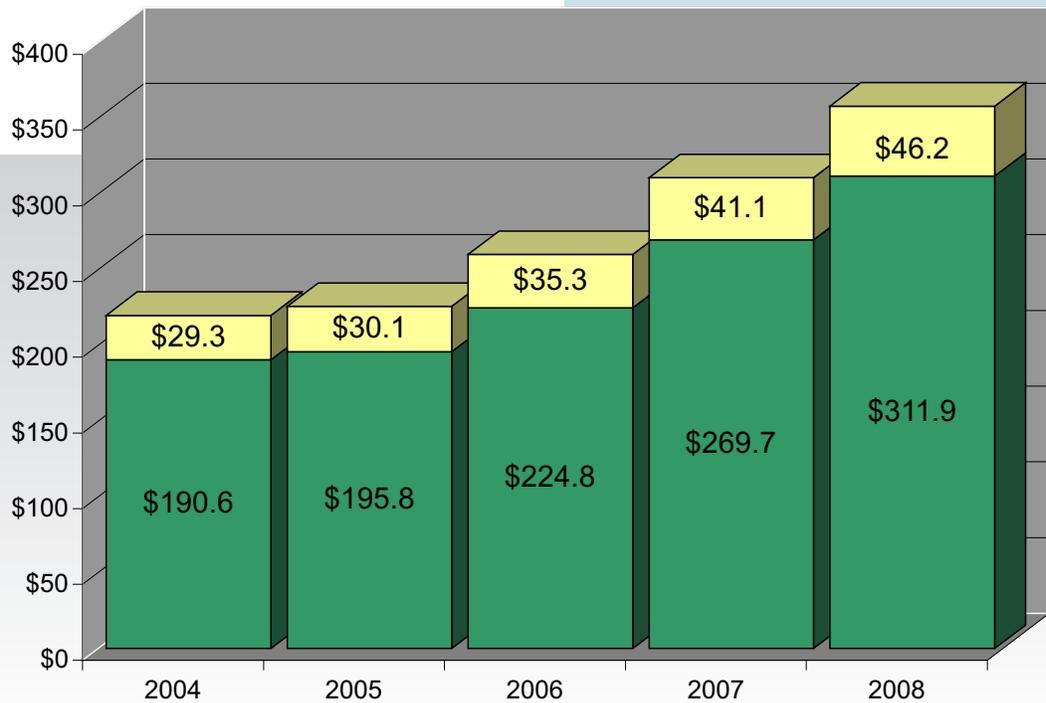
The State appropriations for UAB are made by the Alabama State Legislature based upon a process which involves requests from the Board of Trustees of The University of Alabama, and budget recommendations by the Alabama Commission on Higher Education and the Governor. State funds are appropriated annually from the Educational Trust Fund (ETF) to UAB. For the fiscal year ended September 30, 2008, UAB received direct funding from the ETF in the amount of \$358,088,951.

Appropriations Received

Fiscal years ended September 30

(Dollars in millions)

■ Hospital ■ University



Sponsored Grants and Contracts

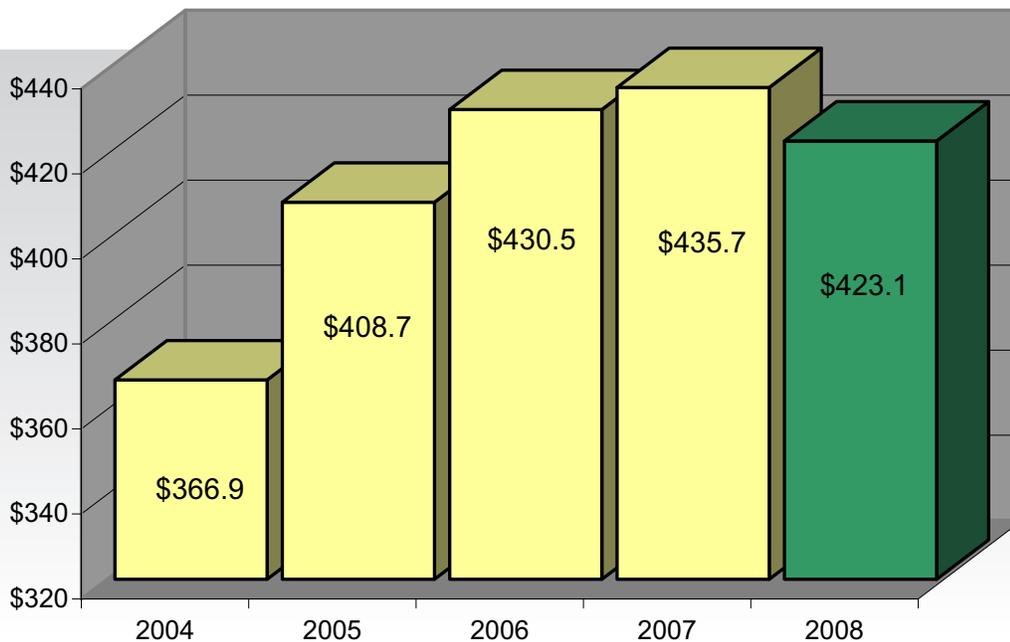
During fiscal year 2008, UAB received \$423 million in sponsored grants and contracts revenues (including \$83.1 million of indirect cost recovery). Various federal agencies provided the majority of support for these projects, with the National Institutes of Health (NIH) being the primary sponsor. Nonfederal 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 \$366.9 million during 2004 to \$423.1 million during 2008, an increase of 15.3% for the period.

Grants and Contracts Revenues

Fiscal years ended September 30

(Dollars in millions)



Hospital

The University of Alabama Hospital (the "Hospital") is a 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 17th consecutive year, *U.S. News and World Report* ranked the Hospital among America's best, the only Alabama medical center on this prestigious list. Nine UAB Hospital specialty programs made the nation's top 50 and five specialty programs are ranked among the top 25 in this year's annual "America's Best Hospitals" issue. The magazine evaluated 16 categories at 5,462 hospitals. Only 3% or 173 hospitals were ranked in one or more specialties in 2007. The Hospital has also been awarded the Consumer Choice Award of the National Research Corporation for 2008 and 2007, making it the only hospital in Birmingham among the national 250 top hospitals in terms of consumer perception of quality and image. Additionally, the Hospital was chosen first runner-up in the Hospital of the Year Award, according to the American Alliance of Healthcare Providers, which ranks accredited hospitals based on their consumer friendliness, care-related performance and other professional standards.

"Best Doctors In America" included 277 UAB physicians on its 2008 list comprising

approximately 60% of all specialists from the Birmingham metropolitan area in the current Best Doctors database.

In 2007, the Hospital's Heart Transplant Intensive Care Unit (HTICU) received a Beacon Award. The Beacon Awards are given by the American Association of Critical Care Nurses to recognize critical care units that have demonstrated superior quality outcomes and that also support and sustain a culture of excellence. The HTICU was the only winner of a Beacon Award in the State of Alabama.

Operations

During the third quarter of fiscal year 2008, the Hospital completed phase one of the process to replace its core clinical information system which enhances delivery of patient care by simplifying many workflow processes. Areas addressed include patient care alerts, order entry and management functions, standardized clinical documentation, accurate medication administration management, pharmacy requirements and streamlined medical record maintenance. The new system improves communication among clinical staff, ensures continuity of care across



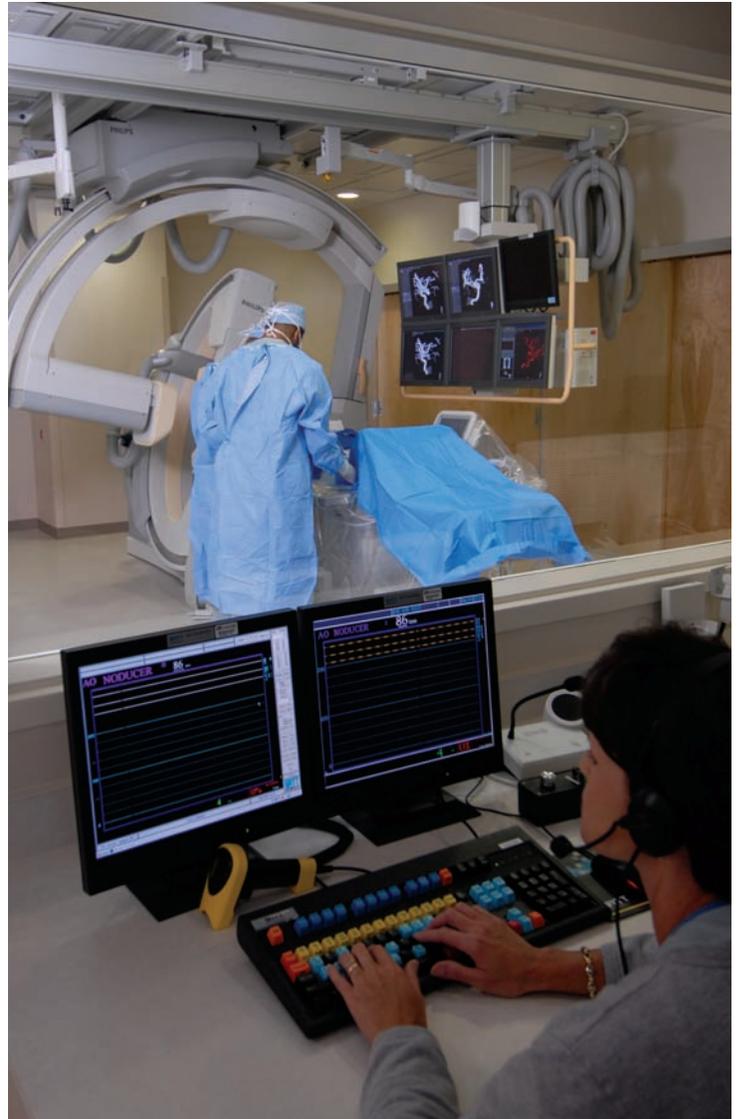


Health System settings, enhances patient safety, and supports regulatory compliance.

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). Currently under construction, this 640,000 square foot facility will house obstetrics and gynecology, neonatology, and radiation oncology services. The project is on schedule for completion in spring 2010.

Selected Hospital operating statistics are outlined below:

	2008	2007
Beds in service	908	908
Patient discharges	41,802	43,505
Adjusted patient discharges	53,181	54,174
Patient days	290,908	286,806
Adjusted patient days	370,159	357,156
Operating room cases	22,846	22,205
Emergency department visits	54,654	58,760
Patient origin:		
Jefferson County	44.9%	45.5%
Other Alabama counties	47.2%	46.0%
Out of state	7.9%	8.5%



Management's Responsibility for Financial Reporting

The accompanying financial statements of the University of Alabama at Birmingham (UAB) for the years ended September 30, 2008 and 2007, 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 Finance Committee, monitors the financial and accounting operations of the institution, including the review and discussion of periodic financial statements and the evaluation and adoption of budgets. The Board of Trustees of The University of Alabama, through its Audit Committee, monitors the basis of engagement and reporting of independent auditors.



Richard L. Margison
Vice President for Financial Affairs
and Administration



Tricia Raczynski
Associate Vice President
for Financial Affairs

Report of Independent Auditors

To the Board of Trustees of The University of Alabama:

In our opinion, based 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, its financial position of UAB at September 30, 2008 and 2007, and its changes in financial position and cash flows thereof 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 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. For UAB's fiscal year 2007, we did not audit the financial statements of Southern Research Institute, which statements collectively represent 3%, 4%, and 4%, respectively, of the assets, net assets, and revenues of UAB at September 30, 2007 and for the year then ended. Those statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for Southern Research Institute for fiscal year 2008 and 2007, 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 12 to the financial statements, on October 1, 2007, UAB adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB Statement No. 45 requires UAB to recognize and match other postemployment benefit costs with related services received and disclose additional information.

