



## **2005 Financial Report**

The University of  
Alabama at Birmingham



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

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The University of Alabama at Birmingham  
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 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 \$1.7 billion. With over 17,000 students, UAB awarded more than 3,000 degrees and certificates during the 2003-2004 academic year. UAB is located in the heart of Alabama's largest metropolitan area, occupying more than 11.7 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, UAB employs more than 18,000 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 components of Other Nonmajor Funds.

## 2005 Overview

In fiscal year 2005, UAB continued its impressive history of growth both physically and fiscally. After nearly a decade of planning and construction, the North Pavilion of UAB Hospital opened its doors. The 885,000 square-foot, state-of-the-art facility enables UAB to meet the current health care needs of its patients, and to accommodate future advances in medical care. The building features 37 operating suites, an emergency department the size of a football field, private intensive care unit beds, as well as the latest technology to allow health care providers with quick and easy access to patient data.

UAB also opened the Campus Recreation Center. The facility features a 1/8-mile running track that offers runners and walkers panoramic views of the UAB campus, and an 18,000-square-foot weight and fit-

ness area with some 200 stations. Some 2,000 visits per day from students, faculty, staff and alumni make the recreation center a new campus hub. Participants can try their hand at the indoor climbing wall, as well as take advantage of the game room, swimming pool, and basketball and racquetball courts.

UAB continued its tradition of attracting research funding, with more than \$400 million in FY 2004-05. UAB received an \$18 million, five-year grant from the National Institutes of Health to develop a Specialized Center of Clinically Oriented Research, or SCCOR, program, focusing specifically on heart failure research. The SCCOR will bridge the efforts of a host of researchers who will combine their expertise and resources to more fully understand how and why heart failure occurs. The UAB Comprehensive Cancer Center received the biggest grant in its 34-year history as it continues to bring innovative treatment and research programs to the people of Alabama and the Deep South. The five-year, \$30.9 million award continues the core funding from the National Cancer Institute to the Cancer Center.

UAB had its second best fund-raising year ever in 2004-05. Private gifts from individuals, corporations and private foundations totaled \$72.6 million. And almost all of the new money raised—some 98 percent—was in the form of current outright gifts or pledges payable over the next three to five years, so it could be put to its designated use right away.

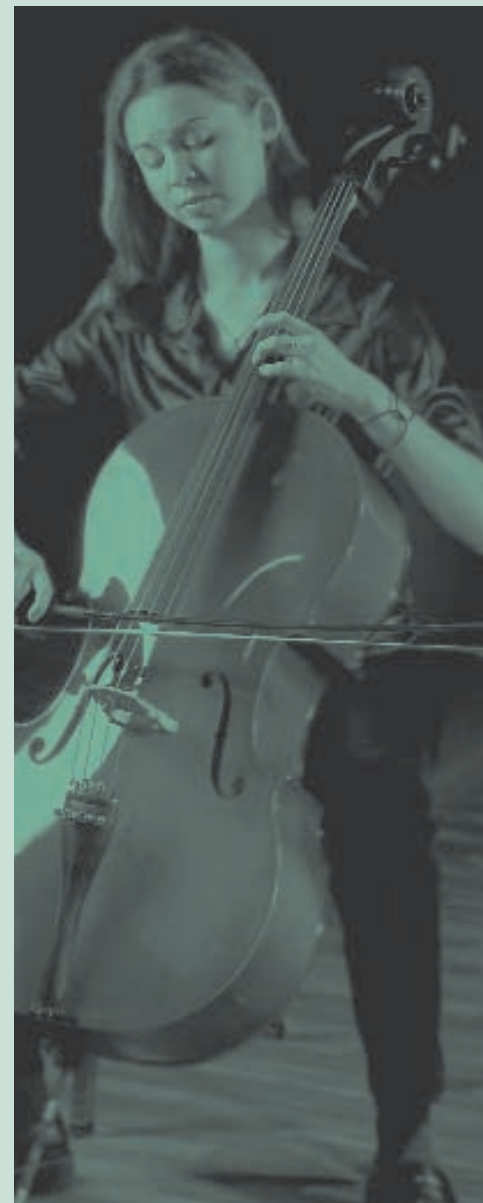
## Vision

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 enhancement 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 Related Professions, Medicine, Natural Sciences and Mathematics, Nursing, Optometry, Public Health, and Social and Behavioral Sciences, as well as the UAB Graduate School.

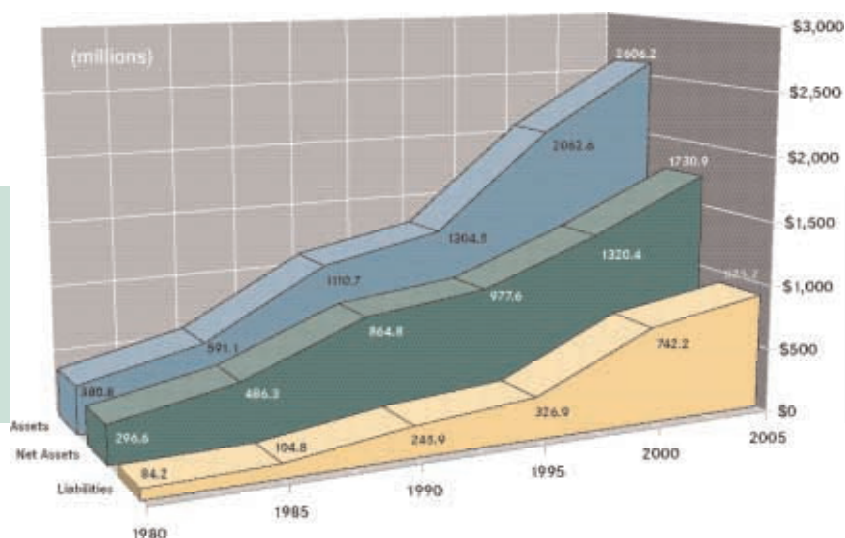




# Financial Highlights

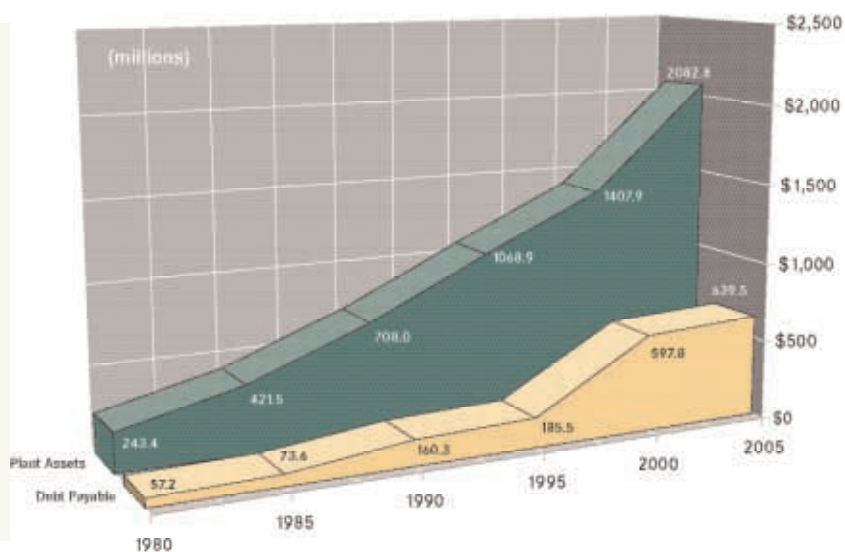
## Assets and Liabilities

Since 1980 UAB's assets have increased by \$2.5 billion, while liabilities increased by only \$0.9 billion. The fund balances, or "net assets" as they have become known under the new GASB 35 accounting principles, grew during this time period by \$1.56 billion.



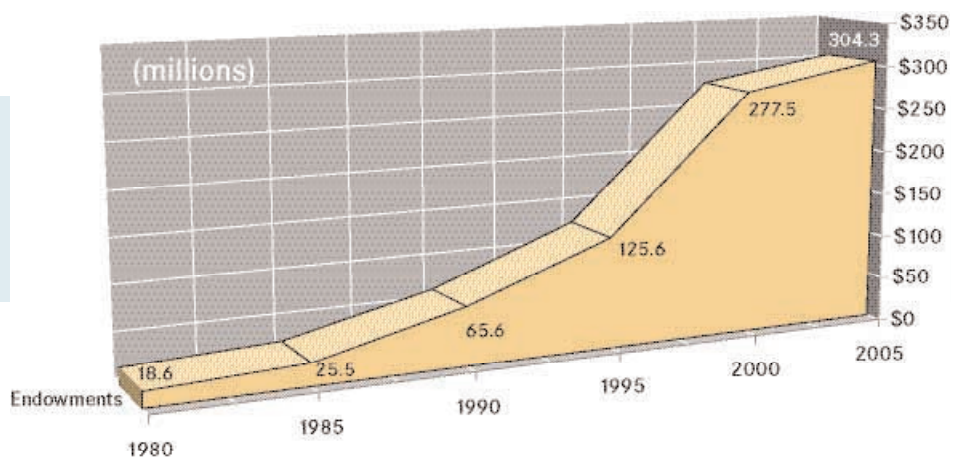
## Capital Expansion

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 in 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 1980 and the associated increase in long-term debt. The investment in plant figures do not include the effect of accumulated depreciation.



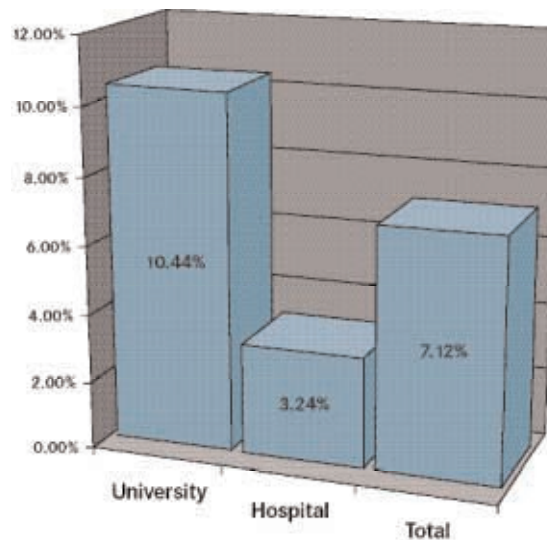
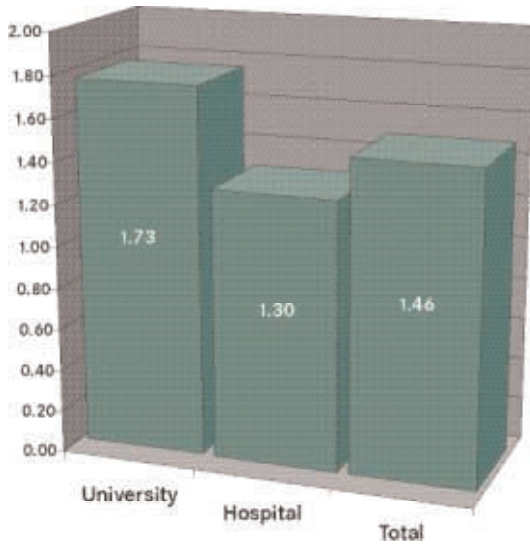
## Endowment Growth

The increase in the endowment and quasi-endowment assets from \$18.6 million to \$304.3 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 year ended September 30, 2005, 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

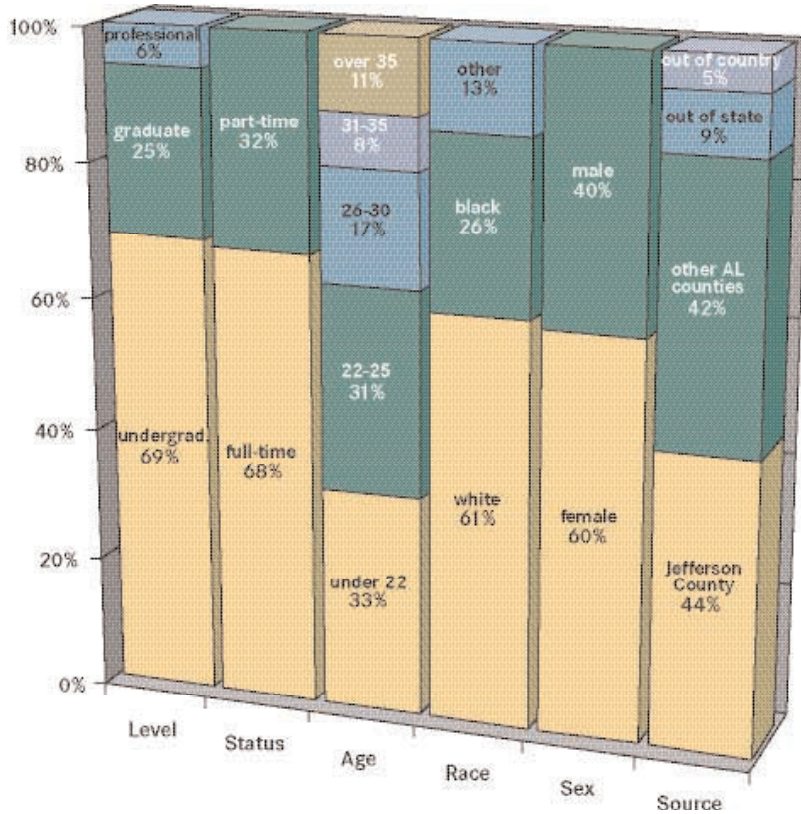
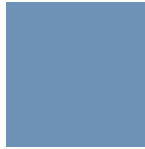
This ratio indicates the relative liquidity of the institution. A ratio of 1:1 or greater indicates that an institution has sufficient liquid assets to satisfy all related liabilities. A ratio of less than 1:1 means that there would not be sufficient liquid assets to satisfy all debts as of the reporting 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 16,572  
As of Fall 2004

Excludes Advanced Professionals

## Student Financial Aid

In fiscal year 2005, 65.4% of UAB's students received student financial aid from UAB. Financial aid disbursements of \$116.7 million were provided from the following sources:

Federal Government	
Student Loans	\$ 73,004,144
Grants	10,318,616
Work-Study	1,497,970
Subtotal Federal	\$ 84,820,730
State Government	\$ 181,518
University	
Loans	\$ 328,198
Scholarships	31,340,727
Subtotal University	\$ 31,668,925
Total	\$ 116,671,173



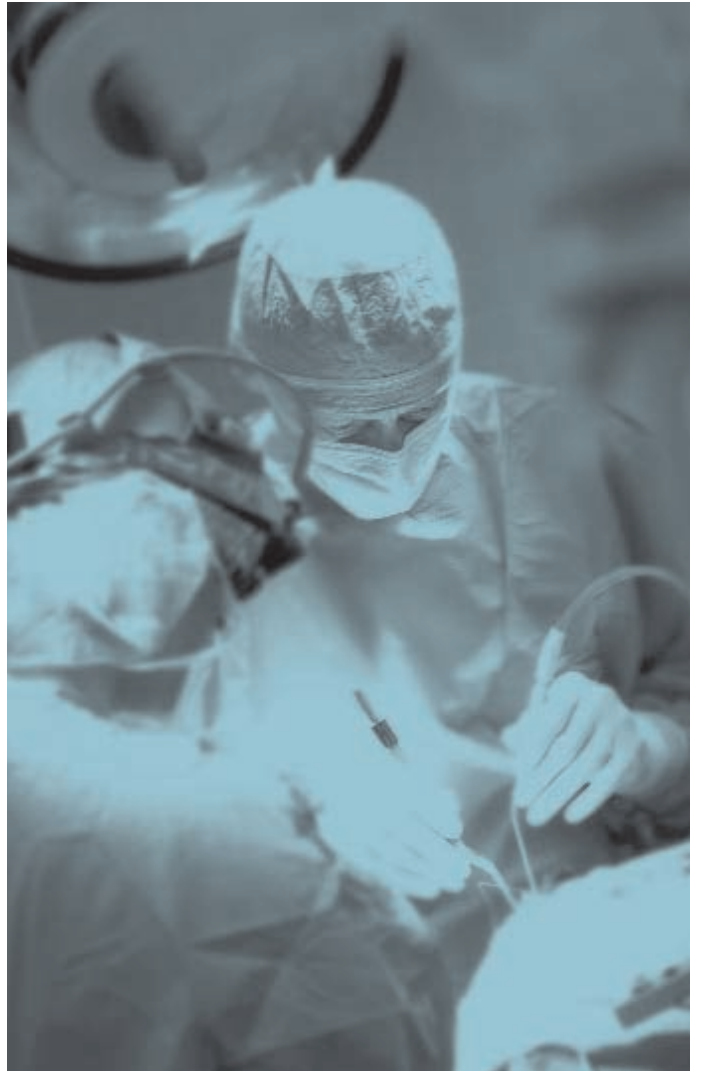


## Student Headcount

Enrollment for the fall semester of the 2004-2005 school year is outlined in the table at right.

Fall 2004	Undergraduate	Graduate	Professional*	Total
School of Arts and Humanities	1,315	89		1,404
School of Business	1,725	345		2,070
School of Education	798	822		1,620
School of Engineering	693	252		945
School of Natural Sciences and Mathematics	1,594	201		1,795
School of Social and Behavioral Sciences	1,811	194		2,005
Unclassified	2,168	449		2,617
<b>Subtotal</b>	<b>10,104</b>	<b>2,352</b>		<b>12,456</b>
Academic Health Center				
School of Medicine	2		1,491	1,493
School of Dentistry	20	5	310	335
School of Optometry		25	178	203
School of Nursing	329	300		629
School of Health Related Professions	1,015	645		1,660
School of Public Health		363		363
Joint Health Sciences		445		445
<b>Subtotal Academic Health Center</b>	<b>1,366</b>	<b>1,783</b>	<b>1,979</b>	<b>5,128</b>
<b>Total Enrollment</b>	<b>11,470</b>	<b>4,135</b>	<b>1,979</b>	<b>17,584</b>

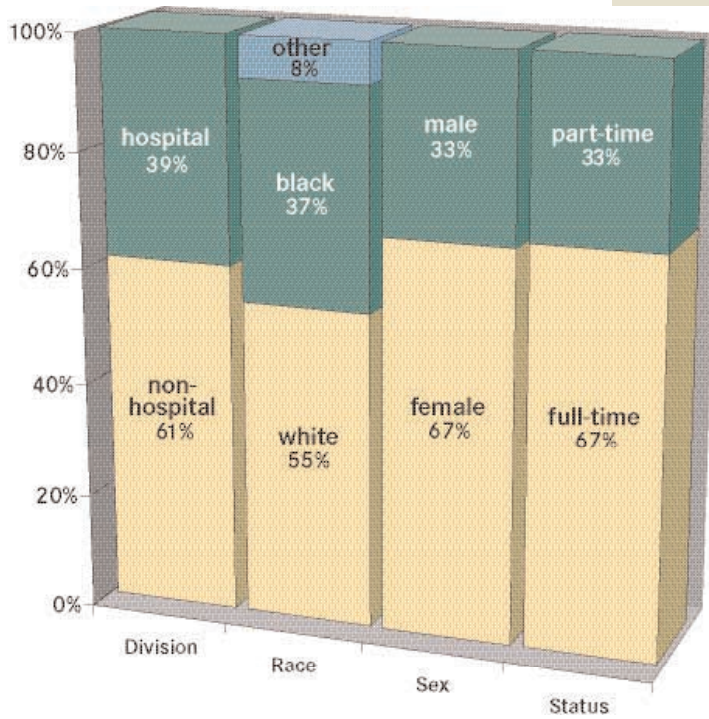
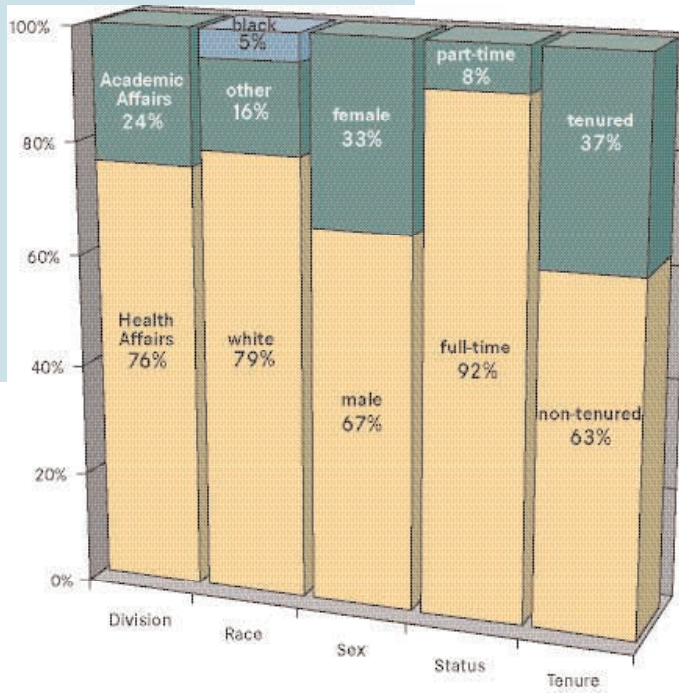
\* Includes 967 first professionals and 1,012 advanced professionals



# Faculty Profile

Total 2,059

As of Fall 2004



# Staff Profile

Total 16,422

As of Fall 2004



# State Appropriations

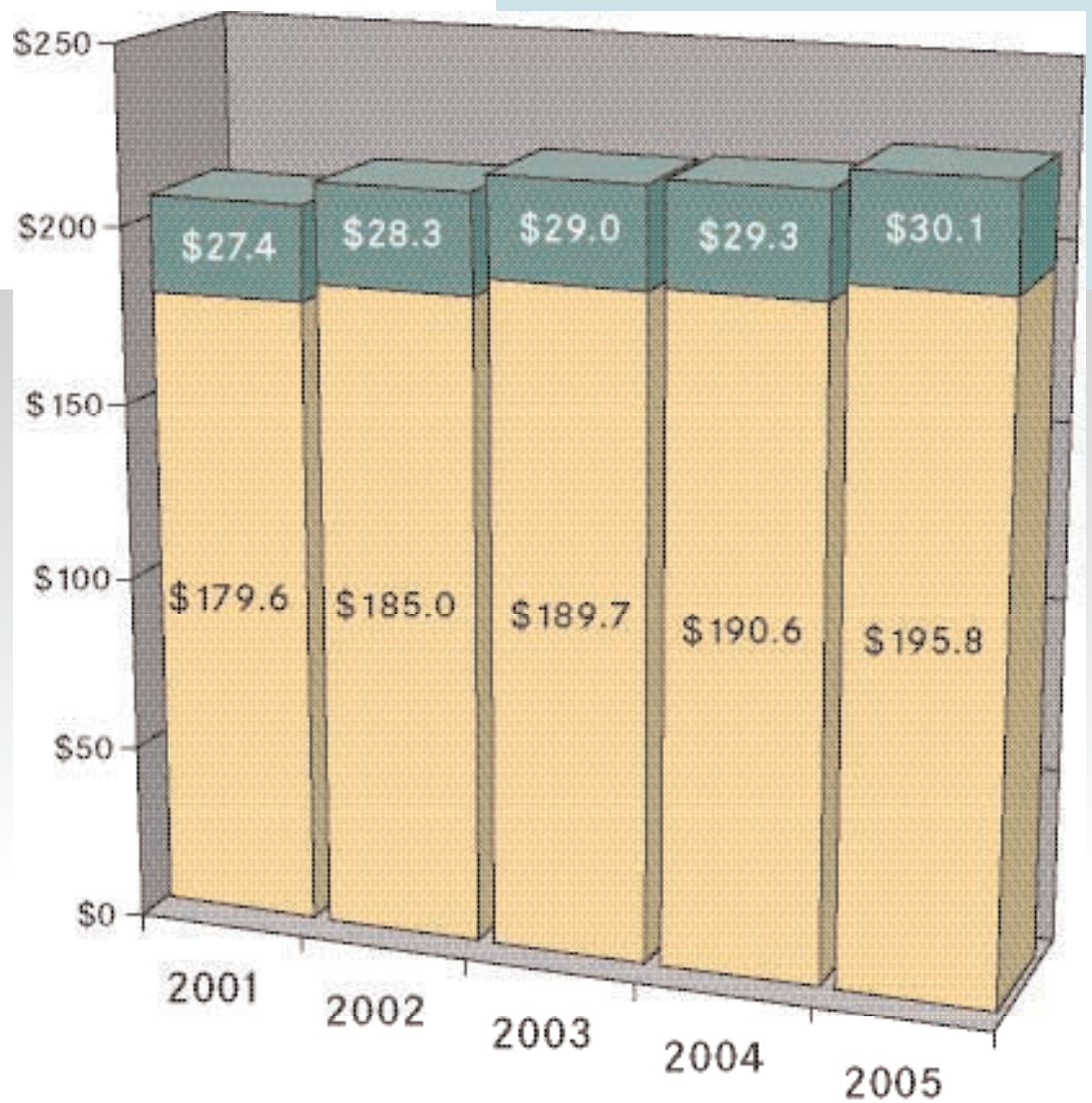
The State appropriations for UAB are made by the State Legislature based upon a process which involves requests from the Board of Trustees of The University of Alabama, and budget recommendations by the Alabama Commission on Higher Education and the Governor. State funds are appropriated annually from the Educational Trust Fund (ETF) to UAB. For the fiscal year ended September 30, 2005, UAB received direct funding from the ETF in the amount of \$225,966,057.

## Appropriations Received

Fiscal years ended September 30

(Dollars in millions)

■ Hospital    ■ University

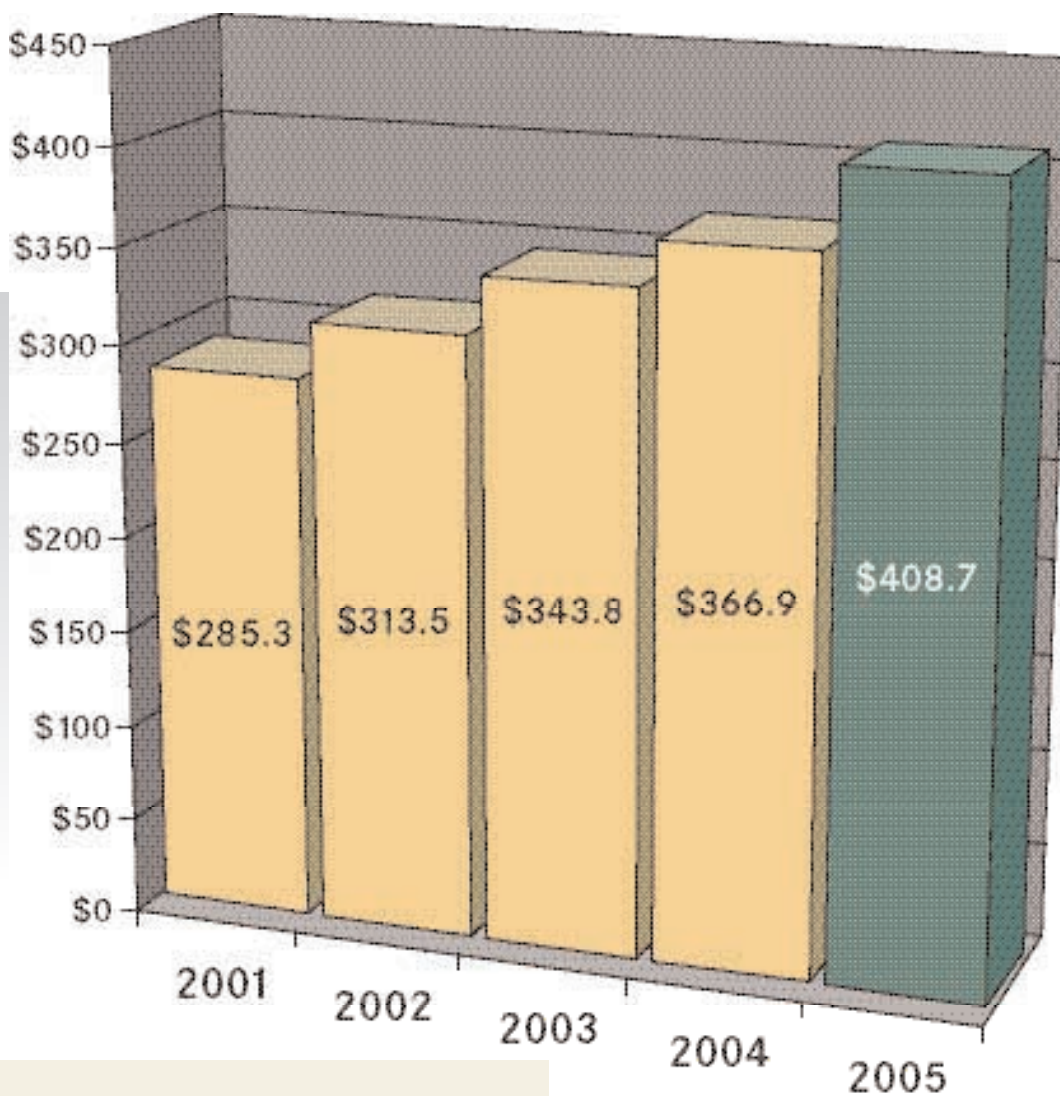


# Sponsored Grants and Contracts

During fiscal year 2005, UAB received \$408.7 million in sponsored grants and contracts revenues (including \$81.6 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. As a measure of UAB's success in attracting funding for sponsored research, according to the most current available data, UAB ranked 18th nationally among colleges and universities in funds received from NIH, 26th in federal funds provided for

research and development expenditures, and 20th in the overall national ranking. Nonfederal funding sources include state agencies, local governmental agencies, and a wide variety of private sponsors.

Grant and contract awards from all sources have increased rapidly through the years. Revenues from grants and contracts (including indirect cost recovery) increased from \$285.3 million during 2001 to \$408.7 million during 2005, an increase of 43.3% 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 new University Hospital, a nine-story diagnostic and treatment facility, opened on November 17, 2004. The Hospital also includes 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, UAB Medical West, and Baptist Montgomery.

## Hospital Awards and Accolades

The Hospital has continued to demonstrate quality in both its patient care and work environments. It remains the only Alabama hospital to achieve Magnet Nursing status as designated by the American Nurses Association's Credentialing Center. During fiscal year 2005, the Hospital was once again awarded the Alabama Quality Award of Excellence in Continuous Productivity and Quality Improvement by the Alabama Productivity Center. "Best Doctors In America" included 233 UAB physicians on its 2005 list comprising more than two-thirds of all specialists from the Birmingham metropolitan area now in the Best Doctors database. The Hospital has also received the 2005-2006 Consumer Choice Award of the National Research Corporation—one of only three hospitals in Alabama (the only hospital in the Birmingham area) to attain the designation



and among just 207 of 3,000 hospitals nationally. UAB Hospital has received this designation seven times since 1999.