As discussed in Note 1, these financial statements are intended to present the net assets, changes in financial position, and cash flows of only that portion 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 net assets of The University of Alabama System as of September 30, 2008 and 2007 and its changes in 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 19, 2009

Management's Discussion and Analysis

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, 2008 and 2007. 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. The comparative information for the year ended September 30, 2006 has not been revised for the presentation of the discontinued operations as discussed in the notes to the financial statements. 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, \$3.24, and \$3.07 billion at September 30, 2008, 2007, and 2006, a decrease of \$91.6 million or 2.8% from 2007 to 2008, primarily due to the decreasing values in conjunction with the investment market position as of September 30, 2008, and offset by continued expansion of capital assets and the growth in accounts receivable. The increase of \$165.2 million or 5.4% from 2006 to 2007 was primarily due to the continued expansion of capital assets, the growth in accounts receivable and increasing values in conjunction with the favorable investment market position as of September 30, 2007.

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.

Total liabilities decreased \$9.3 million or 0.8% from September 30, 2006 to September 30, 2007. The decrease results primarily from the reduction 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, 2008, 2007, and 2006, as follows:

	2008	2007	2006
Total operating revenues	\$ 1,840,453,375	\$ 1,731,179,958	\$ 1,622,833,450
Total operating expenses	\$ 2,186,284,008	\$ 2,089,951,082	\$ 1,921,171,393
Net operating loss	\$ (345,830,633)	\$ (358,771,124)	\$ (298,337,943)
Total nonoperating income, capital, endowment and other activities	290,896,590	533,225,629	384,332,164
(Decrease) increase in net assets	\$ (54,934,043)	\$ 174,454,505	\$ 85,994,221

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, 2008, 2007, and 2006, is as follows:

	2008	2007	2006
Assets			
Capital assets	\$ 1,442,380,901	\$ 1,357,730,432	\$ 1,313,828,421
Other assets	1,701,776,944	1,878,034,266	1,756,774,304
Total Assets	\$ 3,144,157,845	\$ 3,235,764,698	\$ 3,070,602,725
Liabilities and Net Assets			
Current liabilities	\$ 327,093,125	\$ 344,960,898	\$ 330,900,886
Noncurrent liabilities	728,867,193	747,672,230	771,024,774
Total Liabilities	\$ 1,055,960,318	\$ 1,092,633,128	\$ 1,101,925,660
Net assets	\$ 2,088,197,527	\$ 2,143,131,570	\$ 1,968,677,065
Total Liabilities and Net Assets	\$ 3,144,157,845	\$ 3,235,764,698	\$ 3,070,602,725

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, 2007, the major categories of current assets consist primarily of cash and cash equivalents, short-term investments, and accounts receivable, which totaled \$514.5 million of the \$554.7 million and increased \$25.6 million or 5.2% from 2006. The increase is a result primarily of growth in short term investments, offset by a decrease in accounts receivable.

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.

At September 30, 2007, total current liabilities of \$345.0 million consisted primarily of accounts payables, accrued payroll and related benefits, and deferred revenue, which totaled \$317.8 million, compared to \$304.6 million at September 30, 2006, an increase of \$13.2 million or 4.3% from 2006. The increase is a result of continued growth in expenditures and a change in estimate related to accrued vacation.

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.

UAB's endowment and life income investments increased \$63.5 million to \$402.6 million from September 30, 2006 to September 30, 2007. This increase resulted from net investment gains and the establishment of new endowment funds through gifts and creation of Board-designated quasi-endowments. UAB's endowment funds consist of both permanent and quasi-endowments.

At September 30, 2008, 2007, and 2006 respectively, UAB's investment in the Professional Liability Trust Fund (PLTF) and other long-term investments

totalled approximately \$57.9, \$55.1, and \$57.5 million. 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. The \$2.4 million decrease from 2006 to 2007 is a result of a decrease in investments held by the Component Units offset by an increase in the investment of the PLTF.

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 \$126.9 and \$129.0 million from September 30, 2007 to September 30, 2008 and from September 30, 2006 to September 30, 2007, respectively. This increase consists primarily of capital expenditures and capital additions totaling \$269.9 (offset primarily by \$143.0 in disposals) and \$181.9 (offset primarily by \$52.9 in disposals) in 2008 and 2007. 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 \$24.2 and \$33.9, debt proceeds of \$72.1 and \$41.1, and the remainder by UAB funds designated for capital purchases in 2008 and 2007, respectively.

Capital projects in process at September 30, 2008 include construction primarily of the new Radiation Oncology Facility and the new Womens and Infants Facility. Capital projects in process at September 30, 2007 include construction primarily of new academic, research space, 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 \$736.0,

\$754.5, and \$776.7 million at September 30, 2008, 2007, and 2006, respectively. The decrease in debt during 2008 and 2007 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, 2008, 2007, and 2006, are summarized as follows:

	2008	2007	2006
Invested in capital assets, net of related debt	\$ 730,562,480	\$ 693,214,101	\$ 660,652,839
Restricted			
Nonexpendable	222,397,230	276,466,236	231,136,993
Expendable	200,791,863	209,875,223	179,690,369
Unrestricted	934,445,954	963,576,010	897,196,864
Total Net Assets	\$ 2,088,197,527	\$ 2,143,131,570	\$ 1,968,677,065

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 \$37.4 and \$32.6 million increase in 2008 and 2007, 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 \$54.1 million decrease from 2007 to 2008 in restricted nonexpendable net assets results primarily from the net decrease in fair value of investments. The \$45.3 million increase from 2006 to 2007 in restricted nonexpendable net assets results from the net increase in fair value of investments and gifts. Restricted expendable net assets are subject to externally imposed restrictions governing their use.

Restricted expendable net assets include UAB's assets whose use is restricted by an external restriction. The \$9.1 million decrease from 2007 to 2008 in restricted expendable net assets results from gifts offsets by the decrease in fair value of investments. The \$30.2 million increase from 2006 to 2007 in restricted expendable net assets results from continued growth in investment value related to restricted assets and gifts.

Unrestricted net assets include UAB's assets whose use is not restricted by an external entity. Unrestricted net assets decreased \$29.1 million or 3.0% in 2008 and increased \$66.4 million or 7.4% in 2007.

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.

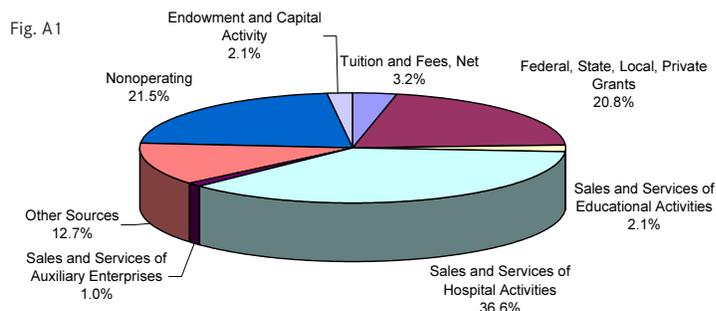
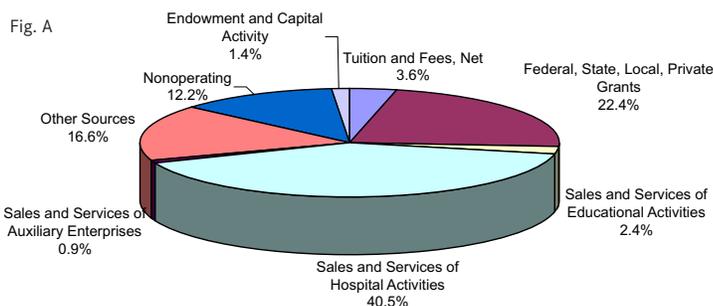
Statements of Revenues, Expenses, and Changes in Net Assets

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, 2008, 2007, and 2006 is presented below:

	2008	2007	2006
Operating Revenues			
Student tuition and fees, net	\$ 77,573,931	\$ 73,146,945	\$ 73,665,311
Grants and contracts	476,481,243	471,776,022	474,279,219
Sales and services	933,064,060	899,647,974	845,779,515
Other revenues	353,334,141	286,609,017	229,109,405
Revenues supporting core activities	\$ 1,840,453,375	\$ 1,731,179,958	\$ 1,622,833,450
Operating Expenses			
Operating expenses	\$ 2,186,284,008	\$ 2,089,951,082	\$ 1,921,171,393
Operating Loss	\$ (345,830,633)	\$ (358,771,124)	\$ (298,337,943)
Nonoperating revenues (expenses)			
State educational appropriations	\$ 358,088,951	\$ 310,834,004	\$ 260,174,828
Grants and contracts	11,130,140	11,500,595	8,405,303
Private gifts	28,536,648	31,391,939	37,602,942
Net investment (loss) income	(136,413,807)	161,218,111	83,207,443
Interest expense	(27,375,953)	(28,661,836)	(23,185,816)
Loss of disposal of capital assets	(2,186,152)	(2,648,666)	(11,579,245)
Capital state appropriations	5,096,600	22,542	286,940
Capital gifts and grants	19,099,511	33,860,058	33,573,934
Permanent endowments	5,235,022	14,341,518	14,715,755
Net other nonoperating revenues	2,850,129	3,117,364	2,957,165
Transfer of Professional Liability Trust Fund			(21,677,085)
Other changes, net	26,835,501	(1,750,000)	(150,000)
Net nonoperating revenues and other changes	\$ 290,896,590	\$ 533,225,629	\$ 384,332,164
(Decrease) increase in net assets	\$ (54,934,043)	\$ 174,454,505	\$ 85,994,221
Net assets, beginning of year	\$ 2,143,131,570	\$ 1,968,677,065	\$ 1,882,682,844
Net assets, end of year	\$ 2,088,197,527	\$ 2,143,131,570	\$ 1,968,677,065

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, 2008 and 2007, respectively.



Gross tuition and fees revenue increased by \$9.7 and \$0.7 million in 2008 and 2007, respectively. Total student headcount of 17,330 and 17,591 decreased by 261 and increased by 7 or 1.5% and .04% in 2008 and 2007, respectively.

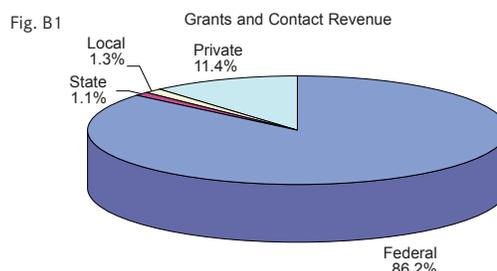
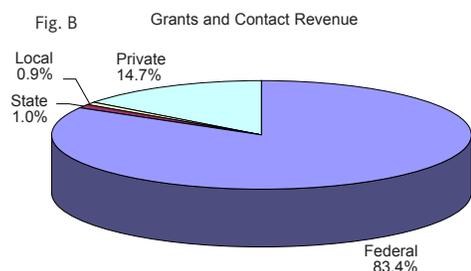
UAB recognized \$43.4, \$46.8, and \$60.0 million in gift revenue (composed partially of \$9.6, \$1.1, and \$7.7 million and \$5.2, \$14.3, and \$14.7 million in capital and endowment gifts, respectively) for the years ended September 30, 2008, 2007, and 2006, respectively.

UAB receives State appropriations from State of Alabama. UAB recognized funds from the State of Alabama totaling \$363.1, \$310.9, and \$260.5 million, of which \$358.1, \$310.8 and \$260.2 million was from the ETF, which is included as nonoperating revenue in 2008, 2007, and 2006, respectively. The remaining \$5.0, \$0.1, and \$0.3 million represents Public School and College Authority funds and other

state capital funds in 2008, 2007 and 2006, respectively.