In addition, two UAB Hospital specialty programs made the Top 10 and nine specialty programs are ranked in this year's *U.S. News and World Report's* annual "America's Best Hospitals" issue. All 6007 U.S. hospitals were evaluated. Of those, only 176 hospitals scored high enough this year to rank in even a single specialty.

Furthermore, UAB Hospital was one of

only 25 hospitals to make the US News list above while also being named as one of the "most wired hospitals in the nation" by Hospitals and Health Networks. In addition, the annual survey results show, for the first time, a connection between those hospitals considered the most technologically advanced and quality of health care.

In June of 2005, University Hospital also achieved its highest ever Press Ganey patient satisfaction rating.



## Banner Year

The much anticipated and carefully planned move to the North Pavilion was completed with tremendous success. This feat was quite possibly the largest logistical challenge that University Hospital has ever known.

The new University Hospital (North Pavilion) is an 885,000 square foot, nine story diagnostic and treatment facility. The building houses 37 operating suites, four intensive care units, three medical surgical units, the Emergency department, and several support departments. With the new facility, the Hospital experienced record volumes for operating room cases and emergency department visits.

	<u>2005</u>	<u>2004</u>
Beds in service	908	854
Patient discharges	45,399	41,775
Inpatient days	272,772	258,786
Operating room cases	20,251	18,186
Emergency department visits	56,518	45,795
Patient origin:		
Jefferson County	45.2%	44.3%
Other Alabama counties	46.8%	47.0%
Out of state	8.0%	8.7%

The year was also marked with high profile visits by Governor Bob Riley and Secretary of State Condoleezza Rice. These distinguished guests toured the new state-of-the-art facilities and heard presentations on current healthcare issues.

Critical Care Transport upgraded its medical transport aircraft with a new jet during the year. The aircraft design doubles the patient capacity and includes features suggested by the aircraft's primary mechanic/pilot that will decrease downtime thereby increasing its availability for medical transports. In addition, the jet is equipped with avionics that allow it to fly at higher altitudes, providing greater capability to fly above bad weather.

Improvements in the Women's and Infant's services arena was marked by the grand opening of a Maternal Evaluation Unit (MEU) as well as expanded and improved neonatal services.

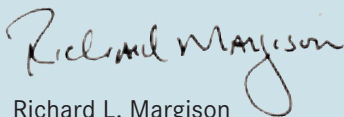


# Management's Responsibility for Financial Reporting


The accompanying financial statements of the University of Alabama at Birmingham (UAB) for the year ended September 30, 2005, 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 certified public accountants.



Richard L. Margison  
Vice President for Financial Affairs  
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To the Board of Trustees of The University of Alabama and the President of  
The University of Alabama at Birmingham:

In our opinion, based upon our audit and the reports 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 each major fund and the aggregate remaining fund information, which collectively comprise the basic financial statements of The University of Alabama at Birmingham (UAB), a campus of the University of Alabama System, present fairly, in all material respects, the respective financial position of each major fund and the aggregate nonmajor fund information of UAB at September 30, 2005, and the respective changes in financial position and cash flows thereof for the year 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Southern Research Institute and Triton Health Systems, L.L.C., which statements collectively represent 57%, 67%, and 84%, respectively, of the assets, net assets, and revenues of the aggregate remaining fund information; and 5%, 5%, and 11%, respectively, of the assets, net assets, and revenues of UAB at September 30, 2005 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 and Triton Health Systems, L.L.C, is based on the reports of the other auditors. We conducted our audit 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 audit provides a reasonable basis for our opinions.

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, 2005 and its changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 3, UAB has restated its net assets as of September 30, 2004. We have audited the adjustments described in Note 3 that were applied to restate the opening net asset balances as of October 1, 2004. In our opinion, such adjustments were appropriate and have been applied to the beginning net asset balances as of October 1, 2004.

The management's discussion and analysis on pages 15 through 21 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted 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 opinions on the financial statements that collectively comprise UAB's basic financial statements. The introductory information on pages 2 through 13 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.



March 28, 2006

# 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 year ended September 30, 2005. The financial statements are presented in four columns: University, Hospital, Other Nonmajor Funds, and Total. The University and the Hospital are reported as major funds in the accompanying financial statements because each of these activities presents information that management believes is particularly important to financial statement users. The Other Nonmajor Funds column includes Triton Health Systems, L.L.C. (Triton), Southern Research Institute (SRI), The University of Alabama at Birmingham Professional Liability Trust Fund (PLTF), and UAB Research Foundation (UABRF). UAB's financial statements have been restated for beginning net assets as of September 30, 2004, as more fully explained in Footnote 3. The following discussion and analysis provides an overview of UAB's financial activities. The comparative information for the year ended September 30, 2004 has not been restated to include the impact of PLTF, SRI and UABRF. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

## Financial Overview

UAB's financial position exhibited continued growth, as assets totaled \$2.88 and \$2.65 billion at September 30, 2005, and 2004 an increase of \$224.9 million or 8.48% from 2004 to 2005, primarily due to the addition of two additional components of other nonmajor funds, Southern Research Institute (SRI), and UAB Research Foundation (UABRF), and the continued expansion of capital assets and increasing investments values in conjunction with the favorable investment market position as of September 30, 2005.

Total liabilities increased \$23.8 million or 2.45% from September 30, 2004 to September 30, 2005. The increase results from continued growth in expenditures offset by the reduction in bonds payable related to annual principal payments, and the addition of PLTF, SRI and UABRF as additional components of other major funds. In September 2005, UAB issued \$60,375,000 in Series 2005A General Revenue Bonds. The bonds pay interest at varying rates from 3.0% to 5.0% with principal due annually through October 1, 2020. The proceeds from this offering were used to advance refund \$62,695,000 of Series 1999 General Revenue Bonds.

The change in net assets reflects the operating and nonoperating activity of UAB, which results from revenues, expenses, and gains and losses, and is summarized for the years ended September 30, 2005, and 2004, as follows:

	2005	2004
Total operating revenues	\$ 1,510,771,008	\$ 1,300,009,042
Total operating expenses	1,782,976,790	1,558,785,771
Operating loss	\$ (272,205,782)	\$ (258,776,729)
Total nonoperating income and capital endowment activities	387,787,946	387,962,627
Increase in net assets	\$ 115,582,164	\$ 129,185,898

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 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.

## Statement 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 difference between total assets and total liabilities (net assets) is one indicator 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, 2005, and 2004, is as follows:

	2005	2004
<b>Assets</b>		
Capital Assets	\$ 1,277,517,490	\$ 1,150,164,600
Other Assets	1,598,495,098	1,500,937,788
<b>Total Assets</b>	<b>\$2,876,012,588</b>	<b>\$2,651,102,388</b>
<b>Liabilities and Net Assets</b>		
Current Liabilities	\$ 291,702,606	\$ 313,525,238
Noncurrent Liabilities	701,627,138	656,024,438
<b>Total Liabilities</b>	<b>\$ 993,329,744</b>	<b>\$ 969,549,676</b>
Net Assets	1,882,682,844	1,681,552,712
<b>Total Liabilities and Net Assets</b>	<b>\$2,876,012,588</b>	<b>\$2,651,102,388</b>



At September 30, 2005, the major categories of current assets consist primarily of cash and cash equivalents, short-term investments, and accounts receivable, which totaled \$501.7 million of the \$534.9 million, a decrease of \$52.2 million or 9.4% from 2004. This decrease is a result of the inclusion of the PLTF as an other nonmajor fund offset by an increase in accounts receivable resulting from an increase in grants and contracts revenue and an increase in current operating investments.

Total current liabilities of \$291.7 million in 2005 consisted primarily of vendor payables, accrued payroll and related benefits, and deferred revenue, which totaled \$270.3 million, compared to \$273.5 million at September 30, 2004, a decrease of \$3.2 million or 1.2% from 2004.

UAB's endowment, life income, and other investments increased \$26.6 million to \$306.2 million from September 30, 2004, to September 30, 2005. 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-endowment funds.

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 include land, buildings, fixed equipment systems, and inventoried equipment. The original costs of capital assets increased approximately \$161.9 million from September 30, 2004, to September 30, 2005. This increase consists primarily of capital expenditures and capital additions totaling \$487.3 million in 2005. 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 \$50.8 million, debt proceeds of \$15.2 million, and the remainder by UAB funds designated for capital purchases in 2005.

Capital projects in process at September 30, 2005, include the construction of the new University Hospital and additional research and administrative space.

UAB's long-term debt, consisting of bonds and capital leases, totaled \$641.7, and \$659.8 million at September 30, 2005, and 2004, respectively. The decrease in debt during 2005 consisted primarily of the principal payments made in accordance with the debt instruments offset by the issuance of \$4.7 million in additional capital leases.





## Net Assets

Net assets represent the residual interest in UAB's assets after liabilities are deducted. UAB's net assets at September 30, 2005, and 2004, are summarized as below:

	<b>2005</b>	<b>2004</b>
<b>University and Other Nonmajor Funds</b>		
Invested in capital assets, net of related debt	\$ 544,835,571	\$ 441,043,503
Restricted		
Nonexpendable	204,588,633	187,797,125
Expendable	155,629,070	168,890,113
Unrestricted	357,549,105	285,734,980
Total Net Assets	<u>\$ 1,262,602,379</u>	<u>\$ 1,083,465,721</u>
<b>Hospital</b>		
Invested in capital assets, net of related debt	\$ 91,015,655	\$ 63,162,698
Restricted		
Nonexpendable	128,099	128,099
Expendable	19,923,444	18,429,788
Unrestricted	509,013,267	516,366,406
Total Net Assets	<u>\$ 620,080,465</u>	<u>\$ 598,086,991</u>
<b>Total UAB</b>		
Invested in capital assets, net of related debt	\$ 635,851,226	\$ 504,206,201
Restricted		
Nonexpendable	204,716,732	187,925,224
Expendable	175,552,514	187,319,901
Unrestricted	866,562,372	802,101,386
Total Net Assets	<u><u>\$ 1,882,682,844</u></u>	<u><u>\$ 1,681,552,712</u></u>

Net assets invested in capital assets, net of related debt, represent UAB's capital assets, net of accumulated depreciation and outstanding principal of debt attributable to the acquisition, construction, or improvement of those assets. The \$131.6 million increase in 2005 reflects the continued capital asset development in accordance with its long-range capital plan.

Restricted nonexpendable net assets include UAB's permanent endowment funds and annuity and life income assets that will ultimately become a pure endowment. The \$16.8 million increase results from the net increase in fair value of investments and gifts in 2005. Restricted expendable net assets are subject to externally imposed restrictions governing their use.

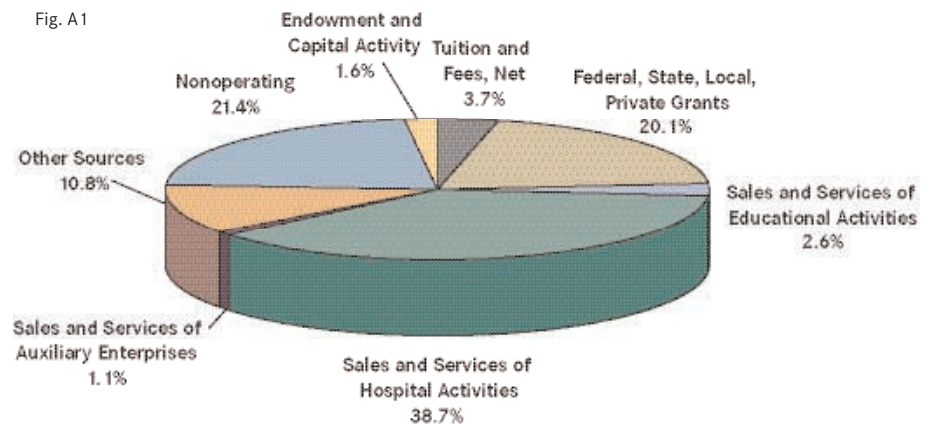
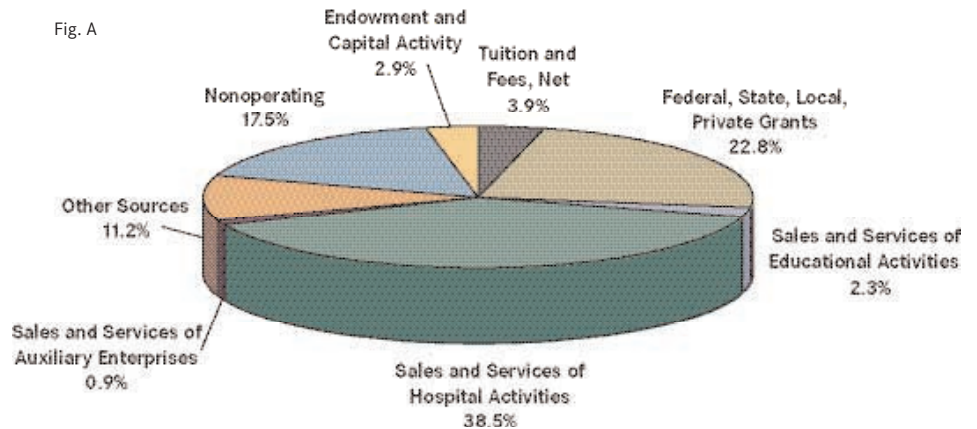
Although unrestricted net assets are not subject to externally imposed restrictions, UAB has designated available unrestricted net assets to be used for academic and research programs as well as capital projects.

## Statement 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 accounting principles generally accepted in the United States of America, even though the state-appropriated funds are used to support the operations of UAB. A summarized comparison of UAB's revenues, expenses, and changes in net assets for the years ended September 30, 2005, and 2004, is presented at right:

	2005	2004
<b>Operating Revenues</b>		
Student tuition and fees, net	\$ 72,953,645	\$ 62,948,898
Grants and contracts	433,332,666	339,577,049
Sales and services	791,038,438	716,096,982
Other revenues	213,446,259	181,386,113
<b>Revenues supporting core activities</b>	<b>\$1,510,771,008</b>	<b>\$1,300,009,042</b>
<b>Operating Expenses</b>		
Operating expenses	\$ 1,782,976,790	\$ 1,558,785,771
<b>Operating loss</b>	<b>\$ (272,205,782)</b>	<b>\$ (258,776,729)</b>
<b>Nonoperating revenues (expenses)</b>		
State educational appropriations	\$ 225,966,057	\$ 219,883,401
Grants and contracts	13,946,363	17,279,413
Private gifts	20,280,462	33,874,299
Net investment income (loss)	96,548,622	99,171,347
Interest expense	(23,626,504)	(10,204,582)
Gain (loss) of disposal of capital assets	(3,934,857)	(2,328,936)
Capital state appropriations	18,232,216	5,233,490
Capital gifts and grants	32,594,108	11,934,310
Permanent endowments	6,361,051	9,424,416
Net other nonoperating revenues	3,170,428	3,695,469
Other changes	(1,750,000)	
<b>Net nonoperating revenues and other changes</b>	<b>\$ 387,787,946</b>	<b>\$ 387,962,627</b>
<b>Increase in net assets</b>	<b>\$ 115,582,164</b>	<b>\$ 129,185,898</b>
Net assets, beginning of year	\$ 1,767,100,680	\$ 1,552,366,814
<b>Net assets, end of year</b>	<b>\$1,882,682,844</b>	<b>\$ 1,681,552,712</b>

Figures A and A1 are graphic illustrations of revenues by source (both operating and nonoperating), which are used to fund UAB's operating activities for the years ended September 30, 2005 and 2004, respectively.