Net hospital sales and service revenue totaled \$864.0, \$828.8, and \$776.0 million, an increase of 4.25% and 6.8% from 2007 to 2008 and 2006 to 2007, 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 \$9.5, \$32.8, and \$25.9 million in 2008, 2007, and 2006, 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 2008 and 2007, respectively.



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 increased \$78.0 million from 2006 to 2007. The increase is primarily a result of

growth in the fair value of investments. Net investment income for the years ended September 30, 2008, 2007, and 2006, consist of the following components:

	2008	2007	2006
Interest and dividends	\$ 57,121,872	\$ 59,575,978	\$ 42,555,189
Net (decrease) increase in the fair value of investments	(187,663,603)	95,536,360	38,248,665
Return on equity investments	(5,872,076)	6,105,773	2,403,589
	\$ (136,413,807)	\$ 161,218,111	\$ 83,207,443

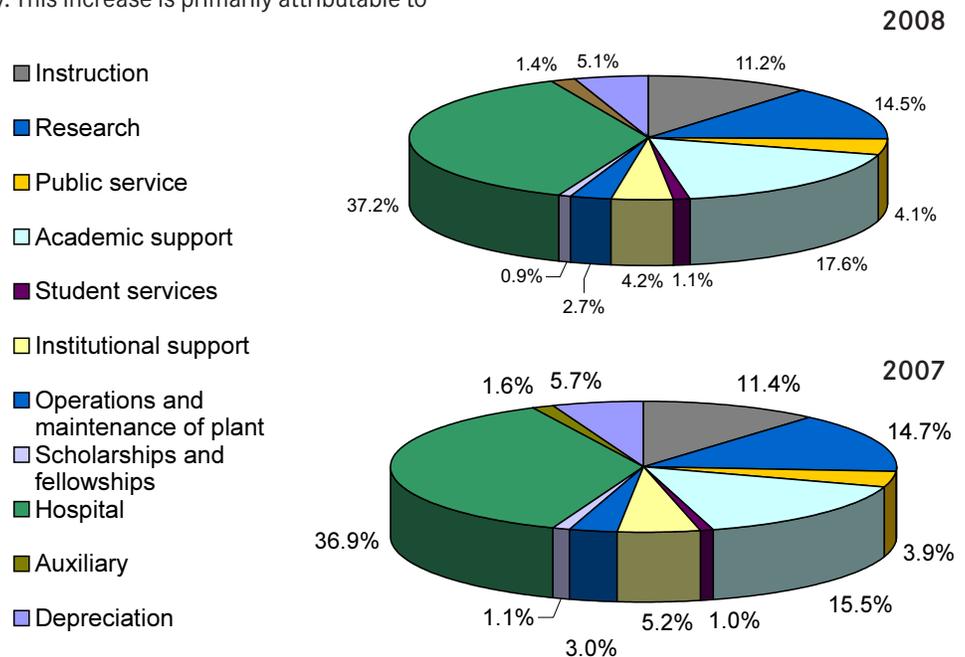
A comparative summary of UAB's operating expenses for the years ended September 30, 2008, 2007, and 2006, is as follows:

	2008	2007	2006
Salaries, wages, and benefits	\$ 1,150,426,905	\$ 1,116,592,397	\$ 1,003,997,894
Supplies and services	892,634,667	820,080,568	781,699,732
Depreciation	111,343,621	119,319,242	114,968,704
Scholarships and fellowships	20,498,768	22,141,254	20,505,063
Expenses from discontinued operations	11,380,047	11,817,621	
	\$ 2,186,284,008	\$ 2,089,951,082	\$ 1,921,171,393

Salaries, wages, and benefits increased \$33.8 and \$112.6 million or 3.0% and 11.2% during 2008 and 2007, respectively. This increase is due primarily to UAB's continued growth and an increase due to a change in estimate related to accrued vacation in 2008 and 2007, respectively. In addition, supplies and services expenses increased \$72.6 and \$38.4 million or 8.9% and 4.9% during 2008 and 2007, respectively. This increase is primarily attributable to

the growth in research efforts at UAB as well as an overall increase in the cost of day-to-day operations.

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, 2008 and 2007, respectively are presented as follows:



Statements of Cash Flows

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

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

	2008	2007	2006
Net cash used in operating activities	\$ (254,426,328)	\$ (222,771,881)	\$ (163,231,610)
Net cash used in capital and related financing activities	(231,988,817)	(183,900,619)	(27,606,539)
Net cash provided by noncapital financing activities	436,483,030	347,366,892	327,618,921
Net cash (used in) provided by investing activities	(105,303,778)	52,424,262	(47,539,194)
Net (decrease) increase in cash and cash equivalents	\$ (155,235,893)	\$ (6,881,346)	\$ 89,241,578
Cash and cash equivalents, beginning of year	\$ 211,003,054	\$ 217,884,400	\$ 128,642,822
Cash and cash equivalents, end of year	\$ 55,767,161	\$ 211,003,054	\$ 217,884,400

UAB used \$254.4, \$222.8 and \$163.2 million of cash for operating activities, offset by \$436.5, \$347.4 and \$327.6 million of cash provided by noncapital financing activities in 2008, 2007 and 2006, 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, 2007 and 2006, respectively, was used for capital and related financing activities, primarily purchases of capital assets and principal and interest payments on long-term debt, partially offset by sources that included bond proceeds, gifts, and grants and contracts for capital purposes. Cash used in investing activities totaled \$105.3 million in 2008, while cash provided by investing activities totaled \$52.4 million in 2007, and cash used in investing activities totaled \$47.5 million in 2006.

Cash of \$232.0, \$183.9, and \$27.6 million in

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, the State implemented proration. UAB is currently implementing cost-saving measures in order to balance its own budget.

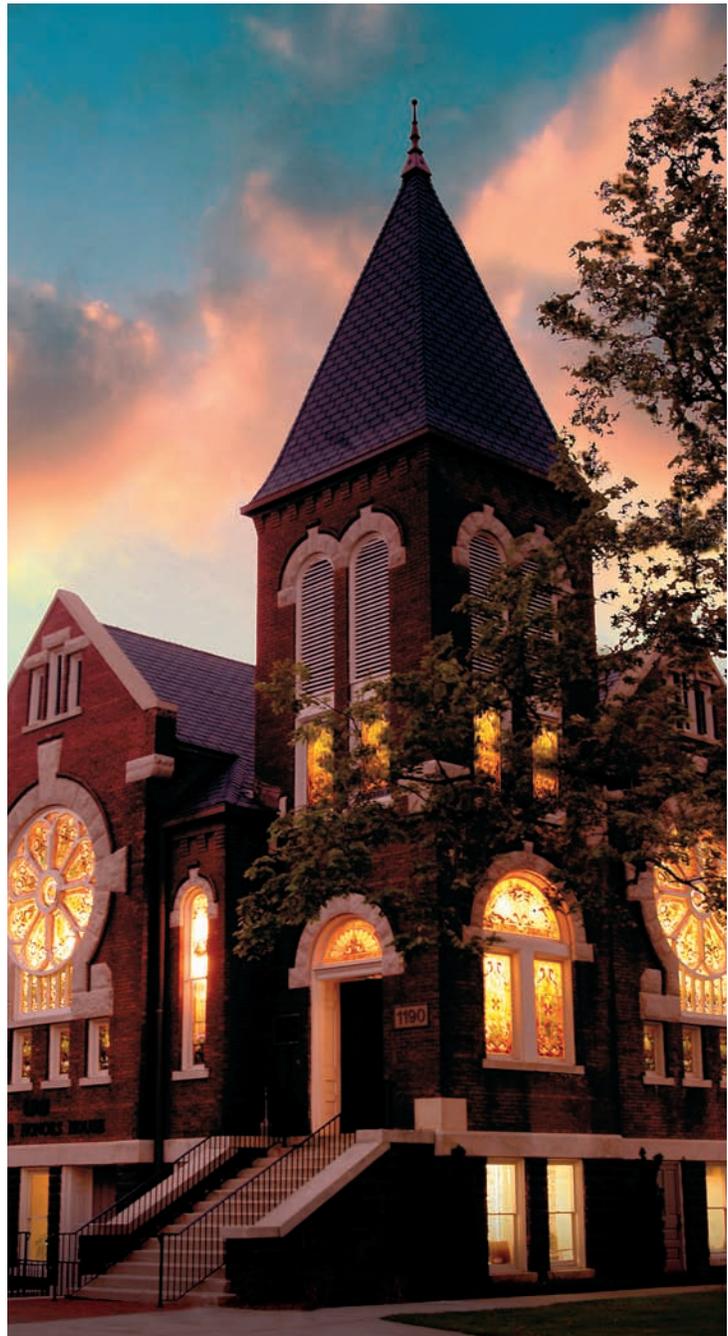
UAB will strive to remain highly competitive in terms of attracting federal grant and contract revenue, primarily from the NIH, as seven individual departments rank among the top ten in their specialties.

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, 2008 and 2007

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 26,035,656	\$ 93,959,087
Short term investments	323,446,981	158,770,237
Accounts receivable, net	214,248,200	261,833,060
Loans receivable, current portion	3,378,820	3,582,370
Pledge receivable, current portion	8,263,065	7,437,031
Inventories	13,223,851	12,705,939
Other current assets	16,532,879	16,393,456
Total current assets	\$ 605,129,452	\$ 554,681,180
Noncurrent Assets:		
Cash designated for capital activities	\$ 29,217,327	\$ 115,585,164
Restricted cash and cash equivalents	514,178	1,458,803
Investments for capital activities	602,546,671	696,841,524
Endowment and life income investments	332,356,890	402,607,288
Investment in Professional Liability Trust Fund	22,011,635	28,766,056
Other long-term investments	35,871,953	26,303,818
Loans receivable, net	15,787,927	14,649,740
Pledges receivable	13,282,280	9,669,285
Loan receivable from UAB Highlands	42,689,000	23,689,131
Capital assets, net	1,442,380,901	1,357,730,432
Other noncurrent assets	2,369,631	3,782,277
Total noncurrent assets	\$ 2,539,028,393	\$ 2,681,083,518
Total Assets	\$ 3,144,157,845	\$ 3,235,764,698
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 225,145,031	\$ 238,712,444
Deposits	2,634,124	3,075,905
Deferred revenue-grants	29,078,735	34,610,116
Deferred revenue-other	46,479,930	44,453,908
Long-term debt, current portion	23,755,305	24,108,525
Total current liabilities	\$ 327,093,125	\$ 344,960,898
Noncurrent Liabilities		
Federal advances-loan funds	\$ 16,309,098	\$ 16,422,623
Long-term debt, noncurrent portion	712,248,464	730,402,990
Other noncurrent liabilities	309,631	846,617
Total noncurrent liabilities	\$ 728,867,193	\$ 747,672,230
Total Liabilities	\$ 1,055,960,318	\$ 1,092,633,128
NET ASSETS		
Invested in capital assets, net of related debt	\$ 730,562,480	\$ 693,214,101
Restricted		
Nonexpendable	222,397,230	276,466,236
Expendable	200,791,863	209,875,223
Unrestricted	934,445,954	963,576,010
Total Net Assets	\$ 2,088,197,527	\$ 2,143,131,570

See accompanying notes to financial statements.

The University of Alabama at Birmingham

Statements of Revenues, Expenses, and Changes in Net Assets

Year Ended September 30, 2008 and 2007

	2008	2007
Operating Revenues		
Tuition and fees	\$ 107,111,601	\$ 97,410,523
Less: scholarship allowance	(29,135,838)	(23,891,723)
Less: bad debt expense	(401,832)	(371,855)
Tuition and fees, net	77,573,931	73,146,945
Grants and contracts:		
Federal	395,230,152	389,269,706
State	4,838,521	4,755,158
Local	4,232,724	3,036,810
Private	72,179,846	74,714,348
Sales and services:		
Educational activities	50,025,572	48,085,633
Hospital, net of bad debt expense of \$148,690,483 and \$181,652,584	864,019,507	828,804,649
Auxiliary enterprises, net of scholarship allowance of \$531,646 and \$770,768	19,018,981	22,757,692
Revenue from discontinued operations (Note 1)	10,767,580	13,002,358
Other operating revenues	342,566,561	273,606,659
Total operating revenues	\$ 1,840,453,375	\$ 1,731,179,958
Operating Expenses		
Salaries, wages and benefits	\$ 1,150,426,905	\$ 1,116,592,397
Supplies and services	892,634,667	820,080,568
Depreciation and amortization	111,343,621	119,319,242
Scholarships and fellowships	20,498,768	22,141,254
Expenses from discontinued operations (Note 1)	11,380,047	11,817,621
Total operating expenses	\$ 2,186,284,008	\$ 2,089,951,082
Operating loss	\$ (345,830,633)	\$ (358,771,124)
Nonoperating Revenues (Expenses)		
Gains and losses		
State appropriations	\$ 358,088,951	\$ 310,834,004
Federal grants and contracts	10,572,826	10,990,240
State grants and contracts	124,584	116,072
Private grants and contracts	432,730	394,283
Gifts	28,536,648	31,391,939
Investment (loss) income	(136,413,807)	161,218,111
Interest expense	(27,375,953)	(28,661,836)
Loss on asset dispositions, net	(2,186,152)	(2,648,666)
Gain on sale of discontinued operations (Note 1)	26,066,601	
Net other nonoperating revenue	2,850,129	3,117,364
Net nonoperating revenues	\$ 260,696,557	\$ 486,751,511
(Loss) income before other revenues, expenses, gains and losses.	\$ (85,134,076)	\$ 127,980,387
Other Changes in Net Assets		
Capital and endowment activities		
State funds-capital	\$ 5,096,600	\$ 22,542
Capital grants and contracts	9,457,633	32,837,264
Capital gifts	9,641,878	1,022,794
Endowment gifts	5,235,022	14,341,518
Other revenue (expenses)	768,900	(1,750,000)
Net other changes in net assets	\$ 30,200,033	\$ 46,474,118
(Decrease) increase in net assets	\$ (54,934,043)	\$ 174,454,505
Net Assets, beginning of year	\$ 2,143,131,570	\$ 1,968,677,065
Net Assets, end of year	\$ 2,088,197,527	\$ 2,143,131,570

See accompanying notes to financial statements.

The University of Alabama at Birmingham

Statements of Cash Flows

Year Ended September 30, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Student tuition and fees	\$ 83,914,860	\$ 77,593,769
Grants and contracts	490,023,366	500,792,053
Receipts from sales and services of:		
Educational activities	50,210,159	44,461,463
Patient services	858,167,431	812,874,608
Auxiliary enterprises, net	22,249,186	26,911,582
Premium and administrative fees collected	279,893,130	289,467,339
Payment to employees and related benefits	(1,158,334,270)	(1,085,928,513)
Payment to suppliers	(922,028,738)	(913,409,279)
Payment for scholarships and fellowships	(20,498,768)	(22,141,254)
Receipts (disbursements) from discontinued operations (Note 1)	(612,467)	1,184,737
Student loans disbursements, net of collections	(40,449)	(138,444)
Other receipts	62,630,232	45,560,058
Net cash used in operating activities	\$ (254,426,328)	\$ (222,771,881)
Cash flows from capital and related financing activities		
Proceeds from issuance of capital debt	\$ 441,805,000	\$ 22,542
State capital appropriations	5,096,600	35,513,611
Federal grants and contracts	8,741,228	3,565,674
Private gifts	2,854,044	1,283,528
Proceeds from sale of capital assets	1,703,161	(167,433,401)
Purchases of capital assets	(193,812,820)	(23,559,801)
Principal payments on capital debt	(465,695,126)	(33,292,772)
Interest payments on capital debt	(32,680,904)	(183,900,619)
Net cash used in capital and related financing activities	\$ (231,988,817)	\$ (183,900,619)
Cash flows from noncapital financing activities		
State appropriations	\$ 358,088,951	\$ 310,834,004
Private gifts	34,996,319	47,057,311
Student direct lending receipts	116,283,215	47,578,394
Student direct lending disbursements	(88,906,854)	(76,850,057)
Other deposits	16,616,683	15,275,636
Deposits from affiliates	(595,284)	3,471,604
Net cash provided by noncapital financing activities	\$ 436,483,030	\$ 347,366,892
Cash flows from investing activities		
Interest and dividends from investments, net	\$ 61,222,060	\$ 63,239,691
Payments for intangibles	(296,429)	(629,556)
Proceeds from note receivable	129,125	132,144
Cash distributions from equity investments	1,747,998	2,747,973
Loan to UAB Highlands HCA	(19,000,000)	(15,000,000)
Proceeds from sales and maturities of investments	1,022,884,573	572,604,878
Contributions to system pooled investment funds	(165,079,761)	(31,132,863)
Purchases of investments	(1,040,635,598)	(578,848,874)
Proceeds from divestiture of subsidiary, net of related expenses	33,724,254	39,310,869
Proceeds from repayment of loan by UAB Highlands HCA		
Net cash (used in) provided by investing activities	\$ (105,303,778)	\$ 52,424,262
Net decrease in cash and cash equivalents	\$ (155,235,893)	\$ (6,881,346)
Cash and cash equivalents beginning of year	211,003,054	217,884,400
Cash and cash equivalents end of year	\$ 55,767,161	\$ 211,003,054
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (345,830,633)	\$ (358,771,124)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities		
Depreciation expense and amortization	111,343,621	119,319,242
Changes in assets and liabilities:		
Accounts receivable, net	15,146,747	9,935,385
Prepaid expenses and other assets	(5,295,010)	(1,846,419)
Accounts payable and accrued liabilities	(29,383,807)	4,689,784
Deposits from affiliates		
Deferred revenue	(407,246)	3,901,251
Net cash used in operating activities	\$ (254,426,328)	\$ (222,771,881)

See accompanying notes to financial statements.

The University of Alabama at Birmingham

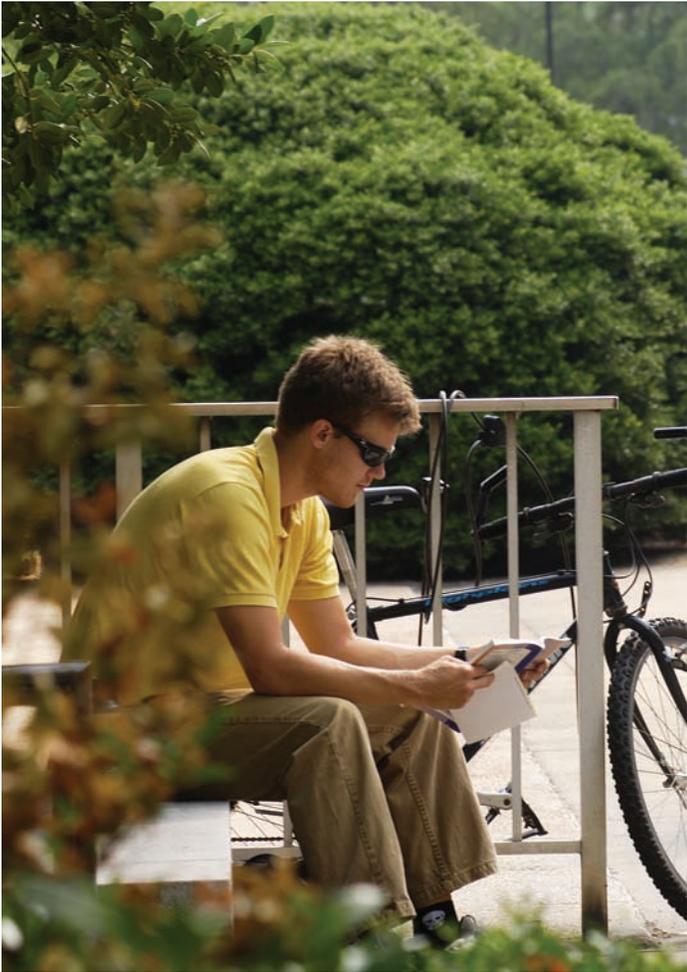
Statements of Cash Flows (continued)

Year Ended September 30, 2008 and 2007

Supplemental noncash activities information

	2008	2007
Capital assets acquired included in accounts payable	\$ 13,690,930	\$ 10,514,920
Capital assets acquired through capital leases	\$ 5,140,001	\$ 674,574
Capital assets acquired through donations	\$ 1,124,155	\$ 37,300
Interest capitalized, net of qualifying interest income on municipal bonds of \$3,405,224 and \$5,291,724, respectively	\$ 2,340,912	\$ 2,341,028

See accompanying notes to financial statements.



The University of Alabama at Birmingham

Notes to Financial Statements

September 30, 2008

(1) Summary of Significant Accounting Policies

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

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

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

- **Invested in Capital Assets, Net of Related Debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- **Restricted:**
 - Nonexpendable: Net assets subject to externally imposed stipulations that they be maintained permanently by UAB. Such assets include UAB's permanent endowment funds.
 - Expendable: Net assets whose use by UAB is subject to externally imposed stipulations that can be fulfilled by actions of UAB pursuant to those

stipulations or that expire by the passage of time.

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

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

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The estimates susceptible to significant changes include those used in determining the allowance for contractual adjustments and uncollectible accounts, 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 Healthy 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 and 2007 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 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. All investments which do not have readily determinable market values are held within the Endowment Fund (Note 4).

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 useful lives to inventoried equipment.

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



and depreciated. Interest costs, net of any related investment earnings, for certain assets acquired with the proceeds of tax-exempt borrowings are capitalized as a component of the cost of acquiring those assets.

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

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

Endowment spending: For donor-restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Alabama, permits the Board of Trustees of The University of Alabama (the Board) to allocate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. UAB's policy is to retain the endowment realized and unrealized appreciation with the endowment after the spending rate distributions. The Board approved a spending rate for the fiscal year ending September 30, 2008 and 2007 of 5.0% of a moving three-year average of market (unit) value. Endowment earnings are classified in accordance with donor restrictions.

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 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.

The purpose of UABEF is to operate exclusively for the benefit of UAB. UABEF provides funds and cer-



tain 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 \$1,770,000 and \$1,709,000 for 2008 and 2007, 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 \$4,722,000 and \$7,012,000 in 2008 and 2007, respectively. UABEF's total assets were approximately \$48,760,000 and \$49,461,000 at September 30, 2008 and 2007, respectively. UABEF's total liabilities were approximately \$19,198,000 and \$19,653,000 at September 30, 2008 and 2007, 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 \$35,872,000 and \$34,910,000 of funding from HSF in 2008 and 2007, 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 \$2,010,000 and \$1,390,000 in 2008 and 2007, respectively, and the Hospital purchases various services from HSF, aggregating approximately \$17,562,000 and \$19,295,000 for the year ended September 30, 2008 and 2007, respectively. As a result of these transactions, the Hospital had a net payable to HSF of approximately \$797,000 and \$1,425,000 at September 30, 2008 and 2007, respectively.

The Board and the HSF's board have entered into an agreement, under which UAB and HSF have established a common management group, the UAB Health System, to provide management for their existing and future health care delivery operations. The UAB Health System Board of Directors is composed of 18 members, of whom nine are appointed by the Board. For the fiscal year ended September 30, 2008 and 2007, respectively, UAB contributed

approximately \$4,889,000 and \$4,745,000 to the UAB Health System Board to support Health System administrative functions. In addition, at September 30, 2008 and 2007, respectively, the Hospital had a receivable from the Health System of approximately \$1,912,000 and \$95,000.

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 \$6,628,000 (unaudited) and \$6,282,000 and total liabilities were approximately \$1,149,000 (unaudited) and \$906,000 at September 30, 2008 and 2007, respectively.