UAB measures its performance both for UAB as a whole, including Other Nonmajor Funds, and for UAB without its Hospital (the "University"). The exclusion of the Hospital allows a clearer view of the operations of the University. Figures B and B1 are graphic illustrations of the University revenues by source (both operating and nonoperating), which are used to fund operating activities other than the activities of the Hospital for the years ended Sep-

tember 30, 2005 and 2004.

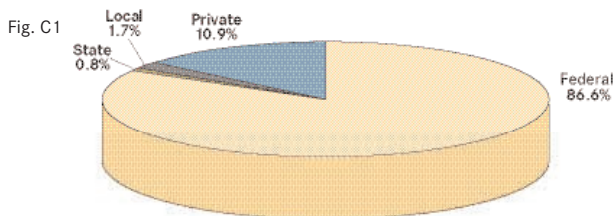
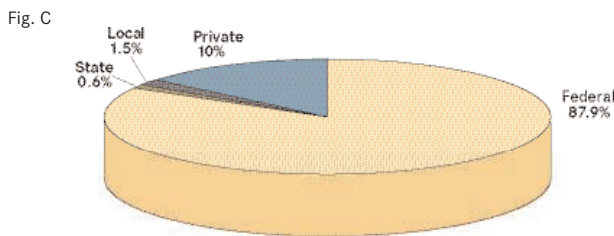
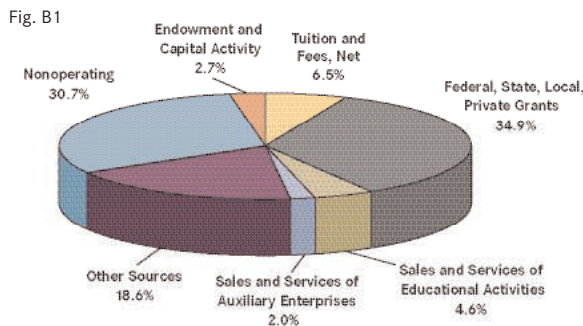
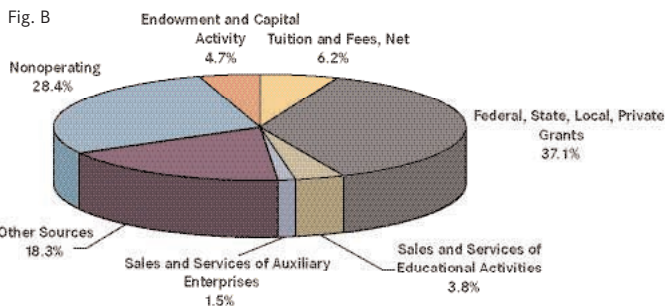
Gross tuition and fees revenue increased by \$11.4 million, resulting from increased enrollment in 2005. Total student headcount of 17,584 increased by 239 or 1.4% in 2005. Scholarship allowances applied to student accounts increased by \$2.2 million in 2005.

UAB receives State appropriations from the State of Alabama. UAB recognized funds from the State of Alabama totaling \$244.2 million, of which \$226.0 million was from the ETF, which is included as nonoperating revenue. The remaining \$18.2 million represents Public School and College Authority funds and other state capital funds in 2005.

Net hospital sales and service revenue totaled \$729.6 million, an increase of \$77.0 million or 11.8% from 2004. This increase results from increased volume, contract improvement, ongoing revenue cycle improvement activities and the opening of the North Pavilion.

UAB recognized \$29.2 and \$45.2 million in gift revenue (\$2.5 and \$1.9 million and \$6.4 and \$9.4 million in capital and endowment gifts, respectively) for the years ended September 30, 2005, and 2004, respectively.

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 \$30.0 and \$10.0 million in 2005, and 2004, respectively, in funds to be used to acquire capital assets. Figures C and C1 are illustrations of the breakout of the funding sources for grant and contract revenue for the years ended September 30, 2005 and 2004, respectively.



Net investment income (loss) for the years ended September 30, 2005, and 2004, consists of the following components:

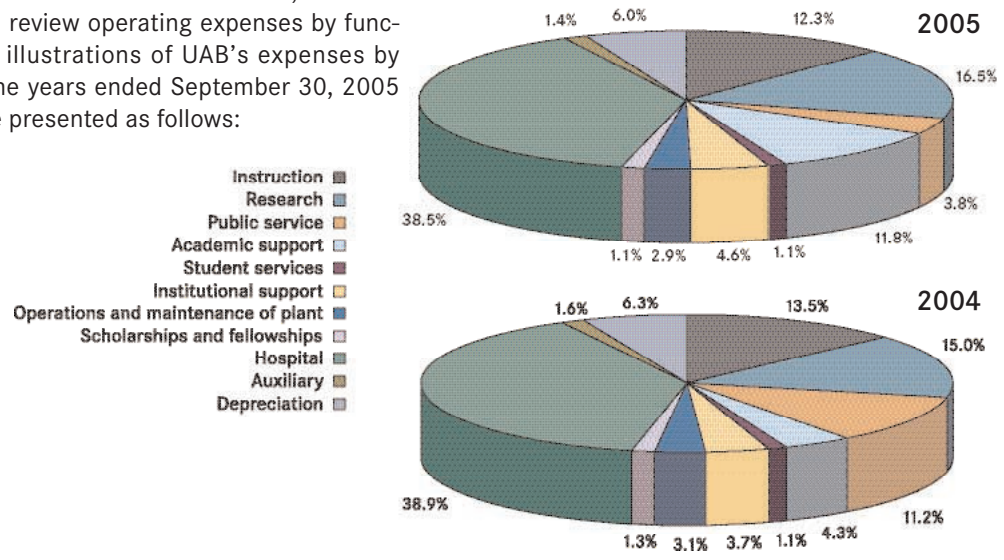
<b>Investment Income (Loss) Summary</b>		
	2005	2004
Interest and dividends	\$ 45,531,024	\$ 52,980,760
Net (decrease) increase in the fair value of investments	49,110,521	43,479,940
Return on equity investments	1,907,077	2,710,647
	<b>\$ 96,548,622</b>	<b>\$ 99,171,347</b>

A comparative summary of UAB's expenses for the years ended September 30, 2005, and 2004, is as follows:

<b>Operating Expenses-Natural Classification</b>		
	2005	2004
Salaries, wages, and benefits	\$ 945,286,043	\$ 820,894,553
Supplies and services	710,738,497	619,704,905
Depreciation	107,219,083	98,549,412
Scholarships and fellowships	19,733,167	19,636,901
	<b>\$1,782,976,790</b>	<b>\$1,558,785,771</b>

Salaries, wages, and benefits increased \$124.4 million or 15.2% from 2004 to 2005. This increase is due primarily to UAB's continued growth and the addition of SRI and UABRF as components of other Nonmajor Funds during 2005. In addition, supplies and services expenses increased \$91 million or 14.7% from 2004 to 2005. 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 and the addition of SRI and UABRF as additional components of other nonmajor funds.

In addition to their natural classification, it is also informative to review operating expenses by function. Graphic illustrations of UAB's expenses by function for the years ended September 30, 2005 and 2004, are presented as follows:





## Economic Factors That Will Affect The Future

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

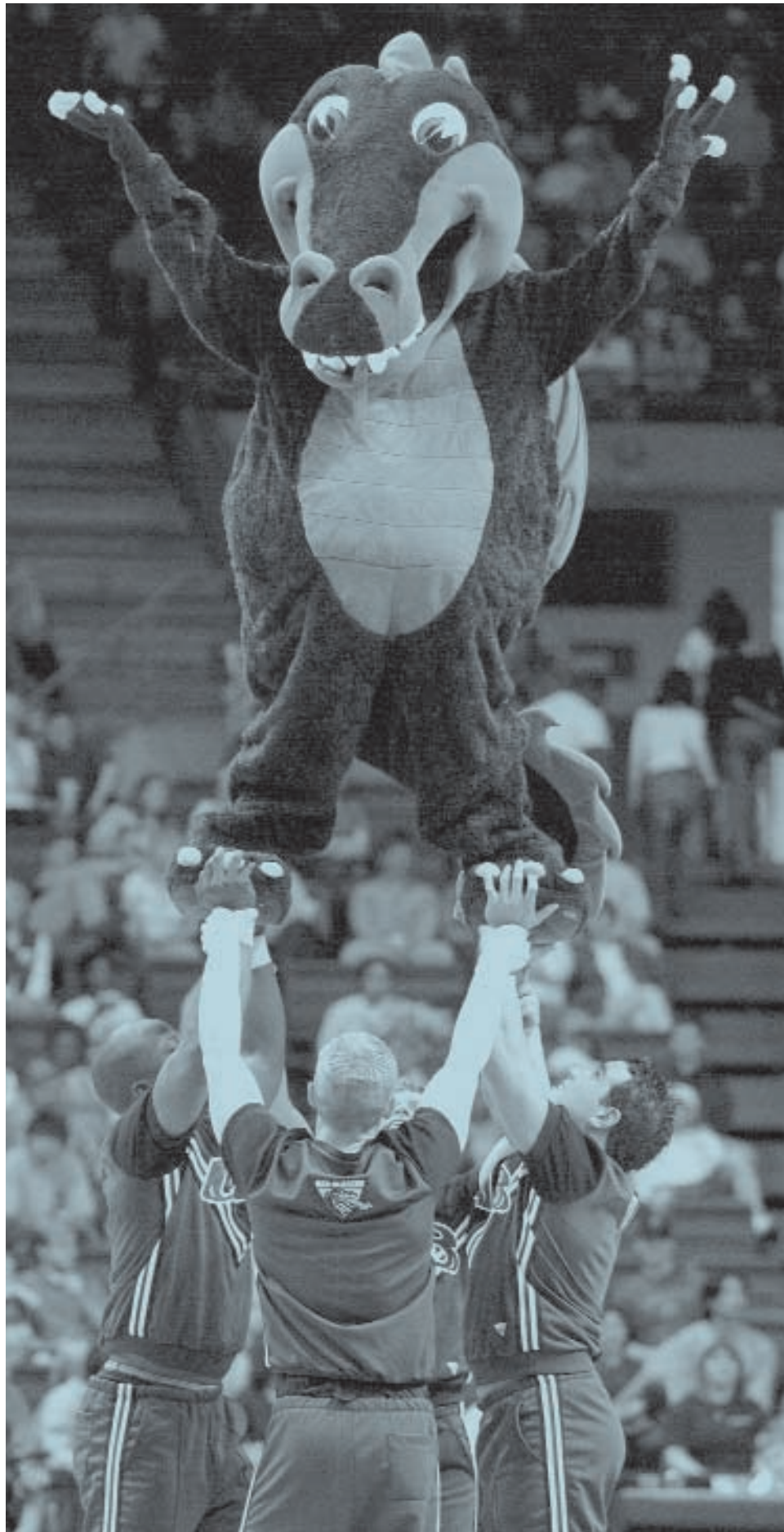
The State of Alabama appropriates money each year to UAB for operating costs and nonoperating cash requirements, including capital expenditures. Because the State is mandated by its Constitution to operate with a balanced budget, the State occasionally has reduced its appropriations, through a process known as "proration," when its annual revenues are not expected to meet budgeted appropriations. It is expected that proration will be implemented from time to time, and when proration does occur, UAB will be required to implement various 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 National Institutes of Health, and 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 financial challenges in a price-sensitive managed care 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 faced by hospitals across the State, 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 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.

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

## Statement of Net Assets

September 30, 2005

	University	Hospital	Other Nonmajor Funds	Total
<b>Assets</b>				
Current Assets:				
Cash and cash equivalents	\$ 42,971,121	\$ 43,274,328	\$ 20,437,395	\$ 106,682,844
Short term investments	137,684,525		36,226,160	173,910,685
Accounts receivable, net	79,845,481	112,809,761	18,105,282	210,760,524
Loans receivable, current portion	3,268,496			3,268,496
Pledge receivable, current portion	7,014,491	110,000		7,124,491
Inventories	2,532,787	9,417,732	494,000	12,444,519
Other current assets	9,924,640	6,768,124	4,042,898	20,735,662
<b>Total current assets</b>	<b>\$ 283,241,541</b>	<b>\$ 172,379,945</b>	<b>\$ 79,305,735</b>	<b>\$ 534,927,221</b>
Noncurrent Assets:				
Cash designated for capital activities	\$ 1,006,924	\$ 16,832,217	\$ 704,814	\$ 18,543,955
Restricted cash and cash equivalents	3,392,513	23,510		3,416,023
Investments for capital activities	190,805,294	366,204,200		557,009,494
Endowment, and life income investments	287,231,669	18,969,581		306,201,250
Other long-term investments	781,179	6,675,406	144,132,576	151,589,161
Loans receivable, net	14,927,553			14,927,553
Pledges receivable	8,316,784	96,000		8,412,784
Capital assets, net	736,643,362	497,331,118	43,543,010	1,277,517,490
Other noncurrent assets		1,296,472	2,171,185	3,467,657
<b>Total noncurrent assets</b>	<b>\$ 1,243,105,278</b>	<b>\$ 907,428,504</b>	<b>\$ 190,551,585</b>	<b>\$ 2,341,085,367</b>
<b>Total Assets</b>	<b>\$ 1,526,346,819</b>	<b>\$ 1,079,808,449</b>	<b>\$ 269,857,320</b>	<b>\$ 2,876,012,588</b>
<b>Liabilities</b>				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 90,052,735	\$ 57,750,678	\$ 45,261,518	\$ 193,064,931
Due to (from)	4,363,373	(4,363,373)		
Deferred revenue-grants	42,982,626			42,982,626
Deferred revenue-other	28,248,792	25,216	6,022,612	34,296,620
Long-term debt, current portion	11,022,617	9,090,812	1,245,000	21,358,429
<b>Total current liabilities</b>	<b>\$ 176,670,143</b>	<b>\$ 62,503,333</b>	<b>\$ 52,529,130</b>	<b>\$ 291,702,606</b>
Noncurrent Liabilities				
Federal Advances-Loan Funds	\$ 16,717,093	\$	\$	\$ 16,717,093
Long Term Debt	222,116,184	397,224,651	967,000	620,307,835
Other noncurrent liabilities			64,602,210	64,602,210
<b>Total noncurrent liabilities</b>	<b>\$ 238,833,277</b>	<b>\$ 397,224,651</b>	<b>\$ 65,569,210</b>	<b>\$ 701,627,138</b>
<b>Total Liabilities</b>	<b>\$ 415,503,420</b>	<b>\$ 459,727,984</b>	<b>\$ 118,098,340</b>	<b>\$ 993,329,744</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	\$ 503,504,561	\$ 91,015,655	\$ 41,331,010	\$ 635,851,226
Restricted				
Nonexpendable	204,488,633	128,099	100,000	204,716,732
Expendable	147,629,430	19,923,444	7,999,640	175,552,514
Unrestricted	255,220,775	509,013,267	102,328,330	866,562,372
<b>Total Net Assets</b>	<b>\$ 1,110,843,399</b>	<b>\$ 620,080,465</b>	<b>\$ 151,758,980</b>	<b>\$ 1,882,682,844</b>

See accompanying notes to financial statements

# The University of Alabama at Birmingham

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

Year Ended September 30, 2005

	University	Hospital	Other Nonmajor Funds	Total
<b>Operating Revenues</b>				
Tuition and Fees	\$ 95,295,781	\$	\$	\$ 95,295,781
Less: scholarship allowance	(21,669,443)			(21,669,443)
Less: bad debt expense	(672,693)			(672,693)
Tuition and Fees, net	72,953,645			72,953,645
Grants and contracts				
Federal	317,210,534		52,330,200	369,540,734
State	2,504,419			2,504,419
Local	4,438,964			4,438,964
Private	40,559,749		16,288,800	56,848,549
Sales and services:				
Educational activities	43,956,428			43,956,428
Hospital, net of bad debt expense of \$ 116,733,083		729,646,427		729,646,427
Auxiliary enterprises, net of scholarship allowance of \$423,520	17,435,583			17,435,583
Other operating revenues	42,856,895	18,463	170,570,901	213,446,259
<b>Total operating revenues</b>	<b>\$ 541,916,217</b>	<b>\$ 729,664,890</b>	<b>\$ 239,189,901</b>	<b>\$ 1,510,771,008</b>
<b>Operating Expenses</b>				
Salaries, wages and benefits	\$ 541,589,780	\$ 358,176,516	\$ 45,519,747	\$ 945,286,043
Supplies and services	227,110,155	328,043,294	155,585,048	710,738,497
Depreciation and amortization	63,074,723	39,998,744	4,145,616	107,219,083
Scholarships and fellowships	19,733,167			19,733,167
<b>Total operating expenses</b>	<b>\$ 851,507,825</b>	<b>\$ 726,218,554</b>	<b>\$ 205,250,411</b>	<b>\$ 1,782,976,790</b>
<b>Income (loss) before other nonoperating revenues, expenses, gains and losses</b>	<b>\$ (309,591,608)</b>	<b>\$ 3,446,336</b>	<b>\$ 33,939,490</b>	<b>\$ (272,205,782)</b>
<b>Nonoperating Revenues (Expenses)</b>				
State appropriations	\$ 195,845,037	\$ 30,121,020	\$	\$ 225,966,057
Federal grants and contracts	13,289,342			13,289,342
State grants and contracts	102,556			102,556
Private grants and contracts	554,465			554,465
Gifts	19,932,391	290,071	58,000	20,280,462
Investment (loss) income	54,255,509	35,978,742	6,314,371	96,548,622
Interest expense	(8,920,318)	(14,560,186)	(146,000)	(23,626,504)
Gain (loss) on asset disposition	(2,345,703)	(922,154)	(667,000)	(3,934,857)
Net other nonoperating revenue (expense)	3,715,670		(545,242)	3,170,428
<b>Net nonoperating revenues</b>	<b>\$ 276,428,949</b>	<b>\$ 50,907,493</b>	<b>\$ 5,014,129</b>	<b>\$ 332,350,571</b>
<b>Income (loss) before other revenues, expenses, gains, losses, and transfers</b>	<b>\$ (33,162,659)</b>	<b>\$ 54,353,829</b>	<b>\$ 38,953,619</b>	<b>\$ 60,144,789</b>
<b>Other Changes in Net Assets</b>				
State funds-capital	\$ 18,232,216	\$	\$	\$ 18,232,216
Capital grants and contracts	30,069,663			30,069,663
Capital gifts	1,388,113	1,136,332		2,524,445
Endowment gifts	6,361,051			6,361,051
Other net revenue			(1,750,000)	(1,750,000)
<b>Net other changes in net assets</b>	<b>\$ 56,051,043</b>	<b>\$ 1,136,332</b>	<b>\$ (1,750,000)</b>	<b>\$ 55,437,375</b>
<b>Increase (decrease) net assets prior to intergovernmental transfers</b>	<b>\$ 22,888,384</b>	<b>\$ 55,490,161</b>	<b>\$ 37,203,619</b>	<b>\$ 115,582,164</b>
Intergovernmental transfers	\$ 47,031,012	\$ (20,281,012)	\$ (26,750,000)	\$
<b>Increase in net assets</b>	<b>\$ 69,919,396</b>	<b>\$ 35,209,149</b>	<b>\$ 10,453,619</b>	<b>\$ 115,582,164</b>
<b>Net Assets, beginning of year, (restated)</b>	<b>\$ 1,040,924,003</b>	<b>\$ 584,871,316</b>	<b>\$ 141,305,361</b>	<b>\$ 1,767,100,680</b>
<b>Net Assets, end of year</b>	<b>\$ 1,110,843,399</b>	<b>\$ 620,080,465</b>	<b>\$ 151,758,980</b>	<b>\$ 1,882,682,844</b>

See accompanying notes to financial statements

# The University of Alabama at Birmingham

## Statement of Cash Flows

Year Ended September 30, 2005

	University	Hospital	Other Nonmajor Funds	Total
<b>Cash flows from operating activities</b>				
Student tuition and fees	\$ 74,113,686	\$	\$	\$ 74,113,686
Grants and contracts	353,559,195		68,351,000	421,910,195
Receipts from sales and services of:				
Educational activities	43,493,636			43,493,636
Patient services		720,273,763		720,273,763
Auxiliary enterprises, net	18,227,933			18,227,933
Premium and administrative fees collected			198,596,057	198,596,057
Payment to employees and related benefits	(543,379,292)	(357,922,439)	(46,478,334)	(947,780,065)
Payment to suppliers	(195,734,439)	(325,588,715)	(214,631,731)	(735,954,885)
Payment for scholarships and fellowships	(19,733,167)			(19,733,167)
Student loans disbursements, net of collections	(106,275)			(106,275)
Other receipts (disbursements)	42,833,642	18,463	21,232,414	64,084,519
<b>Net cash provided from (used in) operating activities</b>	<b>\$ (226,725,081)</b>	<b>\$ 36,781,072</b>	<b>\$ 27,069,406</b>	<b>\$ (162,874,603)</b>
<b>Cash flows from capital and related financing activities</b>				
Proceeds from issuance of capital debt	\$ 63,756,009	\$	\$	\$ 63,756,009
State capital appropriations	18,232,216			18,232,216
Federal grants & contracts	28,373,373			28,373,373
Local grants & contracts	1,813,005			1,813,005
Private grants & contracts	(116,715)			(116,715)
Private gifts	5,602,777	1,039,601		6,642,378
Proceeds from sale of capital assets	883,452	202,868	102,000	1,188,320
Purchases of capital assets	(112,887,378)	(63,315,775)	(4,131,030)	(180,334,183)
Principal payments on capital debt	(77,214,679)	(8,778,531)	(1,211,000)	(87,204,210)
Interest payments on capital debt	(11,658,615)	(14,741,000)	(146,000)	(26,545,615)
<b>Net cash used in capital and related financing activities</b>	<b>\$ (83,216,555)</b>	<b>\$ (85,592,837)</b>	<b>\$ (5,386,030)</b>	<b>\$ (174,195,422)</b>
<b>Cash flows from noncapital financing activities</b>				
State appropriations	\$ 195,845,037	\$ 30,121,020	\$	\$ 225,966,057
Private gifts	28,491,261	290,071		28,781,332
Student direct lending disbursements, net of receipts	(4,664,462)			(4,664,462)
Intergovernmental transfers	47,031,012	(20,281,012)	(26,500,000)	
Other deposits (receipts)	20,650,871		2,500	20,653,371
Payments related to due to related party	(9,101,544)	9,101,544		
Deposits from affiliates	(2,778,660)		(5,094)	(2,783,754)
<b>Net cash provided from (used in) noncapital financing activities</b>	<b>\$ 275,473,515</b>	<b>\$ 19,231,623</b>	<b>\$ (26,752,594)</b>	<b>\$ 267,952,544</b>
<b>Cash flows from investing activities</b>				
Interest and dividends from investments, net	\$ 21,534,368	\$ 16,569,860	\$ 5,704,661	\$ 43,808,889
Payments for intangibles			(319,000)	(319,000)
Cash distributions from equity investments		1,768,071		1,768,071
Proceeds from sales and maturities of investments	15,366,077	30,000,000	59,721,300	105,087,377
Contributions to system pooled investment funds	(6,624,348)	(13,572,383)		(20,196,731)
Purchases of investments	4,444,638		(79,299,436)	(74,854,798)
<b>Net cash provided from (used in) investing activities</b>	<b>\$ 34,720,735</b>	<b>\$ 34,765,549</b>	<b>\$ (14,192,475)</b>	<b>\$ 55,293,809</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 252,614</b>	<b>\$ 5,185,407</b>	<b>\$ (19,261,693)</b>	<b>\$ (13,823,672)</b>
<b>Cash, beginning of year (restated)</b>	<b>47,117,944</b>	<b>54,944,648</b>	<b>40,403,902</b>	<b>142,466,494</b>
<b>Cash, end of year</b>	<b>\$ 47,370,558</b>	<b>\$ 60,130,055</b>	<b>\$ 21,142,209</b>	<b>\$ 128,642,822</b>
<b>Reconciliation of operating income (loss) to net cash used in operating activities</b>				
Operating income (loss)	\$ (309,591,608)	\$ 3,446,336	\$ 33,939,490	\$ (272,205,782)
Adjustments to reconcile operating loss to net cash provided from (used in) operating activities				
Depreciation and amortization expense	63,074,723	39,998,744	4,145,616	107,219,083
Changes in assets and liabilities:				
Account receivable, net	(15,165,987)	(9,410,807)	(1,703,965)	(26,280,759)
Prepaid expenses and other assets	(646,409)	(1,163,942)	(340,292)	(2,150,643)
Accounts payable and accrued liabilities	30,388,451	3,885,525	(1,238,238)	33,035,738
Deferred revenue	5,215,749	25,216	(7,733,205)	(2,492,240)
<b>Net cash used in operating activities</b>	<b>\$ (226,725,081)</b>	<b>\$ 36,781,072</b>	<b>\$ 27,069,406</b>	<b>\$ (162,874,603)</b>
Supplemental noncash activities information				
Capital assets acquired through capital leases	631,892	\$ 4,097,480		\$ 4,729,372

See accompanying notes to financial statements

# The University of Alabama at Birmingham Notes to Financial Statements

September 30, 2005

## (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 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 and each major fund and other nonmajor funds 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.

During 2005, the by-laws and corporate charters of the Southern Research Institute (SRI) and UAB Research Foundation (UABRF) were amended, allowing UAB to appoint a majority of the respective boards of directors and allowing UAB to impose its will on the entities. These entities operate for the exclusive benefit of UAB. Management has therefore determined that SRI and UABRF constitute blended component units of UAB under GASB Statement No. 14, *The Financial Reporting Entity* (GASB No. 14).

The other nonmajor funds column of the basic financial statements is comprised of Triton Health Systems, L.L.C. (Triton), SRI, The University of Alabama at Birmingham Professional Liability Trust Fund (PLTF), and UABRF. 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. The PLTF and UABRF maintain a September 30 year-end. The activities of SRI and Triton are maintained using a fiscal calendar year-end that predates the University and Hospital fiscal year-end of September 30. However, interfund cash transactions during the period from January 1, 2005 through September

30, 2005 have been eliminated in order to balance the accounts. Separate financial statements are available for SRI, Triton, and UABRF.


The PLTF is a professional liability trust fund (the trust fund) in which UAB, including the Hospital, and the University of Alabama Health Services Foundation, P.C. (HSF) are the primary participants. In accordance with the bylaws of the trust fund, the president of UAB is responsible for appointing members of the trust fund policy committee, and, as a result under GASB No. 14, UAB is responsible for the trust fund. Consequently, all assets and liabilities of the trust fund are included in UAB's financial records.

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. With the exception of blended component units included in other nonmajor funds, UAB has elected to not apply the provisions of any pronouncements of the FASB issued after November 30, 1989. All blended components of Other Nonmajor Funds 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* 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 or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic and research programs and initiatives and capital programs.

The financial statements of UAB have been prepared on the accrual basis of accounting. 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 reports the University and the Hospital as major funds in the accompanying financial statements because management believes each of those activities present information that is particularly important to financial statement users.


UAB's policy for defining 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, including state appropriations, gifts, and investment income.

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, 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.

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:** Investments are stated at fair



value. Investments received by gift are stated at fair value or appraised value on date of receipt. Realized and unrealized gains and losses are reported in investment income.

Investments are reported in four categories in the statement of net assets. Investments recorded as endowment and life income 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 5. Investments for capital projects are included in noncurrent assets. All other investments are included as short-term investments.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, was adopted during the fiscal year ended September 30, 2005. Statement No. 40 establishes additional disclosures requirements addressing common risks of investments. The implementation of Statement No. 40 had no effect on the University's net assets or cash flows for the year ended September 30, 2005.

**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. 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 (5-10 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 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.

**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. Endowment earnings are classified in accordance with donor restrictions.

**Deferred revenue:** Deferred revenue consists primarily of student fees related predominantly to future fiscal years. Deferred revenue also includes 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, including the Other Nonmajor Funds, for activities such as intellectual property income and subscriber premiums.

**Equity investments:** Investments in affiliated companies where UAB's ownership interest is 50% or less are accounted for using the equity method.

#### **Intergovernmental Transfers:**

##### ***University***

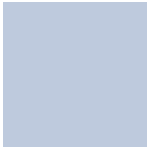

Transfers are defined as transfers from the Hospital and components of Other Nonmajor Funds to the University for which the Hospital and components of Other Nonmajor Funds do not receive significant direct economic benefit. Transfers are used to support capital projects and the ongoing academic mission of the University. Transfers for which the Hospital and Triton receive services or other benefits are recorded as operating expenses in the statements of revenues, expenses and changes in net assets.

##### ***Hospital***

Transfers are defined as transfers to the University for which the Hospital does not receive significant direct economic benefit. Transfers are used primarily to support the ongoing academic mission of the University. Transfers for which the Hospital receives services or other benefits are recorded as operating expenses in the statements of revenues, expenses and changes in net assets.

##### ***Other Nonmajor Funds***

Transfers are defined as transfers to the University for which the components of Other Nonmajor Funds do not receive significant direct economic benefit. Transfers are used to support capital



projects and the ongoing academic mission of the University. Transfers for which the components of Other Nonmajor Funds receive services or other benefits are recorded as operating expenses in the statements of revenues, expenses and changes in net assets.

## (2) Scope of Statements and Related Parties

GASB Statement No. 14, *The Financial Reporting Entity*, 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.

See Note 1 for discussion of SRI, Triton, and UABRF.

As of October 1, 2003, UAB implemented GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement amends GASB Statement No. 14, *The Financial Reporting Entity*, to provide additional guidance to determine whether certain organizations for which UAB is not financially accountable should be reported as component units based on the nature and significance of their relationship to UAB.

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, *The Financial Reporting Entity*. These entities are not required to be presented as component units under GASB 39.

The purpose of UABEF is to operate exclusively for the benefit of 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 \$1,651,000 for 2005. 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 \$4,218,000 in 2005. Total assets were \$47,917,000 at September 30, 2005. Total liabilities were \$20,176,000 at September 30, 2005.

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. UAB's other operating revenues include approximately \$25,936,000 of funding from HSF in 2005, 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 \$385,000 in 2005, and the Hospital purchases various services from HSF, aggregating approximately \$21,829,000 for the year ended September 30, 2005. As a result of these transactions, the Hospital had a net payable of approximately \$680,000 at September 30, 2005.

The Board of Trustees of The University of Alabama (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, 2005, UAB contributed \$4,627,000 to the UAB Health System Board to support Health System administrative functions.

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. Total assets were approximately \$7,159,000, and total liabilities were approximately \$1,943,000 at September 30, 2005.

## (3) Restatement

The financial statements as of and for the year ended September 30, 2004, not presented herein, were audited by other independent auditors whose report dated December 10, 2004, expressed an unqualified opinion on those statements.