The Hospital received premium revenue (capitation fees) of approximately \$51,347,000 and \$57,190,000 from Triton during the years ended September 30, 2008 and 2007.

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"). 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 ends April 1, 2009. Beginning May 1, 2009, UAB Highlands shall make equal monthly payments sufficient to pay both principal and interest by April 1, 2026. The aggregate outstanding loan balance due from UAB Highlands was \$42,689,000 and \$23,689,000 as of September 30, 2008 and 2007, respectively. During 2007, the Board approved an additional \$25,000,000 loan to UAB Highlands under the same terms as the original loan. The Hospital had loaned UAB Highlands \$15,000,000 of this additional amount as of September 30, 2007. The Hospital loaned \$19,000,000 during 2008. In September 2007, UAB Highlands paid the Hospital \$39,310,869 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 \$577,000 and \$486,000 as of September 30, 2008 and 2007, respectively. In addition, the Hospital has performed various services on behalf of UAB Highlands for which approximately \$452,000 and \$65,000 was charged and is outstanding at September 30, 2008 and 2007, respectively.



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.

Summary financial information for UAB Highlands as of and for the years ended September 30, 2008 and 2007, respectively include total assets of approximately \$59,156,000 and \$56,700,000, total liabilities of approximately \$100,430,000 and \$82,355,000 and total net assets of approximately \$(41,274,000) and \$(25,655,000).

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 an investment pool, the Short-Term Fund, for System entities to invest operating cash reserves. As of September 30, 2008 and 2007, the Short-Term Fund invested exclusively in a bank common trust, the Commonfund. On September 29, 2008, the trustee of the Commonfund, Wachovia Bank, N.A., froze withdrawals from the Commonfund and announced its decision to terminate the fund through an orderly liquidation. As a consequence, the trustee limited withdrawals based on investors' proportional interests as assets of the Commonfund mature or are sold. As a result, the liquidity of the Commonfund no longer met UAB's criteria to be considered a cash equivalent. As of September 30, 2008, \$89,364,795 of UAB's hold-

ing in the Short-Term Fund was reclassified as short-term investments, while \$25,352,529 was reclassified as other long-term investments. As of September 30, 2007 UAB had \$107,115,274 invested in the Short-Term Fund, which is presented in cash and cash equivalents, cash designated for investment activities, and restricted cash and cash equivalents on the statement of net assets. See Note 4 for further disclosure regarding this investment pool.

As of September 30, 2008 and 2007, respectively, UAB had cash and cash equivalents totaling \$55,767,161 and \$211,003,054.

(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, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"* with the assets pooled on a market value basis. Separately managed funds that 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 total approximately \$23,000,000 and \$15,000,000 at September 30, 2008 and 2007, 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 through income and is invested in a diversified asset mix of liquid and semi-liquid securities. Long-term lockup funds with liquid assets are inappropriate investments for this fund.

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 preserva-

tion 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 in investments, by investment type, for the System Pools at September 30, 2008 and 2007 is as follows:

September 30, 2008				
	Endowment Fund	Prime Fund	Intermediate Fund	Short-Term Fund
Receivables:				
Accrued Income Receivables	\$ 999,238	\$ 750,868	\$ 2,665,378	\$
Total Receivables	\$ 999,238	\$ 750,868	\$ 2,665,378	\$
Cash Equivalents:				
Certificates Of Deposit	\$	\$	\$ 329,820	\$
Commercial Paper			1,119,712	
Bank Common Trust Fund				
Money Market Funds	5,615,914	10,060,065	71,165,106	
Total Cash Equivalents	\$ 5,615,914	\$ 10,060,065	\$ 72,614,638	\$
Equities:				
U S Common Stock	\$ 55,668,249	\$ 41,908,374	\$	\$
Non-US Stock	5,684,166	4,175,631		
Total Equities	\$ 61,352,415	\$ 46,084,005	\$	\$
Fixed Income Securities:				
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	
Total Fixed Income Securities	\$ 60,198,286	\$ 45,497,670	\$ 316,627,159	\$
Commingled Funds:				
Bank Common 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		
Total Commingled Funds	\$ 719,833,355	\$ 543,527,137	\$	\$ 169,596,433
Total Fund Investments	\$ 846,999,970	\$ 645,168,877	\$ 389,241,797	\$ 169,596,433
Total Fund Assets	\$ 847,999,208	\$ 645,919,745	\$ 391,907,175	\$ 169,596,433
Total Fund Liabilities	\$ (183,225)	\$ (141,142)	\$ (229,248)	\$
Affiliated Entity Investments In Funds	\$ (103,271,212)	\$	\$	\$
Total Net Asset Value	\$ 744,544,771	\$ 645,778,603	\$ 391,677,927	\$ 169,596,433

September 30, 2007				
	Endowment Fund	Prime Fund	Intermediate Fund	Short-Term Fund
Cash and receivables:				
Accrued Income Receivables	\$ 1,221,001	\$ 956,769	\$ 2,502,358	\$
Total Receivables	\$ 1,221,001	\$ 956,769	\$ 2,502,358	\$
Cash Equivalents:				
Certificate of Deposit			\$ 336,375	
Commercial Paper	\$	\$	\$ 12,063,608	\$
Bank Common Trust Fund				108,234,665
Money Market Funds	25,301,538	10,095,989	16,988,051	
Total Cash Equivalents	\$ 25,301,538	\$ 10,095,989	\$ 29,388,034	\$ 108,234,665
Equities:				
U S Common Stock	\$ 67,292,860	48,178,137		
Non-US Stock	7,347,139	7,312,988		
Total Equities	\$ 74,639,999	\$ 55,491,125	\$	\$
Fixed Income Securities:				
U S Government Obligations	\$ 10,835,836	\$ 9,338,399	\$ 61,111,575	\$
Mortgage Backed Securities	18,017,647	13,665,433	38,875,997	
Collateralized Mortgage Obligations	3,472,960	3,499,996	161,573,068	
Corporate Bonds	8,871,505	6,639,734	86,153,759	
Non-U S Bonds			1,308,096	
Total Fixed Income Securities	\$ 41,197,948	\$ 33,143,562	\$ 349,022,495	\$
Commingled Funds:				
Bank Common Trust Fund				\$
U S Equity Funds	\$ 213,441,109	\$ 146,713,790	\$	\$
Non-U S Equity Funds	256,757,331	193,752,550		
U S Bond Funds	83,077,595	123,807,583	26,998,578	
Non-U S Bond Funds	49,402,104	34,312,212		
Hedge Funds	141,886,286	115,940,569		
Private Equity Funds	26,113,788			
Timberland Funds	9,675,974			
Real Estate Funds	51,231,303	31,461,221		
Total Commingled Funds	\$ 831,585,490	\$ 645,987,925	\$ 26,998,578	\$
Total Fund Investments	\$ 972,724,975	\$ 744,718,601	\$ 405,409,107	\$ 108,234,665
Total Fund Assets	\$ 973,945,976	\$ 745,675,370	\$ 407,911,465	\$ 108,234,665
Total Fund Liabilities	\$ (180,246)	\$ (154,188)	\$ (202,841)	\$
Affiliated Entity Investments In Funds	\$ (102,467,093)	\$	\$	\$
Total Net Asset Value	\$ 871,298,637	\$ 745,521,182	\$ 407,708,624	\$ 108,234,665

The composition in investments, by investment type, for UAB's separately held investments, and UAB's interest in the System Pools, at September 30, 2008 and 2007 is as follows:

	2008	2007
Cash and receivables		
Cash and receivables	\$	\$ 15,175
Accrued income receivables	512	
Total Cash and Receivables	\$ 512	\$ 15,175
Cash and equivalents		
Commerical paper	\$ 8,076,727	\$ 100,000
Money market funds	89,542	7,209,503
Total Cash and Equivalents	\$ 8,166,269	\$ 7,309,503
Equities:		
Common stock	\$ 143,637	\$ 252,609
Equity investment in partnerships	27,913,082	35,533,156
Total Equities	\$ 28,056,719	\$ 35,785,765
Fixed Income Securities:		
US government obligations	\$ 25,047,356	\$ 45,776,668
Mortgage backed securities	1,999,826	4,434,960
Non-US bonds	2,294,542	2,546,148
Total Fixed Income Securities	\$ 29,341,724	\$ 52,757,776
Commingled Funds:		
US equity funds	\$ 27,196,476	\$ 26,666,066
Non-US equity funds	10,618,196	12,223,410
US bond funds	43,730,321	18,296,865
Liquid alternatives	6,345,555	3,611,065
Private equity funds	300,243	30,000
Real estate funds	2,374,359	
Total Commingled Funds	\$ 90,565,150	\$ 60,827,406
Total Real Estate	\$ 781,179	\$ 781,179
Portion of System Pooled Investments		
Endowment Fund	\$ 292,188,755	\$ 352,553,913
Prime Fund	461,992,871	525,696,439
Intermediate Fund	290,423,627	277,561,767
Short-Term Fund	114,717,324	107,115,274
Total Portion of System Pooled Investments	\$ 1,159,322,577	\$ 1,262,927,393
Total Cash and Investments	\$ 1,316,234,130	\$ 1,420,404,197
Less Short-Term Fund	\$	\$ 107,115,274
Total Investments	\$ 1,316,234,130	\$ 1,313,288,923

Investment Risk Factors

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

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest or principal in a timely manner, or that

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

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service

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

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

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Lehman 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, approxi-

mately \$52,000,000 and \$37,000,000 in the Endowment and Prime Funds, at September 30, 2008 and 2007, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately \$244,000,000 and \$326,000,000 in the Endowment and Prime Funds, at September 30, 2008 and 2007, respectively.

The Intermediate Fund is benchmarked against the Lehman 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, 2008 and 2007, approximately \$36,000,000 and \$500,000, respectively, were 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 \$72,000,000 and \$56,000,000 at September 30, 2008 and 2007, respectively.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the system campuses and the Hospital. These funds have historically been invested in a bank common trust fund, which in turn invests in money market, corporate, mortgage backed, asset backed and U.S. treasury and/or agency 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, 2008 and 2007 is as follows:

September 30, 2008 and 2007

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND		SHORT-TERM FUND	
	2008	2007	2008	2007	2008	2007	2008	2007
Fixed or Variable Income Securities								
U S Government Guaranteed	\$ 11,602,531	\$ 10,835,836	\$ 8,106,008	\$ 9,338,399	\$ 70,477,571	\$ 61,111,575	\$	\$
Other U S Denominated:								
AAA	1,991,776	303,171	2,937,280	795,007	124,766,118	198,814,784		
AA	2,515,965	1,217,858	1,549,234	298,298	29,334,331	36,743,521		
A	11,662,185	6,243,356	8,916,570	4,533,456	38,431,441	42,491,999		
BBB	2,341,498	1,704,973	1,750,120	1,923,392	17,705,467	9,360,865		
B					278,409			
C and <C					62,500			
Unrated	30,084,331	20,892,754	22,238,458	16,255,010	35,571,322	499,751		
Commingled Funds:								
Bank Common Trust Fund: Unrated							169,596,433	108,234,665
U S Bond Funds: Unrated	57,529,479	83,077,595	77,708,466	123,807,583		26,998,578		
Non-U S Bond Funds: Unrated	53,291,125	49,402,104	40,219,402	34,312,212				
Money Market Funds: Unrated	5,615,914	25,301,538	10,060,065	10,095,989	71,165,106	16,988,051		
Commercial Paper: Unrated					1,119,712	12,063,608		
Total	\$ 176,634,804	\$ 198,979,185	\$ 173,485,603	\$ 201,359,346	\$ 388,911,977	\$ 405,072,732	\$ 169,596,433	\$ 108,234,665

The credit risk for fixed and variable income securities of UAB's separately held investments at September 30, 2008 and 2007 is as follows:

September 30, 2008 and 2007

	2008	2007
Fixed or Variable Income Securities		
U S Government Guaranteed	\$ 25,047,356	\$ 45,776,668
Other U.S. Denominated:		
AAA	4,632,467	10,771,542
AA	3,047,245	66,101
A		132,203
BBB		132,203
BB		220,338
Unrated		286,439
Commingled Funds:		
U S Bond Funds: Unrated	38,050,436	11,122,999
Non-U S Bond Funds: Unrated	2,294,542	2,546,148
Money Market Funds: Unrated	89,542	7,209,503
Commercial Paper: Unrated	8,076,727	100,000
Total	\$ 81,238,315	\$ 78,364,144

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, 2008 and 2007, there was no investment 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, 2008 and 2007 are as follows:

September 30, 2008 and 2007

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2008	2007	2008	2007	2008	2007
U S government obligations	3.4	4.7	3.5	4.8	2.0	2.1
Corporate bonds	4.9	5.4	5.3	6.2	1.9	2.0
Commingled bond funds	4.2	4.6	4.5	5.3	-	2.3

There are no fixed or variable income securities in the Short-Term Fund at September 30, 2008 and 2007.