During 2005, management determined that the University major fund information reported for 2004 erroneously included information related to Triton. Management determined that the appropriate pres-



entation under the major fund reporting requirements of GASB Statement No. 35 was for Triton's financial information to be displayed in a nonmajor fund column. Therefore, the fund net asset balances previously reported in the University column at September 30, 2004 have been restated as of October 1, 2004 to disaggregate financial information related to Triton so that the University column reports University activities and balances only.

During 2005, management also determined that under the provisions of GASB Statement No. 10, PLTF is a separate insurance enterprise that in prior years should have been reported as a nonmajor fund. Instead, transactions and balances related to PLTF had been allocated between the University and Hospital columns and reported as risk financing activities within those funds. Additionally, management determined that a liability of \$16,707,074 reported at September 30, 2004 representing an external organization's residual interest in PLTF upon termination should not have been recognized. Therefore, the fund net asset balances previously reported in the University and Hospital columns at September 30, 2004, and the UAB-wide net asset balance reported at that date, have been restated as of October 1, 2004 to disaggregate financial information related to PLTF and to remove the residual interest liability.

The impact of these restatements on opening net assets reported for the University column is as follows:

	University
September 30, 2004 Net Assets:	
As previously reported	\$ 1,083,465,721
Less Triton net assets	(37,090,606)
Less PLTF net assets	(5,451,112)
October 1, 2004 Net Assets, as restated	<u>\$ 1,040,924,003</u>

The impact of these restatements on cash and cash equivalents reported for the University column is as follows:

	University
September 30, 2004	
Cash and Cash Equivalents:	
As previously reported	\$ 80,624,860
Less Triton cash and cash equivalents	(33,506,916)
October 1, 2004 Cash and Cash Equivalents, as restated	<u>\$ 47,117,944</u>

The impact of the PLTF restatement on opening net assets reported for the Hospital column is as follows:

	Hospital
September 30, 2004 Net Assets:	
As previously reported	\$ 598,086,991
Less PLTF net assets	(13,215,675)
October 1, 2004 Net Assets, as restated	<u>\$ 584,871,316</u>

The restatements require display of a new column, Other Nonmajor Funds, as of October 1, 2004, to report information related to Triton and PLTF. Addi-

tionally, as discussed in Note 1, during 2005 SRI and UABRF became a part of UAB's reporting entity (as nonmajor funds) as a result of change of control transactions.

Retroactive recognition of this change in reporting entity and the restatements of Triton and PLTF result in the reporting of October 1, 2004 net asset balances in the Other Nonmajor Funds column as follows:

	Other Nonmajor Funds
Net assets of Triton	\$ 37,090,606
Net assets of PLTF	35,373,861
Net assets of SRI and UABRF	68,840,894
Net Assets, October 1, 2004	<u>\$ 141,305,361</u>

Retroactive recognition of this change in reporting entity and the restatements of Triton and PLTF result in the reporting of October 1, 2004 cash and cash equivalents balances in the Other Nonmajor Funds column as follows:

	Other Nonmajor Funds
September 30, 2004	
Cash and Cash Equivalents:	
Cash and Cash Equivalents of Triton	\$ 33,506,916
Cash and Cash Equivalents of PLTF	
Cash and Cash Equivalents of SRI and UABRF	6,896,986
Cash and Cash Equivalents, October 1, 2004	<u>\$ 40,403,902</u>

The impact of the restatements and the change in reporting entity on opening net assets reported in the UAB-wide (Total) column is as follows:

	Total
September 30, 2004 Net Assets:	
As previously reported	\$ 1,681,552,712
Reversal of PLTF liability	16,707,074
Net Assets of SRI and UABRF	68,840,894
October 1, 2004 Net Assets, as restated	<u>\$ 1,767,100,680</u>



The impact of the change in reporting entity on opening cash and cash equivalents balances reported in the UAB-wide (Total) column is as follows:

	Total
September 30, 2004	
Cash and Cash Equivalents:	
As previously reported	\$ 135,569,508
Cash and Cash equivalents of SRI and UABRF	6,896,986
October 1, 2004 Cash and Cash Equivalents, as restated	<u>\$ 142,466,494</u>

## (4) 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.

During 2005, the Board established a short-term investment pool for the System campuses to invest operating cash reserves. As of September 30, 2005 UAB had \$105,301,303 (\$45,188,078 for the University and \$60,113,225 for the Hospital) invested in this System sponsored investment pool, which is presented in cash and cash equivalents on the statement of net assets. See note 5 for further disclosure regarding this investment pool.

As of September 30, 2005, UAB had cash and cash equivalents totaling \$119,385,463, (\$59,255,408 for the University and Other Nonmajor Funds and \$60,130,055 for the Hospital).

## (5) 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 with the assets pooled on a market value basis. Separately managed funds that are resident on each campus 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.

### 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 with 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 preservation of capital and is invested in intermediate term fixed income securities. At least one of the 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 campus, 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.

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, 2005 is as follows:

September 30, 2005					
	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund	
Cash and receivables:					
Cash	\$ 1,011,107	\$ 17,507	\$ 1,877,554	\$	
Accrued income receivables	975,095	559,496			
<b>Total cash &amp; receivables</b>	<b>\$ 1,986,202</b>	<b>\$ 577,003</b>	<b>\$ 1,877,554</b>	<b>\$</b>	
Cash and equivalents:					
Commercial paper	\$	\$	\$ 9,855,000	\$	
Money market funds	9,105,229	8,381,106	18,673,245		
<b>Total Cash and Equivalents</b>	<b>\$ 9,105,229</b>	<b>\$ 8,381,106</b>	<b>\$ 28,528,245</b>	<b>\$</b>	
Equities:					
Common stock	\$ 130,665,163	\$ 108,768,522	\$	\$	
<b>Total Equities</b>	<b>\$ 130,665,163</b>	<b>\$ 108,768,522</b>	<b>\$</b>	<b>\$</b>	
Fixed income securities:					
U S government obligations	\$ 13,447,557	\$ 19,114,820	\$ 31,940,657	\$	
Mortgage backed securities	11,742,454	16,241,627	31,995,079		
Collateralized mortgage obligations			162,260,168		
Corporate bonds	10,375,216	14,385,447	81,317,880		
Foreign bonds			4,620,889		
<b>Total Fixed Income Securities</b>	<b>\$ 35,565,227</b>	<b>\$ 49,741,894</b>	<b>\$ 312,134,673</b>	<b>\$</b>	
Commingled funds:					
U S equity funds	\$ 253,692,939	\$ 167,310,710	\$	\$	
Non-U S equity funds	122,522,440	103,392,044			
U S bond funds	75,149,275	120,190,770	48,931,227	136,905,991	
Hedge funds	71,679,148	51,030,321			
Private equity funds	18,860,126				
Timberland funds	11,826,958				
Real estate funds	12,263,142				
<b>Total Commingled Funds</b>	<b>\$ 565,994,028</b>	<b>\$ 441,923,845</b>	<b>\$ 48,931,227</b>	<b>\$ 136,905,991</b>	
<b>Total Fund Investments</b>	<b>\$ 741,329,647</b>	<b>\$ 608,815,367</b>	<b>\$ 389,594,145</b>	<b>\$ 136,905,991</b>	
<b>Total Fund Assets</b>	<b>\$ 743,315,849</b>	<b>\$ 609,392,370</b>	<b>\$ 391,471,699</b>	<b>\$ 136,905,991</b>	
<b>Total Fund Liabilities</b>	<b>\$ (223,485)</b>	<b>\$ (238,494)</b>	<b>\$ (209,221)</b>	<b>\$</b>	
<b>Affiliated Entity Investments in Funds</b>	<b>\$ (80,114,158)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	
<b>Total Net Asset Value</b>	<b>\$ 662,978,206</b>	<b>\$ 609,153,876</b>	<b>\$ 391,262,478</b>	<b>\$ 136,905,991</b>	

The composition in investments, by investment type for UAB's separately held investments, and UAB's

interest in System Pools, at September 30, 2005 is as follows:

September 30, 2005				
	University and Other Nonmajor Funds	Hospital	Total	
Cash and receivables:				
Cash	\$ 18,418,250	\$	\$ 18,418,250	
Accrued income receivables	1,213		1,213	
<b>Total Cash &amp; Receivables</b>	<b>\$ 18,419,463</b>	<b>\$</b>	<b>\$ 18,419,463</b>	
Cash and equivalents:				
Commercial paper	\$ 100,000	\$	\$ 100,000	
Money market funds	22,235,382		22,235,382	
<b>Total Cash and Equivalents</b>	<b>\$ 22,335,382</b>	<b>\$</b>	<b>\$ 22,335,382</b>	
Equities:				
Common stock	\$ 21,716,121	\$	\$ 21,716,121	
Equity investment in partnerships	127,000	6,675,406	6,802,406	
<b>Total Equities</b>	<b>\$ 21,843,121</b>	<b>\$ 6,675,406</b>	<b>\$ 28,518,527</b>	
Fixed income securities:				
U S government obligations	\$ 8,419,201	\$	\$ 8,419,201	
Mortgage backed securities	39,560,706		39,560,706	
Corporate bonds	4,389,190		4,389,190	
<b>Total Fixed Income Securities</b>	<b>\$ 52,369,097</b>	<b>\$</b>	<b>\$ 52,369,097</b>	
Commingled funds:				
U S equity funds	\$ 98,808,748	\$	\$ 98,808,748	
Non-U S equity funds	6,701,783		6,701,783	
U S bond funds	21,377,371		21,377,371	
<b>Total Commingled Funds</b>	<b>\$ 126,887,902</b>	<b>\$</b>	<b>\$ 126,887,902</b>	
<b>Real estate</b>	<b>\$ 781,179</b>	<b>\$</b>	<b>\$ 781,179</b>	
Portion of system pooled investments:				
Endowment	\$ 244,895,370	\$ 18,969,581	\$ 263,864,951	
Prime	185,171,543	243,582,637	428,754,180	
Intermediate	142,577,810	122,621,562	265,199,372	
Short term	45,188,078	60,113,225	105,301,303	
<b>Total Portion of System Pooled Investments:</b>	<b>\$ 617,832,801</b>	<b>\$ 445,287,005</b>	<b>\$ 1,063,119,806</b>	
<b>Total Cash and Investments</b>	<b>\$ 860,468,944</b>	<b>\$ 451,962,411</b>	<b>\$ 1,312,431,355</b>	
<b>Less short term</b>	<b>\$ 45,188,078</b>	<b>\$ 60,113,225</b>	<b>\$ 105,301,303</b>	
<b>Total Investments</b>	<b>\$ 815,280,866</b>	<b>\$ 391,849,186</b>	<b>\$ 1,207,130,052</b>	

Net appreciation (depreciation) in the fair value of investments includes all changes in fair value, including both realized and unrealized gains and losses that occurred during the year. The calculation of realized gains and losses is independent of the net unrealized appreciation or depreciation in

the fair value of investments held at year-end. The components of the net appreciation in the fair value of investments for the System Pools for the year ended September 30, 2005 are as follows:

### September 30, 2005

	Endowment Fund	Prime Fund	Intermediate Fund
Realized gain on sale of investments	\$ 164,576,001	\$ 38,074,745	\$ 4,746,719
Unrealized appreciation (depreciation)	66,016,591	69,879,621	(4,273,691)
<b>Net Appreciation in Fair Value of Investments</b>	<b>\$ 230,592,592</b>	<b>\$ 107,954,366</b>	<b>\$ 473,028</b>

There is no net appreciation in fair value of the Short Term Fund for the year ended September 30, 2005.

The net appreciation in fair value of investments for UAB's separately held investments includes any appreciation (depreciation) on UAB's investments

in the System Pools.

The components of the Net Appreciation in the fair value of investments, for UAB's separately held investments for the year ended September 30, 2005 are as follows:

### September 30, 2005

	University and Other Nonmajor Funds	Hospital	Total
Realized gain on sale of investments	\$ 70,390,947	\$ 24,587,220	\$ 94,978,167
Unrealized appreciation (depreciation)	65,374,835	30,701,392	\$ 96,076,227
<b>Net Appreciation in Fair Value of Investments</b>	<b>\$ 135,765,782</b>	<b>\$ 55,288,612</b>	<b>\$ 191,054,394</b>

#### Investment Risk Factors

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

#### Credit Risk

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

A bond's credit quality is an assessment of the

issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standards 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 6% 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 either denominated in U.S. dollars or other currencies shall be limited to 20% of a 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 Index benchmark for the fixed income portion of these pools. For the Endowment Fund, 15% of the fund is committed to fixed income investments, of which, 5% are actively managed. For the Prime Fund, 30% of the fund is invested in fixed income securities, of which, 20% are actively managed. 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.

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 maturity of 1.5 years and a minimum rating of BB or higher.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the campuses and the Hospital. These funds are invested in a bank sponsored common/collective 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.

The credit risk for fixed and variable income securities, for the System Pools at September 30, 2005 is as follows:

### September 30, 2005

	Endowment Fund	Prime Fund	Intermediate Fund	Short Term Fund
Fixed or Variable Income Securities				
U.S. Government Guaranteed	\$ 13,447,557	\$ 19,114,820	\$ 31,940,657	\$
Other U.S. Denominated:				
AAA	1,493,845	1,999,455	119,010,472	
AA	2,010,900	3,791,378	39,696,871	
A	6,203,748	6,984,790	28,954,121	
BBB	1,656,413	2,599,515	15,384,932	
BB			3,843,808	
Unrated	10,752,764	15,251,936	73,303,812	
Commingled Funds:				
U.S. Bond Funds: Unrated	75,149,275	120,190,770	48,931,227	136,905,991
Money Market Funds: Unrated	9,105,229	8,381,106	18,673,245	
Commercial Paper: Unrated			9,855,000	
<b>TOTAL</b>	<b>\$ 119,819,731</b>	<b>\$ 178,313,770</b>	<b>\$ 389,594,145</b>	<b>\$ 136,905,991</b>

The credit risk for fixed and variable income securities of UAB's separately held investments at September 30, 2005 is as follows:

### September 30, 2005

	University and Other Nonmajor Funds	Hospital	Total
Fixed or Variable Income Securities			
U.S. Government Guaranteed	\$ 8,419,201	\$	\$ 8,419,201
Other U.S. Denominated:			
AAA	25,662,366		25,662,366
AA	488,124		488,124
A	1,770,590		1,770,590
BBB	1,777,095		1,777,095
BB			
Unrated	14,251,721		14,251,721
Commingled Funds:			
U.S. Bond Funds: Unrated	21,377,371		21,377,371
Money Market Funds: Unrated	22,235,382		22,235,382
Commercial Paper: Unrated	100,000		100,000
<b>TOTAL</b>	<b>\$ 96,081,850</b>	<b>\$</b>	<b>\$ 96,081,850</b>



### Custodial Credit Risk

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

Investment securities in the System Pools are registered in the Board's name by the custodial bank as an agent for the System. Other types of investments (e.g. open-ended mutual funds, common/collect 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 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, 2005, 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 effective duration of the fixed income securities held in each investment pool at September 30, 2005 is presented in tables below. 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, 2005 are as follows:

### September 30, 2005

	Endowment Fund	Prime Fund	Intermediate Fund
U S government obligations	6.9	6.3	1.5
Mortgage backed securities	11.6	11.0	12.2
Collateralized mortgage obligations			9.7
Corporate bonds	3.6	2.8	7.3
Commingled bond funds	4.5	4.5	1.8

There are no fixed or variable income securities in the Short Term Fund at September 30, 2005.

The effective durations for fixed or variable income

securities for UAB's separately held investments at September 30, 2005 are as follows:

### September 30, 2005

	University and Other Nonmajor Funds
Money market funds	
U S government obligations	4.9
Mortgage backed securities	2.9
Collateralized mortgage obligations	
Corporate bonds	4.9
Commingled bond funds	3.4

There are no fixed or variable income securities held by the Hospital at September 30, 2005.

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, 2005, the fair market value of these investments in the System Pool is as follows:

### September 30, 2005

	Endowment Fund	Prime Fund	Intermediate Fund
Mortgage backed securities	\$ 11,742,454	\$ 16,241,627	\$ 31,995,079
Collateralized mortgage obligations			162,260,168
<b>Total Fixed</b>	<b>\$ 11,742,454</b>	<b>\$ 16,241,627</b>	<b>\$ 194,255,247</b>

At September 30, 2005, the fair market value of these investments in UAB's separately held investments is as follows:

### September 30, 2005

	University and Other Nonmajor Funds	Hospital	Total
University and Other Nonmajor Mortgage backed securities	\$ 39,560,706		\$ 39,560,706
<b>Total Fixed</b>	<b>\$ 39,560,706</b>		<b>\$ 39,560,706</b>

**Mortgage Backed Securities.** These securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset 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, 2005, the effective durations for these securities held in the System Pools are as follows:

### September 30, 2005

	Endowment Fund	Prime Fund	Intermediate Fund
Mortgage backed securities	11.6	11.0	12.2
Collateralized mortgage obligations			9.7

There are no mortgage backed securities or CMD's in the Short Term Fund at September 30, 2005.

At September 30, 2005, the effective duration for

these securities held in UAB's separately held investments are as follows:

### September 30, 2005

	University and Other Nonmajor Funds
Mortgage Backed Securities	2.9

There are no mortgage backed securities or CMD's held by the Hospital at September 30, 2005.

### 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 20% of the investment manager's portfolio, and bonds denominated in currencies other than U.S. dollars are limited to 20% of the investment manager's portfolio. As of September 30, 2005, all foreign investments are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers.

### Securities Lending

Board policies permit security lending as a mechanism to augment income. Loans of the securities shall 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.

The System Pools participate in a securities lending program managed by one of the System's custodial banks. The program is 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 cannot be pledged or sold by the System unless the borrower defaults. At September 30, 2005, there were no securities on loan from the investment pools and no collateral held by the System.

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. 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 \$1,817,000 at September 30, 2005. Separate financial statements are available for this entity.

UAB, in a transactional partnership with HSF, holds a 50% ownership in the operating assets and liabilities of the Eye Foundation, Inc. (EFI). Since UAB did not acquire a majority ownership in EFI, UAB has recorded its ownership as an equity investment. Accordingly, UAB's investment in EFI 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 \$4,859,000 at September 30, 2005. Summary financial information of EFI as of and for the year ended September 30, 2005, include total assets of approximately \$33,868,000, total liabilities of approximately \$24,152,000, and total net assets of \$9,716,000. Separate financial statements are available for this entity.

## (6) Accounts Receivable

The composition of accounts receivable at September 30, 2005, is summarized as follows:

University and Other Nonmajor Funds 2005	
Receivables from sponsoring agencies	\$ 81,381,064
Student accounts	8,499,640
Other	9,715,695
	<u>\$ 99,596,399</u>
Less: provision for doubtful accounts	1,645,636
Total University	<u>\$ 97,950,763</u>

Hospital	
Patient care	\$ 340,517,216
Other	1,717,763
	<u>\$ 342,234,979</u>
Less: provision for doubtful accounts	229,425,218
Total Hospital	<u>\$ 112,809,761</u>

Total UAB	
Patient care	\$ 340,517,216
Receivables from sponsoring agencies	81,381,064
Student accounts	8,499,640
Other	11,433,458
	<u>\$ 441,831,378</u>
Less: provision for doubtful accounts	231,070,854
Total UAB	<u>\$ 210,760,524</u>

## (7) Student Loans and Pledges Receivable

The composition of student loans and pledges receivable at September 30, 2005, is summarized above:

	2005
<b>Student Loans Receivable:</b>	
<b>University and Other Nonmajor Funds</b>	
Federal loan program	\$ 18,792,279
University loan funds	1,464,670
Total student loans outstanding	<u>\$ 20,256,949</u>
Less: allowance for doubtful accounts	2,060,900
Total student loans outstanding, net	<u>\$ 18,196,049</u>
Less: current portion	3,268,496
Total student loans outstanding, noncurrent	<u>\$ 14,927,553</u>
<b>Gift Pledges Outstanding:</b>	
<b>University and Other Nonmajor Funds</b>	
Operations	\$ 10,527,546
Capital	4,803,729
Total gift pledges	<u>\$ 15,331,275</u>
Less: current portion	7,014,491
Total gift pledges, noncurrent	<u>\$ 8,316,784</u>
<b>Hospital</b>	
Capital	\$ 206,000
Total gift pledges	<u>\$ 206,000</u>
Less: current portion	110,000
Total gift pledges, noncurrent	<u>\$ 96,000</u>
<b>Total UAB</b>	
Operations	\$ 10,527,546
Capital	5,009,729
Total gift pledges	<u>\$ 15,537,275</u>
Less: current portion	7,124,491
Total gift pledges, noncurrent	<u>\$ 8,412,784</u>

The principal repayment and interest rate terms of federal and university loans vary considerably. The allowance for doubtful accounts only applies to University-funded notes and the University portion of federal student loans, since the University is not obligated to fund the federal portion of uncollected student loans. Federal loan programs are funded principally with federal advances to UAB under the Perkins and various health professions loan programs.

Pledges for permanent endowment 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.



## (8) Capital Assets

Net interest costs capitalized in 2005 were approximately \$1,425,000 (\$2,005,000 interest cost net of \$580,000 investment earnings) and \$1,230,000 (\$1,816,000 interest cost net of \$586,000 investment earnings) for the University and Hospital respectively.

Capital assets activity for the year ended September 30, 2005, is summarized at right and below:

September 30, 2005	Beginning Balance (Restated)	Additions	Retirements/ Transfers	Ending Balance
<b>University and Other Nonmajor Funds</b>				
Capital assets not being depreciated				
Land	\$ 34,466,454	\$ 569,895	\$ 467,000	\$ 34,569,349
Construction in progress	102,400,978	70,751,254	65,290,456	107,861,776
	\$ 136,867,432	\$ 71,321,149	\$ 65,757,456	\$ 142,431,125
Capital assets being depreciated				
Land Improvements	\$ 11,035,018	\$ 996,842	\$ 104,000	11,927,860
Buildings	743,886,208	84,561,294	3,048,885	825,398,617
Fixed Equipment Systems	67,164,320	5,676,287		72,840,607
Equipment	337,049,302	28,967,587	17,867,832	348,149,057
Library Materials	62,133,499	4,152,504		66,286,003
	\$ 1,221,268,347	\$ 124,354,514	\$ 21,020,717	\$ 1,324,602,144
<b>Total Capital Assets</b>	<b>\$ 1,358,135,779</b>	<b>\$ 195,675,663</b>	<b>\$ 86,778,173</b>	<b>\$ 1,467,033,269</b>
Less: Accumulated Depreciation	637,365,242	66,942,339	17,460,684	686,846,897
<b>Total Net Assets*</b>	<b>\$ 720,770,537</b>	<b>\$ 128,733,324</b>	<b>\$ 69,317,489</b>	<b>\$ 780,186,372</b>
<b>Hospital</b>				
Capital assets not being depreciated				
Land	\$ 7,592,395	\$ 9,997,914		\$ 17,590,309
Construction in progress	221,841,000	6,581,171	226,417,125	2,005,046
	\$ 229,433,395	\$ 16,579,085	\$ 226,417,125	\$ 19,595,355
Capital assets being depreciated				
Land Improvements	\$ 129,467			\$ 129,467
Buildings	316,077,455	243,889,238		559,966,693
Fixed Equipment Systems	3,966,171	3,558,992		7,525,163
Equipment	251,387,369	27,633,883	12,219,475	266,801,777
	\$ 571,560,462	\$ 275,082,113	\$ 12,219,475	\$ 834,423,100
<b>Total Capital Assets</b>	<b>\$ 800,993,857</b>	<b>\$ 291,661,198</b>	<b>\$ 238,636,600</b>	<b>\$ 854,018,455</b>
Less: Accumulated Depreciation	327,783,046	39,998,744	11,094,453	356,687,337
<b>Total Net Assets</b>	<b>\$ 473,210,811</b>	<b>\$ 251,662,454</b>	<b>\$ 227,542,147</b>	<b>\$ 497,331,118</b>
<b>Total UAB</b>				
Capital assets not being depreciated				
Land	\$ 42,058,849	\$ 10,567,809	\$ 467,000	\$ 52,159,658
Construction in progress	324,241,978	77,332,425	291,707,581	109,866,822
	\$ 366,300,827	\$ 87,900,234	\$ 292,174,581	\$ 162,026,480
Capital assets being depreciated				
Land Improvements	\$ 11,164,485	\$ 996,842	\$ 104,000	\$ 12,057,327
Buildings	1,059,963,663	328,450,532	3,048,885	1,385,365,310
Fixed Equipment Systems	71,130,491	9,235,279		80,365,770
Equipment	588,436,671	56,601,470	30,087,307	614,950,834
Library Materials	62,133,499	4,152,504		66,286,003
	\$ 1,792,828,809	\$ 399,436,627	\$ 33,240,192	\$ 2,159,025,244
<b>Total Capital Assets</b>	<b>\$ 2,159,129,636</b>	<b>\$ 487,336,861</b>	<b>\$ 325,414,773</b>	<b>\$ 2,321,051,724</b>
Less: Accumulated Depreciation	965,148,288	106,941,083	28,555,137	1,043,534,234
<b>Total Net Assets*</b>	<b>\$ 1,193,981,348</b>	<b>\$ 380,395,778</b>	<b>\$ 296,859,636</b>	<b>\$ 1,277,517,490</b>

\*\$43,778,000 and \$38,748 relates to the inclusion of SRI and UABRF, respectively. See Note 3.

## (9) Long-Term Debt

Long-term debt activity for the year ended September 30, 2005, 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 secured by pledged revenues as defined in the applicable indentures. See Note 11 for information regarding the pledged revenues, which collateralize certain outstanding debt.

September 30, 2005:	Beginning Balance (Restated)	New Debt	Principal Repayment	Ending Balance
<b>University and Other Nonmajor Funds</b>				
Leases Payable for purchase of equipment, 3.68% to 5.45%, due various dates through 2010	\$ 3,484,683	\$ 631,892	\$ 1,387,845	\$ 2,728,730
Lease Payable Medical Advancement Foundation, variable rate interest, (3% at September 30, 2005) due annually through 2030	23,810,000		2,705,000	21,105,000
Birmingham General Revenue Bonds Series 1993B, variable rate interest (2.76% at September 30, 2005), due annually through 2013	9,600,000		800,000	8,800,000
Birmingham General Revenue Bonds Series 1999, 4% to 6.0%, due annually through 2020	65,800,000		65,800,000	
Birmingham General Revenue Bonds Series 2001, 4% to 5.25% due annually through 2027	48,393,795		1,880,835	46,512,960
Birmingham General Revenue Bonds Series 2002, 2.5% to 3.8%, due annually through 2013	10,480,000		925,000	9,555,000
Birmingham General Revenue Bonds Series 2003A, 2% to 5% due annually through 2027	69,835,000		500,000	69,335,000
Birmingham General Revenue Bonds Series 2003B, 2% to 3% due annually through 2009	23,129,710		4,425,999	18,703,711
Birmingham General Revenue Bonds Series 2005A, 3% to 5% due annually through 2020		60,375,000		60,375,000
	* \$ 254,533,188	\$ 61,006,892	\$ 78,424,679	\$ 237,115,401
Less: unamortized bond discount				1,764,600
<b>Total University and Other Nonmajor Funds debt</b>				<b>\$ 235,350,801</b>
Less: current portion				12,267,617
<b>Total University and Other Nonmajor Funds debt, noncurrent</b>				<b>\$ 223,083,184</b>
<b>Hospital</b>				
Lease Payable for purchase of equipment	\$ 35,494	\$	\$ 35,494	\$
Lease Payable, 3.75% due monthly at through 2019		4,097,480	189,872	3,907,608
Birmingham Hospital Revenue Bonds Series 2000A, 4.9% to 5.875% due annually through 2031	148,725,000		2,535,000	146,190,000
Birmingham Hospital Revenue Bonds Series 2000B, variable interest rate (2.60% at September 30, 2005), due annually through 2031	107,800,000			107,800,000
Birmingham Hospital Revenue Bonds Series 2000C, variable interest rate (2.60% at September 30, 2005), due annually through 2031	39,400,000		400,000	39,000,000
Birmingham Hospital Revenue Bonds Series 2000D, variable interest rate (2.77% at September 30, 2005), due annually through 2031	77,175,000		1,500,000	75,675,000
Birmingham General Revenue Bonds Series 2001, 4% to 5.25% due annually through 2027	2,856,205		149,165	2,707,040
Birmingham General Revenue Bonds Series 2003B, 2% to 3% due annually through 2009	2,320,290		444,001	1,876,289
Birmingham Hospital Revenue Bonds Series 2004A, 2% to 5% due annually through 2014	42,645,000		3,525,000	39,120,000
	\$ 420,956,989	\$ 4,097,480	\$ 8,778,532	\$ 416,275,937
Less: unamortized bond discount				9,960,474
<b>Total Hospital debt</b>				<b>\$ 406,315,463</b>
Less: current portion				9,090,812
<b>Total Hospital debt, noncurrent</b>				<b>\$ 397,224,651</b>
<b>Total</b>				
Leases Payable for purchase of equipment, 3.68% to 5.45%, due various dates through 2019	\$ 3,520,177	\$ 4,729,372	\$ 1,613,211	\$ 6,636,338
Lease Payable Medical Advancement Foundation, variable rate interest, (3% at September 30, 2005) due annually through 2030	23,810,000		2,705,000	21,105,000
Birmingham General Revenue Bonds Series 1993B, variable rate interest (2.76% at September 30, 2005), due annually through 2013	9,600,000		800,000	8,800,000
Birmingham General Revenue Bonds Series 1999, 4% to 6.0%, due annually through 2020	65,800,000		65,800,000	
Birmingham Hospital Revenue Bonds Series 2000A, 4.9% to 5.875% due annually through 2031	148,725,000		2,535,000	146,190,000
Birmingham Hospital Revenue Bonds Series 2000B, variable interest rate (2.60% at September 30, 2005), due annually through 2031	107,800,000			107,800,000
Birmingham Hospital Revenue Bonds Series 2000C, variable interest rate (2.60% at September 30, 2005), due annually through 2031	39,400,000		400,000	39,000,000
Birmingham Hospital Revenue Bonds Series 2000D, variable interest rate (2.77% at September 30, 2005), due annually through 2031	77,175,000		1,500,000	75,675,000
Birmingham General Revenue Bonds Series 2001, 4% to 5.25% due annually through 2027	51,250,000		2,030,000	49,220,000
Birmingham General Revenue Bonds Series 2002, 2.5% to 3.8%, due annually through 2013	10,480,000		925,000	9,555,000
Birmingham General Revenue Bonds Series 2003A, 2% to 5% due annually through 2027	69,835,000		500,000	69,335,000
Birmingham General Revenue Bonds Series 2003B, 2% to 3% due annually through 2009	25,450,000		4,870,000	20,580,000
Birmingham Hospital Revenue Bonds Series 2004A, 2% to 5% due annually through 2014	42,645,000		3,525,000	39,120,000
Birmingham Hospital Revenue Bonds Series 2005A, 3% to 5% due annually through 2020		60,375,000		60,375,000
	* \$ 675,490,177	\$ 65,104,372	\$ 87,203,211	\$ 653,391,338
Less: unamortized bond discount				11,725,074
<b>Total debt</b>				<b>\$ 641,666,264</b>
Less: current portion				21,358,429
<b>Total debt, noncurrent</b>				<b>\$ 620,307,835</b>

\*\$3,422,000 relates to inclusion of SRI. See Note 3.