While the Board does not have a specific policy rel-

ative 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, 2008 and 2007 are as follows:

September 30, 2008 and 2007

	2008	2007
U S government obligations	1.0	0.6
Commingled bond funds	4.5	5.6

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, 2008 and 2007, the fair market value of these investments in the System Pools are as follows:

September 30, 2008 and 2007

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2008	2007	2008	2007	2008	2007
Mortgage backed securities	\$ 27,790,776	\$ 18,017,647	\$ 21,397,318	\$ 13,665,433	\$ 37,701,180	\$ 38,875,997
Collateralized mortgage obligations	3,755,744	3,472,960	3,382,381	3,499,996	128,683,240	161,573,068
Total	\$ 31,546,520	\$ 21,490,607	\$ 24,779,699	\$ 17,165,429	\$ 166,384,420	\$ 200,449,065

At September 30, 2008 and 2007, the fair market value of these investments in UAB's separately held investments is as follows:

September 30, 2008 and 2007

	2008	2007
Mortgage backed securities	\$ 1,999,826	\$ 4,434,960
Total	\$ 1,999,826	\$ 4,434,960

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

cipal 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, 2008 and 2007, the effective durations for these securities held in the System Pools are as follows:

September 30, 2008 and 2007

	ENDOWMENT FUND		PRIME FUND		INTERMEDIATE FUND	
	2008	2007	2008	2007	2008	2007
Mortgage backed securities	3.5	3.5	3.6	3.5	2.0	1.6
Collateralized mortgage obligations	3.4	3.8	2.8	2.9	2.0	2.5

There are no mortgage backed securities or CMO's in the Short Term Fund at September 30, 2008 and 2007.

At September 30, 2008 and 2007, the effective duration for these securities held in UAB's separately held investments are as follows:

September 30, 2008 and 2007

	2008	2007
Mortgage backed securities	1.0	.9

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, 2008 and 2007, 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 \$2,100,000 and \$1,300,000 of foreign bonds denominated in U.S. dollars and are held by the Intermediate Fund at September 30, 2008 and 2007, 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.

During the year ended September 30, 2008, the System Pools ceased participating in a securities lending program managed by one of the System's

custodial banks. The program was designed to allow the System to lend certain securities from the investment pools and receive a pledge of collateral sufficient to cover the market value of the securities lent. The collateral securities could not be pledged or sold by the System unless the borrower defaulted. At September 30, 2008 and 2007, there were \$0 and approximately \$3.4 million, respectively of 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 \$907,300 and \$1,377,000 at September 30, 2008 and 2007, 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 \$4,994,000 and \$5,058,000 at September 30, 2008 and 2007, respectively. Summary financial information of EFI as of and for the year ended September 30, 2008 and 2007, respectively, include total assets of approximately \$28,611,000 and \$30,570,000, total liabilities of approximately \$18,336,000 and \$19,790,000, and total net assets of \$10,275,000 and \$10,780,000. Separate financial statements

are available for this entity by contacting UAB.

UAB accounts for its ownership of the Professional Liability Trust Fund (PLTF) as a joint venture, using the equity method in the amount of approximately \$22,012,000 and \$28,766,000 at September 30, 2008 and 2007, respectively. See Note 19 for further discussion of the PLTF.

(5) Accounts Receivable

The composition of accounts receivable at September 30, 2008 and 2007, is summarized as follows:

	2008	2007
Patient care	\$ 261,727,695	\$ 273,290,324
Receivables from sponsoring agencies	53,493,463	91,938,733
Student accounts	10,311,332	12,920,442
Other	31,356,855	40,045,002
	<u>\$ 356,889,345</u>	<u>\$ 418,194,501</u>
Less: Provision for doubtful accounts from patient care	139,795,416	154,654,433
Less: Provision for doubtful accounts from student accounts	2,540,521	1,350,527
Less: Provision for doubtful accounts other	305,208	356,481
Total	<u>\$ 214,248,200</u>	<u>\$ 261,833,060</u>

(6) Loans and Pledges Receivable

The composition of loans and pledges receivable at September 30, 2008 and 2007, 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 fed-

eral 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.

	2008	2007
Loans and Other Receivable:		
Federal loan program	\$ 18,868,494	\$ 17,946,158
University loan funds	1,562,414	1,496,625
Loan receivable from UAB Highlands	42,689,000	23,689,131
Other	1,464,203	1,593,328
Total loans receivable	<u>\$ 64,584,111</u>	<u>\$ 44,725,242</u>
Less: allowance for doubtful accounts	2,728,364	2,804,001
Total loans receivable, net	<u>\$ 61,855,747</u>	<u>\$ 41,921,241</u>
Less: current portion	3,378,820	3,582,370
Total loans and other receivable outstanding, noncurrent	<u>\$ 58,476,927</u>	<u>\$ 38,338,871</u>
Gift Pledges Outstanding:		
Operations	\$ 11,012,727	\$ 12,237,377
Capital	10,532,618	4,868,939
Total gift pledges	<u>\$ 21,545,345</u>	<u>\$ 17,106,316</u>
Less: current portion	8,263,065	7,437,031
Total gift pledges, noncurrent	<u>\$ 13,282,280</u>	<u>\$ 9,669,285</u>

(7) Capital Assets

Capital assets activity for the years ended September 30, 2008 and 2007, is summarized at right and below:

Net interest costs capitalized in 2008 and 2007,

respectively were approximately \$731,000 and \$1,698,000 (\$818,500 and \$2,170,000 interest cost net of \$87,500 and \$472,000 investment earnings) for the University and Component Units. Net interest costs capitalized in 2008 and 2007, respectively, were approximately \$1,610,000 and \$643,000 (\$4,928,000 and \$5,463,000 interest cost net of \$3,318,000 and \$4,820,000 investments earnings) for the Hospital.

September 30, 2008	Beginning Balance	Additions	Sales/ Retirements/ Transfers	Ending Balance
University and Component Units				
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
Hospital				
Capital assets not being depreciated				
Land	\$ 17,312,628	\$ 83,353,027	\$ 1,465,006	\$ 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
Total UAB				
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

September 30, 2007

	Beginning Balance	Additions	Sales/ Retirements/ Transfers	Ending Balance
University and Component Units				
Capital assets not being depreciated				
Land	\$ 42,125,443	\$ 2,551,047	\$ 626,918	\$ 44,049,572
Construction in progress	32,333,729	56,251,953	12,996,174	75,589,508
	\$ 74,459,172	\$ 58,803,000	\$ 13,623,092	\$ 119,639,080
Capital assets being depreciated				
Land improvements	\$ 13,976,017	\$ 1,646,268	\$	\$ 15,622,285
Buildings	965,884,933	29,295,207	4,226,529	990,953,611
Fixed equipment systems	75,116,290	3,495,364		78,611,654
Equipment	315,253,635	26,141,085	9,407,632	331,987,088
Library materials	71,282,097	5,055,250		76,337,347
	\$ 1,441,512,972	\$ 65,633,174	\$ 13,634,161	\$ 1,493,511,985
Total Capital Assets	\$ 1,515,972,144	\$ 124,436,174	\$ 27,257,253	\$ 1,613,151,065
Less: Accumulated Depreciation	713,090,697	70,848,055	11,652,282	772,286,470
Total Net Capital Assets	\$ 802,881,447	\$ 53,588,119	\$ 15,604,971	\$ 840,864,595
Hospital				
Capital assets not being depreciated				
Land	\$ 17,416,300	\$	\$ 103,672	\$ 17,312,628
Construction in progress	8,796,071	30,137,167	1,953,267	36,979,971
	\$ 26,212,371	\$ 30,137,167	\$ 2,056,939	\$ 54,292,599
Capital assets being depreciated				
Land improvements	\$ 129,467	\$	\$	\$ 129,467
Buildings	569,458,451	6,613,663		576,072,114
Fixed equipment systems	8,459,413	823,968		9,283,381
Equipment	294,391,542	19,894,486	23,533,238	290,752,790
	\$ 872,438,873	\$ 27,332,117	\$ 23,533,238	\$ 876,237,752
Total Capital Assets	\$ 898,651,244	\$ 57,469,284	\$ 25,590,177	\$ 930,530,351
Less: Accumulated Depreciation	387,704,270	48,179,574	22,219,330	413,664,514
Total Net Capital Assets	\$ 510,946,974	\$ 9,289,710	\$ 3,370,847	\$ 516,865,837
Total UAB				
Capital assets not being depreciated				
Land	\$ 59,541,743	\$ 2,551,047	\$ 730,590	\$ 61,362,200
Construction in progress	41,129,800	86,389,120	14,949,441	112,569,479
	\$ 100,671,543	\$ 88,940,167	\$ 15,680,031	\$ 173,931,679
Capital assets being depreciated				
Land improvements	\$ 14,105,484	\$ 1,646,268	\$	\$ 15,751,752
Buildings	1,535,343,384	35,908,870	4,226,529	1,567,025,725
Fixed equipment systems	83,575,703	4,319,332		87,895,035
Equipment	609,645,177	46,035,571	32,940,870	622,739,878
Library materials	71,282,097	5,055,250		76,337,347
	\$ 2,313,951,845	\$ 92,965,291	\$ 37,167,399	\$ 2,369,749,737
Total Capital Assets	\$ 2,414,623,388	\$ 181,905,458	\$ 52,847,430	\$ 2,543,681,416
Less: Accumulated Depreciation	1,100,794,967	119,027,629	33,871,612	1,185,950,984
Total Net Capital Assets	\$ 1,313,828,421	\$ 62,877,829	\$ 18,975,818	\$ 1,357,730,432

(8) Long-Term Debt

Long-term debt activity for the years ended September 30, 2008 and 2007, 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, 2008

University	Beginning Balance	New Debt	Principal Repayment	Ending Balance
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 2027	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 2020	53,525,000		765,000	52,760,000
	\$ 262,560,406	\$	\$ 16,409,240	\$ 246,151,166
Less: unamortized bond discount				733,542
Total University debt				\$ 245,417,624
Less: current portion				15,777,348
Total University debt, noncurrent				\$ 229,640,276

Hospital

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
Total Hospital debt				\$ 490,396,168
Less: current portion				7,902,406
Total Hospital debt, noncurrent				\$ 482,493,762

Component Units

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				
Total Component Units debt				\$ 189,977
Less: current portion				75,551
Total Component Units debt, noncurrent				\$ 114,426
Total UAB	\$ 765,668,815	\$ 446,945,001	\$ 465,695,126	\$ 746,918,690
Less: unamortized bond discount				10,914,921
Total UAB debt				736,003,769
Less: current portion				23,755,305
Total UAB debt, noncurrent				\$ 712,248,464