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, 2005.

University and Other Nonmajor Funds			
Year	Principal	Interest	Total
2006	\$ 12,267,617	\$ 8,836,443	\$ 21,104,060
2007	12,378,047	8,184,747	20,562,794
2008	15,328,220	7,713,242	23,041,462
2009	13,564,928	7,252,018	20,816,946
2010	13,970,777	6,785,692	20,756,469
2011-2015	61,613,628	26,571,910	88,185,538
2016-2020	52,427,184	14,057,383	66,484,567
2021-2025	35,805,000	5,913,025	41,718,025
2026-2030	19,760,000	1,430,709	21,190,709
<b>Total University</b>	<b>\$237,115,401</b>	<b>\$ 86,745,169</b>	<b>\$ 323,860,570</b>

Hospital			
Year	Principal	Interest	Total
2006	\$ 9,090,812	\$ 16,411,147	\$ 25,501,959
2007	9,429,086	16,091,211	25,520,297
2008	9,958,272	15,678,778	25,637,050
2009	10,172,541	15,245,068	25,417,609
2010	10,667,038	14,790,832	25,457,870
2011-2015	54,658,521	66,598,283	121,256,804
2016-2020	74,579,667	54,082,637	128,662,304
2021-2025	92,440,000	38,919,706	131,359,706
2026-2030	117,970,000	19,390,664	137,360,664
2031-2032	27,310,000	1,059,148	28,369,148
<b>Total Hospital</b>	<b>\$416,275,937</b>	<b>\$258,267,474</b>	<b>\$ 674,543,411</b>

Total			
Year	Principal	Interest	Total
2006	\$ 21,358,429	\$ 25,247,590	\$ 46,606,019
2007	21,807,133	24,275,958	46,083,091
2008	25,286,492	23,392,020	48,678,512
2009	23,737,469	22,497,086	46,234,555
2010	24,637,815	21,576,524	46,214,339
2011-2015	116,272,149	93,170,193	209,442,342
2016-2020	127,006,851	68,140,020	195,146,871
2021-2025	128,245,000	44,832,731	173,077,731
2026-2030	137,730,000	20,821,373	158,551,373
2031-2032	27,310,000	1,059,148	28,369,148
<b>Total UAB</b>	<b>\$653,391,338</b>	<b>\$345,012,643</b>	<b>\$ 998,403,981</b>

In September 2005, UAB issued \$60,375,000 in Series 2005A General Revenue Bonds. The bonds pay interest at varying rates from 3.0% to 5.0% with principal due annually through October 1, 2020. The proceeds from this offering were used to advance refund \$62,695,000 of Series 1999 General Revenue Bonds. UAB incurred an economic gain of approximately \$3,792,000 and a deferred accounting loss of \$4,393,000 included in long term debt on the Statement of Net Assets. The deferred loss is amortized over the life of the new debt and is included as part of interest expense.

The University defeased certain indebtedness on September 24, 2005, 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, 2005. The principal outstanding on the defeased indebtedness at September 30, 2005 was approximately \$62,695,000.

The Hospital Series 1993, 2000A, 2000B, 2000C, 2000D, and 2004A Revenue Trust Indentures contain certain restrictive covenants (see note 11). The Hospital's management believes that it was in compliance with respect to these covenants at September 30, 2005.

## (10) Other Noncurrent Liabilities

The activity with respect to other noncurrent liabilities not presented as part of Note 19 for the year ended September 30, 2005, is as follows:

September 30, 2005	Beginning Balance	Additions	Retirements	Ending Balance
<b>University and Other Nonmajor Funds</b>	<b>(Restated)</b>			
Advances federal loans	\$ 16,896,513	\$ 2,448,016	\$ (2,627,436)	\$ 16,717,093
Other noncurrent liabilities*	483,112	1,988,298		2,471,410
<b>Total advances federal loans and other noncurrent liabilities</b>	<b>\$ 17,379,625</b>	<b>\$ 4,436,314</b>	<b>\$ (2,627,436)</b>	<b>\$ 19,188,503</b>

\*\$483,112 relates to the inclusion of SRI. See Note 3.

## (11) Pledged Revenues

Pledged revenues, adjusted operating expenses, and historical debt service coverage ratio for 2005, as defined by the Series 1993, 2000A, 2000B, 2000C, 2000D, and 2004A Hospital Revenue Trust Indentures, are as follows:

Hospital Bonds	2005
Total pledged revenues	\$ 764,721,478
Adjusted operating expense	686,219,810
Net facilities income	\$ 78,501,668
Maximum debt service coverage	\$ 28,299,781
Historical debt service coverage ratio	2.77:1

Pledged revenues for 2005, as defined by the Series 1993B, 1999, 2001, 2002, 2003A, 2003B, and 2005A General Revenue Trust Indentures, are as follows:

University Bonds	2005
Tuition and fees	\$ 95,295,781
Indirect cost recovery	81,550,002
Sales and services of educational activities	43,956,428
Auxiliary sales and services	17,435,583
Endowment and investment income (loss)	38,806,677
Other sources	42,856,895
<b>Total pledged revenues</b>	<b>\$ 319,901,366</b>





## (12) 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.

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 law to contribute to TRS. UAB, as the employer, contributes to TRS. The contribution requirements for fiscal years 2005, 2004 and 2003, respectively, were approximately \$77,634,000, \$66,860,000 and \$53,885,000, which consisted of \$43,614,000, \$37,930,000 and \$25,988,000 from UAB and \$31,020,000, \$28,930,000 and \$27,897,000 from employees. UAB's contribution was 7.03%, 6.56% and 5.02% of salaries and wages for covered employees in 2005, 2004 and 2003. The contribution by law enforcement employees is 6% of earned compensation. The contribution by all other employees is 5% 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, 2004, 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 2005, excluding employee amounts not eligible for matching, were approximately \$25,204,000 which included approximately \$12,602,000 each from UAB and its employees.

UAB's total salaries and wages for fiscal year 2005, were approximately \$714,254,000. Total salaries and wages during fiscal year 2005 for covered employees participating in TRS and TIAA-CREF were approximately \$620,398,000 and \$260,081,000, respectively.

### Postretirement Benefits

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 Public Education Employees Health Insurance Plan with TRS, in which case the retirees pay their premiums directly to TRS.

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 them-



selves. However, their unmarried dependent children may qualify in some cases.

### 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 \$24,534,200 (\$17,243,600 related to the University and \$7,290,000 related to the Hospital) as of September 30, 2005, 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.

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.

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.

## (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 year ended September 30, 2005, respectively, UAB disbursed approximately \$70,186,000 under the FDSLPL.

## (14) Grants and Contracts

At September 30, 2005, UAB had been awarded approximately \$424,251,000 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 2003. Revenue from the Medicare program accounted for approximately 27% of the Hospital's net patient service revenue for the year ended September 30, 2005.
- Blue Cross—Inpatient services rendered to Blue Cross subscribers are paid at a prospectively determined per diem rate. Outpatient services

are reimbursed under a cost reimbursement methodology. For outpatient services, the Hospital is reimbursed at a tentative rate with 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 2003. Revenue from the Blue Cross program accounted for approximately 25% of the Hospital's net patient service revenue for the year ended September 30, 2005.

- 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 \$10,914,000 in 2005 is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net assets. There can be no assurance that the Hospital will continue to qualify for future participation in this program or that the program will not ultimately be discontinued or materially modified.

Revenue from the Medicaid program accounted for approximately 14% of the Hospital's net patient service revenue for year ended September 30, 2005.

- 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:

	2005
Gross patient service revenue	\$ 2,090,029,752
Less provision for contractual and other adjustments	(1,332,404,565)
Less provision for bad debts	(116,773,083)
<b>Total Net Patient Service Revenue</b>	<b>\$ 640,852,104</b>
Capitation Revenue	45,305,365
Other Revenue	43,507,421
<b>Total Hospital sales revenue</b>	<b>\$ 729,664,890</b>

## (16) Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services, and supplies and equivalent service statistics. The following information measures the level of charity care provided during the year ended September 30, 2005:

	2005
Approximate charges foregone, based on established rates	\$ 96,254,000
Estimated costs and expenses incurred to provide charity care	\$ 34,064,000
Percentage of charity charges to total charges	4.6%

## (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, 2005, follows:

	2005
Other	40%
Self-pay patients	25
Medicare	9
Blue Cross	10
Medicaid	16
	<b>100%</b>

## (18) Construction Commitments and Financing

At September 30, 2005, UAB had capital expenditure plans in excess of \$961,867,000. These internal plans generally require Board approval and/or approvals under state certificate-of-need laws.

Included in these capital plans are construction projects currently in process with expenditures remaining of approximately \$168,801,000. This estimated remaining cost is expected to be financed from bond proceeds and UAB reserves of \$138,028,000, federal funds of \$16,723,000, State funds of \$1,037,000, and other non-UAB funding sources of \$13,013,000. During 2004 \$15,235,000 of construction was financed through debt proceeds.

In addition, certain projects in the planning and design phase which UAB expects to complete have estimated costs totaling \$57,308,000 and \$126,611,000, for the University and Hospital, respectively.

## (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 2005 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, 2005, the liquid assets of the PLTF, as defined by the agreement, were in compliance with the agreement.

The PLTF liability is reported in accrued liabilities and other noncurrent liabilities in the Other Non-major Funds column of the statement of net assets. The University and Hospital report contributions to PLTF as insurance expense, within the supplies and services caption on the statement of revenues, expenses, and changes in net assets.

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 2005. 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, 2005 are presented as follows:





<b>University and Other Nonmajor Funds</b>		<b>2005</b>
Balance, beginning of year (as previously reported)	\$	16,902,610
Restatement*		59,126,929
<b>Balance, beginning of year (as restated)</b>	<b>\$</b>	<b>76,029,539</b>
Claims incurred and changes in estimates		53,167,473
Claim payments		(41,598,833)
<b>Balance, end of year</b>	<b>\$</b>	<b>87,598,179</b>
<b>Hospital</b>		<b>2005</b>
Balance, beginning of year (as previously reported)	\$	27,967,019
Restatement+		(25,871,700)
<b>Balance, beginning of year (as restated)</b>	<b>\$</b>	<b>2,095,319</b>
Claims incurred and changes in estimates		13,071,137
Claim payments		(13,509,190)
<b>Balance, end of year</b>	<b>\$</b>	<b>1,657,266</b>
<b>Total UAB</b>		<b>2005</b>
Balance, beginning of year (as previously reported)	\$	44,869,629
Restatement		33,255,229
<b>Balance, beginning of year (as restated)</b>	<b>\$</b>	<b>78,124,858</b>
Claims incurred and changes in estimates		66,238,610
Claim payments		(55,108,023)
<b>Balance, end of year</b>	<b>\$</b>	<b>89,255,445</b>

\*-Includes \$700,000 related to SRI. Includes \$58,426,929 related to PLTF. See Note 3.  
+-See Note 3 for PLTF restatement

## (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 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 the University. The amount, if any, of expenditures that may be

disallowed by the grantor cannot be determined at this time, although the University expects any such amounts to be immaterial.

In March 2005, the University, the University of Alabama Health Services Foundation and UAB Health System entered into a Settlement Agreement with the United States, on behalf of the National Institute of Health, the Office of Acquisition Management and Policy, Department of Health and Human Services, and the Office of Inspector General, Department of Health and Human Services to conclude an audit of alleged Medicare and grant irregularities relating to effort reporting and billing for services rendered as part of research trials. With no admission of wrongdoing, UAB paid \$3,390,000 to the U.S. in exchange for a release of certain liability on the audited issues through June 30, 2004. UAB also agreed to certain compliance program requirements for a three-year period, which include an annual report and certification submission. In addition, UAB entered into a settlement agreement with two former employees, with no admission of wrongdoing. UAB paid a total of \$500,000 to the former employees for release of all claims arising from their employment.

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 \$2,600,000, included in accounts payable and accrued liabilities in the accompanying statement of net assets, based on management's best estimate of the exposures.

## (21) Operating Expenses by Function

Total operating expenses by functional classification for the year ended September 30, 2005, are as follows:

September 30, 2005	Salaries, Wages, and Benefits	Supplies and Services	Depreciation and Amortization	Scholarships and Fellowships	Total
Instruction	\$ 188,510,061	\$ 29,756,555	\$	\$	218,266,616
Research	183,476,454	110,929,559			294,406,013
Public service	46,704,743	20,528,598			67,233,341
Academic support	64,616,175	145,965,783			210,581,958
Student services	11,991,741	7,570,854			19,562,595
Institutional support	56,512,318	26,318,386			82,830,704
Operation and maintenance of plant	23,382,947	28,305,469			51,688,416
Scholarships and fellowships				19,733,167	19,733,167
Hospital	358,176,515	328,043,294			686,219,809
Auxiliary	11,915,089	13,319,999			25,235,088
Depreciation			107,219,083		107,219,083
<b>Total operating expenses</b>	<b>\$ 945,286,043</b>	<b>\$ 710,738,497</b>	<b>\$ 107,219,083</b>	<b>\$ 19,733,167</b>	<b>\$ 1,782,976,790</b>

## (22) Recently Issued Pronouncements

The GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* (GASB 42), in November 2003. GASB 42 requires governments to evaluate and report any capital asset impairment loss in their financial statements on an annual basis offset by any related insurance recoveries. This statement is effective for fiscal year periods beginning after December 15, 2004. UAB is currently evaluating the impact, if any, that GASB 42 will have on the September 30, 2006 financial statements.

The GASB issued Statement No. 45, *Accounting and Reporting by Employers for Postretirement Benefits Other Than Pensions* (GASB 45), in June 2004. This statement requires governmental entities to recognize and match other postretirement 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 45 will be effective for financial statement periods beginning after December 15, 2006. UAB is currently evaluating the impact, if any, that GASB 45 will have on the September 30, 2008 financial statements.

The GASB issued Statement No. 46, *Net Assets Restricted by Legislation, an amendment of GASB Statement No. 34* (GASB 46), in December 2004. GASB 46 amends GASB 34 to clarify the definition of a legally enforceable enabling legislation restriction and specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. GASB 46 will be effective for financial statement periods beginning after June 15, 2005. UAB is currently evaluating the impact, if any, that GASB 46 will have on the September 30, 2006 financial statements.

The GASB issued Statement No. 47, *Accounting for Termination Benefits* (GASB 47), in June 2005. GASB 47 establishes recognition, measurement, and disclosure requirements for both voluntary termination benefits (for example, early-retirement incentives) and involuntary termination benefits (for example, severance benefits). The requirements of GASB 47 are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of GASB 45. For all other termination benefits, this statement is effective for financial statements for periods beginning after June 15, 2005. UAB is currently evaluating the impact, if any, that GASB 47 will have on the September 30, 2006 financial statements.

# The University of Alabama at Birmingham Administration

As of September 30, 2005



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President



**Eli I. Capilouto**  
Provost

**Louis Dale**  
Vice President for Equity and Diversity

**Virginia D. Gauld**  
Vice President for Student Affairs

**David Hoidal**  
CEO, UAB Health System

**Shirley Salloway Kahn**  
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