September 30, 2007:

University	Beginning Balance	New Debt	Principal Repayment	Ending Balance
Leases Payable for purchase of equipment, 4.55% to 5.04%, due various dates through 2010	\$ 313,114	\$ 360,430	\$ 222,112	\$ 451,432
Lease Payable Medical Advancement Foundation, variable rate interest, (4.13% at September 30, 2007) due annually through 2030	20,675,000		455,000	20,220,000
Birmingham General Revenue Bonds Series 1993B, variable rate interest(3.91% at September 30, 2007), due annually through 2013	8,000,000		900,000	7,100,000
Birmingham General Revenue Bonds Series 2001, 5% to 5.25% due annually through 2027	44,548,687		2,033,305	42,515,382
Birmingham General Revenue Bonds Series 2002, 2.625% to 3.8%, due annually through 2013	8,605,000		970,000	7,635,000
Birmingham General Revenue Bonds Series 2003A, 2.5% to 4.5% due annually through 2027	67,145,000		2,285,000	64,860,000
Birmingham General Revenue Bonds Series 2003B, 2% to 3% due annually through 2009	14,214,092		4,580,500	9,633,592
Birmingham General Revenue Bonds Series 2005A, 3.25% to 5% principal due annually from 2007 through 2020	60,375,000		3,755,000	56,620,000
Birmingham General Revenue Bonds Series 2005B, 3% to 4.5% principal due annually from 2008 through 2020	53,525,000			53,525,000
	<u>\$ 277,400,893</u>	<u>\$ 360,430</u>	<u>\$ 15,200,917</u>	<u>\$ 262,560,406</u>
Less: unamortized bond discount				1,003,538
Total University debt				<u>\$ 261,556,868</u>
Less: current portion				16,409,075
Total University debt, noncurrent				<u>\$ 245,147,793</u>

Hospital	Beginning Balance	New Debt	Principal Repayment	Ending Balance
Leases Payable, 3.75% due monthly at through 2019	\$ 3,692,906	\$	\$ 222,893	\$ 3,470,013
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	38,600,000		400,000	38,200,000
Birmingham Hospital Revenue Bonds Series 2000D, variable interest rate (3.80% at September 30, 2007), due annually through 2031	74,100,000		1,650,000	72,450,000
Birmingham General Revenue Bonds Series 2001, 5% to 5.25% due annually through 2027	2,551,313		161,695	2,389,618
Birmingham General Revenue Bonds Series 2003B, 2% to 3% due annually through 2009	1,425,908		459,500	966,408
Birmingham Hospital Revenue Bonds Series 2004A, 3.125% to 5% due annually through 2014	35,490,000		3,740,000	31,750,000
Birmingham Hospital Revenue Bonds Series 2006A, 4% to 5% due annually through 2041	245,735,000		410,000	245,325,000
	<u>\$ 509,395,127</u>	<u>\$</u>	<u>\$ 7,044,088</u>	<u>\$ 502,351,039</u>
Less: unamortized bond discount				10,153,762
Total Hospital debt				<u>\$ 492,197,277</u>
Less: current portion				7,343,269
Total Hospital debt, noncurrent				<u>\$ 484,854,008</u>

Component Units	Beginning Balance	New Debt	Principal Repayment	Ending Balance
Leases Payable for purchase of equipment, 3.68% to 5.45%, due various dates through 2010	\$ 1,757,023	\$ 315,144	\$ 1,314,797	\$ 757,370
	<u>\$ 1,757,023</u>	<u>\$ 315,144</u>	<u>\$ 1,314,797</u>	<u>\$ 757,370</u>
Less: unamortized bond discount				
Total Component Units debt				<u>\$ 757,370</u>
Less: current portion				356,181
Total Component Units debt, noncurrent				<u>\$ 401,189</u>
Total UAB	<u>\$ 788,553,043</u>	<u>\$ 675,574</u>	<u>\$ 23,559,802</u>	<u>\$ 765,668,815</u>
Less: unamortized bond discount				11,157,300
Total UAB debt				<u>\$ 754,511,515</u>
Less: current portion				24,108,525
Total UAB debt, noncurrent				<u>\$ 730,402,990</u>

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, 2008.

University				
Year	Principal	Interest	Total	
2009	\$ 15,777,348	\$ 9,832,133	\$ 25,609,481	
2010	16,208,007	9,244,733	25,452,740	
2011	14,060,489	8,650,698	22,711,187	
2012	14,565,346	8,054,257	22,619,603	
2013	18,200,203	8,553,817	26,754,020	
2014-2018	71,544,773	27,011,925	98,556,698	
2019-2023	56,275,000	13,637,435	69,912,435	
2024-2028	34,240,000	4,209,843	38,449,843	
2029-2033	5,280,000	121,500	5,401,500	
Total University	\$ 246,151,166	\$ 89,316,341	\$ 335,467,507	
Hospital				
Year	Principal	Interest	Total	
2009	\$ 7,902,406	\$ 23,655,519	\$ 31,557,925	
2010	8,209,613	23,324,151	31,533,764	
2011	7,830,179	23,018,477	30,848,656	
2012	8,185,201	22,667,118	30,852,319	
2013	8,580,598	22,268,106	30,848,704	
2014-2018	49,075,519	104,864,424	153,939,943	
2019-2023	59,784,031	91,239,592	151,023,623	
2024-2028	76,465,000	74,421,904	150,886,904	
2029-2033	89,435,000	58,379,241	147,814,241	
2034-2040	107,115,000	36,852,699	143,967,699	
2041-2042	77,995,000	7,926,250	85,921,250	
Total Hospital	\$ 500,577,547	\$ 488,617,481	\$ 989,195,028	
Component Units				
Year	Principal	Interest	Total	
2009	\$ 75,551	\$ 10,480	\$ 86,031	
2010	63,591	5,439	\$69,030	
2011	50,835	1,581	\$52,416	
Total Component Units	\$ 189,977	\$ 17,500	\$ 207,477	
Total UAB				
Year	Principal	Interest	Total	
2009	\$ 23,755,305	\$ 33,498,132	\$ 57,253,437	
2010	24,481,211	32,574,323	57,055,534	
2011	21,941,503	31,670,756	53,612,259	
2012	22,750,547	30,721,375	53,471,922	
2013	26,780,801	30,821,923	57,602,724	
2014-2018	120,620,292	131,876,349	252,496,641	
2019-2023	116,059,031	104,877,027	220,936,058	
2024-2028	110,705,000	78,631,747	189,336,747	
2029-2033	94,715,000	58,500,741	153,215,741	
2034-2040	107,115,000	36,852,699	143,967,699	
2041-2042	77,995,000	7,926,250	85,921,250	
Total UAB	\$ 746,918,690	\$ 577,951,322	\$ 1,324,870,012	

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, 2008 and 2007. The principal outstanding on the defeased indebtedness at September 30, 2008 and 2007, respectively, was approximately \$190,260,000 and \$196,775,000 (\$52,470,000 and \$56,045,000 related to University and \$137,790,000 and \$140,730,000 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 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, 2008 and 2007.



(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, 2008 and 2007, is as follows for UAB:

September 30, 2008	Beginning Balance	Additions	Deductions	Ending Balance
Advances federal loans	\$ 16,422,623	585,314	\$ (698,839)	\$ 16,309,098
Other noncurrent liabilities	846,617		(536,986)	309,631
Total advances federal loans and other noncurrent liabilities	\$ 17,269,240	\$ 585,314	\$ (1,235,825)	\$ 16,618,729

September 30, 2007	Beginning Balance	Additions	Deductions	Ending Balance
Advances federal loans	\$ 16,558,056	519,659	\$ (655,092)	\$ 16,422,623
Other noncurrent liabilities	1,181,183	410,672	(745,238)	846,617
Total advances federal loans and other noncurrent liabilities	\$ 17,739,239	\$ 930,331	\$ (1,400,330)	\$ 17,269,240

(10) Pledged Revenues

Pledged revenues for 2008 and 2007, as defined by the Series 2000A, 2000B, 2000C, 2000D, 2004A, 2008A and 2008B Hospital Revenue Trust Indentures, are as follows:

Hospital Bonds	2008	2007
Total pledged revenues	\$ 810,408,583	\$ 889,840,421

Pledged revenues for 2008 and 2007, as defined by the Series 1993B, 2001, 2002, 2003A, 2003B, 2005A and 2005B General Revenue Trust Indentures, are as follows:

University Bonds	2008	2007
Tuition fees	\$ 107,111,601	\$ 97,410,523
Indirect cost recovery	83,131,576	80,506,110
Sales and service of educational activities	50,025,572	48,085,633
Auxiliary sales and service	19,018,981	22,757,692
Endowment and investment income	33,488,663	34,675,717
Other sources	48,963,979	44,889,697
Total Pledged Revenues	\$ 341,740,372	\$ 328,325,372

(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 terminating before reaching

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

Covered employees are required by statute to contribute to TRS. UAB, as the employer, contributes to TRS. The contribution requirements for fiscal years 2008, 2007, and 2006, respectively, were approximately \$121,847,000, \$99,552,000, and \$85,658,000 which consisted of \$85,454,000, \$64,871,000, and \$53,252,000 from UAB and \$36,093,000, \$36,669,000, and \$32,616,000 from employees. UAB's contribution was 11.75%, 9.36%, and 8.17% of salaries and wages for covered employees in 2008, 2007, and 2006, 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, 2007, 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 2008 and 2007, respectively, excluding employee amounts not eligible for matching, were approximately \$30,096,000 and \$28,300,000 which included approximately \$15,048,000 and \$14,150,000 each from UAB and its employees.

UAB's total salaries and wages for fiscal year 2008 and 2007, respectively, were approximately \$837,242,000 and \$797,572,000. Total salaries and wages during fiscal years 2008 and 2007, respectively, for covered employees participating in TRS were approximately \$727,266,000 and \$693,064,000, respectively. Total salaries and wages during fiscal years 2008 and 2007 for covered employees participating in TIAA CREF were approximately \$311,483,000 and \$292,770,000, 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 \$49,781,500 and \$51,716,100 as of September 30, 2008 and 2007, 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* 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.

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, 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 was \$367 per employee per month in the year ended September 30, 2008. 100% of 2008 contributions were paid in 2008. UAB contributed \$13,562,852 to

PEEHIP in 2008. 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 maybe 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 \$2,491,845 in retiree health-care and benefit expense during the year ended September 30, 2008.

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 year ended September 30, 2008 is as follows:

Actuarial valuation date	October 1, 2007
Annual required contribution	\$ 5,767,855
Interest-on obligations for retiree benefits	403,750
Annual retiree benefit costs	6,171,605
UAB Contributions	(3,679,760)
Increase in obligations for retiree benefits	2,491,845
Obligations for retiree benefits, beginning of year	—
Total obligations for retiree benefits, end of year	\$ 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 bene-

fits for UAB for year ended September 30, 2008 are as follows:

Annual retiree benefit cost	\$ 6,171,605
Percentage of annual cost contributed	59.6%
Net obligation to the retiree benefit plan	\$ 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 was as follows:

Actuarial Accrued liability	\$	53,739,237
Actuarial value of plan assets		—
Unfunded actuarial accrued liability	\$	53,739,237
Funded ratio		Zero
Covered payroll	\$	837,241,519
Unfunded actuarial accrued liability as a percentage of covered payroll		6.4%

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 cost method-projected unit cost method;
- assumed return on investment of 7% per year, based on the estimated return on UAB's assets expected to be used to finance benefits;
- health care cost trend rate 9% for the year ended September 30, 2008 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%

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 (FDSLPL) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLPL enables an eligible student or parent to obtain a loan to pay for the student's cost

of attendance directly through the university rather than through private lenders. UAB began participation in the FDSLPL on July 1, 1994. As a university qualified to originate loans, UAB is responsible for handling the complete loan process, including funds management, as well as promissory note functions. UAB is not responsible for collection of these loans. During the years ended September 30, 2008 and 2007, respectively, UAB disbursed approximately \$88,907,000 and \$76,850,000 under the FDSLPL.

(14) Grants and Contracts

At September 30, 2008 and 2007, UAB had been awarded approximately \$395,390,000 (unaudited) and \$376,739,000 (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.

(15) Net Patient Service Revenue

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

Medicare—Substantially all acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are

based on clinical, diagnostic, and other factors. Additionally, the Hospital is reimbursed for both its direct and indirect medical education costs (as defined), principally based on per-resident prospective payment amounts and certain adjustments to prospective rate-per-discharge operating reimbursement payments. The Hospital generally is reimbursed for certain retroactively settled items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicare fiscal intermediary. The Hospital's cost reports have been audited and settled for all fiscal years through 2006. Revenue from the Medicare program accounted for approximately 27% and 28% of the Hospital's net patient service revenue for the years ended September 30, 2008 and 2007.

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 2007. Revenue from the Blue Cross program accounted for approximately 26% of the Hospital's net patient service revenue for each of the years ended September 30, 2008 and 2007.

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 \$11,926,000 and \$11,103,000 in 2008 and 2007, 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 16% and 15% of the Hospital's net patient service revenue for years ended September 30, 2008 and 2007, 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:

	2008	2007
Gross Patient Service Revenue	\$ 2,791,886,226	\$ 2,599,308,008
Less provision for contractual and other adjustments	(1,826,966,007)	(1,699,597,898)
Less provision for bad debts	(206,628,468)	(181,652,584)
Total Net Patient Service Revenue	<u>\$ 758,291,751</u>	<u>\$ 718,057,526</u>
Capitation Revenue	51,346,767	58,390,307
Other Revenue	60,449,265	54,468,269
Total Hospital sales revenue	<u>\$ 870,087,783</u>	<u>\$ 830,916,102</u>

(16) Charity Care

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

records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services, and supplies and equivalent service statistics. The following information measures the level of charity care provided during the year ended September 30, 2008 and 2007:

	2008	2007
Approximate charges forgone, based on established rates	\$ 119,715,000	\$ 124,602,000
Percentage of charity charges to total charges	4.3%	4.8%

(17) Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2008 and 2007, follows:

	2008	2007
Other	25%	25%
Self-pay patients	24	25
Medicare	16	15
Blue Cross	18	16
Medicaid	17	19
	100%	100%

(18) Construction Commitments and Financing

UAB has contracted for the construction and renovation of several facilities. At September 30, 2008 and 2007, the estimated remaining cost to complete the construction and renovation of these facilities was approximately \$159,247,000 (unaudited) and \$233,745,000 (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 4% to 5%. The discount rate used in 2008 and 2007 was 4%. 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, 2008 and 2007, 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 4% in 2008 and 2007.

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, 2008 and 2007 are presented as follows for UAB:

Self Insured Liabilities	2008	2007
Balance, beginning of year	\$ 9,016,871	\$ 7,395,264
Claims incurred and changes in estimates	56,286,745	47,311,073
Claim payments	(50,643,378)	(45,689,466)
Balance, end of year	\$ 14,660,238	\$ 9,016,871

(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 \$308,000 and \$2,500,000 at September 30, 2008 and 2007, 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) 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.

(21) Operating Expenses by Function

Total operating expenses by functional classification for the year ended September 30, 2008 and 2007, are as follow for UAB:

September 30, 2008	Salaries, Wages, and Benefits	Supplies and Services	Depreciation and Amortization	Scholarships and Fellowships	Discontinued Operations	Total
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
Total Operating Expenses	\$ 1,150,426,905	\$ 892,634,667	\$ 111,343,621	\$ 20,498,768	\$ 11,380,047	\$ 2,186,284,008

September 30, 2007	Salaries, Wages, and Benefits	Supplies and Services	Depreciation and Amortization	Scholarships and Fellowships	Discontinued Operations	Total
Instruction	\$ 207,479,313	\$ 30,398,675	\$	\$	\$	\$ 237,877,988
Research	195,985,700	98,620,115			11,817,621	306,423,436
Public service	49,312,139	32,980,655				82,292,794
Academic support	105,445,478	219,132,997				324,578,475
Student services	13,799,278	7,979,709				21,778,987
Institutional support	76,347,450	31,988,403				108,335,853
Operations and maintenance of plant	28,350,458	34,099,267				62,449,725
Scholarships and fellowships				22,141,254		22,141,254
Hospital	425,306,740	345,699,072				771,005,812
Auxiliary	14,567,841	19,179,675				33,747,516
Depreciation and amortization			119,319,242			119,319,242
Total Operating Expenses	\$ 1,116,594,397	\$ 820,078,568	\$ 119,319,242	\$ 22,141,254	\$ 11,817,621	\$ 2,089,951,082

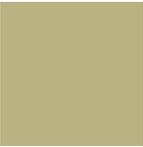
(22) Segment Reporting

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, 2008 and 2007 is as follows:

University:	2008	2007
CONDENSED STATEMENT OF NET ASSETS		
Current assets	\$ 290,673,062	\$ 299,396,018
Capital assets, net	789,891,751	788,025,527
Other assets	584,917,770	664,111,505
Total assets	\$ 1,665,482,583	\$ 1,751,533,050
Current liabilities	190,416,264	211,203,828
Long-term debt	229,640,276	245,147,793
Other noncurrent liabilities	16,309,098	16,422,623
Total liabilities	\$ 436,365,638	\$ 472,774,244
Invested in capital net of related debt	\$ 546,061,114	\$ 533,140,468
Restricted	386,451,002	449,192,988
Unrestricted	296,604,839	296,425,350
Total net assets	\$ 1,229,116,945	\$ 1,278,758,806
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
Tuition and fees, net	\$ 77,573,931	\$ 73,146,945
Grant and contract revenue	402,498,498	391,375,731
Sales and services, auxiliary	19,018,981	22,757,692
Other operating revenues	98,989,551	92,975,330
Salaries, wages, and benefits	(639,904,393)	(641,776,958)
Supplies and services	(251,125,286)	(245,850,763)
Depreciation expense	(63,116,441)	(65,655,326)
Scholarships and fellowships	(20,498,768)	(22,141,254)
Operating loss	\$ (376,563,927)	\$ (395,168,603)
State appropriations	311,931,425	269,724,758
Investment (loss) income	(88,013,023)	96,172,992
Interest expense	(9,627,324)	(10,727,884)
Gifts	28,018,234	30,592,660
Other nonoperating revenues	13,894,657	18,209,075
(Loss) income before other changes in net assets	\$ (120,359,958)	\$ 8,802,998
Capital and endowment gifts	13,320,107	14,421,499
Other	14,554,233	32,859,806
Intergovernmental transfers	\$ 42,843,757	\$ 47,212,220
(Decrease) increase in net assets	(49,641,861)	103,296,523
Net assets, beginning of year	1,278,758,806	1,175,462,283
Net assets, end of year	\$ 1,229,116,945	\$ 1,278,758,806
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$ (305,811,923)	\$ (300,690,670)
Noncapital financing activities	432,650,845	354,672,465
Capital and related financing activities	(80,762,709)	(86,544,926)
Investing activities	(46,828,270)	35,201,142
Net (decrease) increase in cash and cash equivalents	\$ (752,057)	\$ 2,638,011
Cash and cash equivalents, beginning of year	59,324,891	56,686,880
Cash and cash equivalents, end of year	\$ 58,572,834	\$ 59,324,891

Hospital:	2008	2007
CONDENSED STATEMENT OF NET ASSETS		
Current assets	\$ 180,802,069	\$ 166,869,024
Capital assets, net	600,968,867	516,865,837
Other assets	504,786,825	631,043,403
Total assets	\$ 1,286,557,761	\$ 1,314,778,264
Current liabilities	\$ 89,775,003	\$ 68,283,126
Long-term debt	482,493,762	484,854,008
Other noncurrent liabilities		
Total liabilities	\$ 572,268,765	\$ 553,137,134
Invested in capital net of related debt	133,171,058	107,991,935
Restricted	27,746,055	28,056,677
Unrestricted	553,371,883	625,592,518
Total net assets	\$ 714,288,996	\$ 761,641,130
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS		
Operating revenues	\$ 865,462,798	\$ 830,916,102
Operating expenses	(812,346,578)	(771,005,812)
Depreciation expense	(42,641,507)	(48,179,574)
Operating income	\$ 10,474,713	\$ 11,730,716
State appropriations	46,157,526	41,109,246
Investment (loss) income	(53,693,984)	59,931,695
Interest expense	(17,638,303)	(17,858,653)
Other nonoperating expenses	(984,930)	(305,935)
(Loss) income before other changes in net assets	\$ (15,684,978)	\$ 94,607,069
Capital and endowment gifts	1,556,792	942,813
Intergovernmental transfers	(33,223,948)	(31,415,265)
(Decrease) increase in net assets	(47,352,134)	64,134,617
Net assets, beginning of year	761,641,130	697,506,513
Net assets, end of year	\$ 714,288,996	\$ 761,641,130
CONDENSED STATEMENT OF CASH FLOWS		
Net cash provided (used) by:		
Operating activities	\$ 96,857,132	\$ 49,765,376
Noncapital financing activities	9,170,879	2,675,422
Capital and related financing activities	(136,473,434)	(78,345,280)
Investing activities	(79,564,754)	35,562,896
Net (decrease) increase in cash and cash equivalents	\$ (110,010,177)	\$ 9,658,414
Cash and cash equivalents, beginning of year	137,491,079	127,832,665
Cash and cash equivalents, end of year	\$ 27,480,902	\$ 137,491,079



(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 effect UAB's accounting for the PEEHIP.

In September 2006, the GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues* effecting financial statement periods beginning after December 15, 2006. GASB Statement No. 48 details criteria used to determine whether certain revenue generating transactions should be classified as a sale or a collateralized borrowing. After evaluating GASB Statement No. 48, UAB has determined it did not have a material impact to its financial statements.

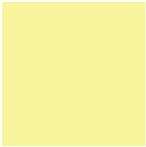
GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, was issued by the GASB in December 2006. This statement requires that governments provide more detailed information regarding the effect of environmental cleanups and will be effective for financial periods beginning after December 15, 2007. UAB is currently evaluating the impact that GASB Statement No. 49 will have on its financial statements.

GASB Statement No. 50, *Pension Disclosures, an amendment of GASB Statements No. 25 and No. 27*, was issued by the GASB in May 2007. This statement more closely aligns current pension disclosure requirements for governments with those that

governments are beginning to implement for retiree health insurance and other post-employment benefits and will be effective for financial periods beginning after June 15, 2007. UAB adopted GASB Statement No. 50 as of October 1, 2007.

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 is currently evaluating the impact that GASB Statement No. 52 will have on its financial statements.

(24) Subsequent Events

The financial markets, both domestically and internationally, are currently demonstrating significant volatility on a daily basis that affects the valuation of investments in a recessionary environment. As a result, the fair values of the investments held by System Pools have declined subsequent to September 30, 2008. These declines are consistent with benchmark returns based upon the asset allocation of the various investment pools managed by The University of Alabama System Office. The asset allocation for each investment pool was established by the Board taking into account the fund's investment objective, time horizon, liquidity needs, and risk tolerance.



The University of Alabama at Birmingham
Required Supplementary Information
September 30, 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 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 9% for the year ended September 30, 2008 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 Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (Deficit)	Funded Ratio	Annual Covered Payroll	(Deficit)/ Covered Payroll
October 1, 2007	None	\$ 53,739,237	\$ (53,739,237) Zero	\$ 837,241,519	-6.4%

The University of Alabama at Birmingham Administration

As of September 30, 2008



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As of September 30, 2008

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