



## **2004 Financial Report**

The University of  
Alabama at Birmingham





# Contents

## 2 Introduction to UAB

- Overview/Vision/Mission
- Financial Highlights
- Financial Ratios
- Nonfinancial Highlights
  - Student Profile
  - Student Financial Aid
  - Student Headcount
  - Faculty Profile
  - Staff Profile
  - State Appropriations
  - Sponsored Grants and Contracts
  - Hospital

## 14 Financial Statements

- Management's Responsibility for Financial Reporting
- Independent Auditors' Report
- Management's Discussion and Analysis
- Statements of Net Assets
- Statements of Revenues, Expenses, and Changes in Net Assets
- Statements of Cash Flows
- Notes to Financial Statements

## 50 UAB Administration

## 51 The Board of Trustees of The University of Alabama

# 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.

## 2004 Overview

In 2004, UAB completed the most successful fund-raising campaign in state history. Started five years ago, the Campaign for UAB raised more than \$388.7 million, including \$27.4 million for 126 new endowed scholarships and fellowships; \$46.5 million for 56 endowed chairs and professorships; \$41.8 million for building construction, renovation, and equipment; and \$273 million for academic program enhancements and technology. But the fund-raising momentum did not stop there. Fiscal year 2004 marked the third-highest fund-raising year in the history of the university with a total of more than \$64.2 million. This exceeds the year's goal by nearly \$1 million.

Undergraduate enrollment grew by 3.58 percent in fall 2003, and average ACT scores of the entering class continued to climb, from 21.75 to 22.52. Akofa Bonsi, a philosophy major, was named a 2004 Truman Scholar.

*U.S. News & World Report* ranked UAB's School of Medicine 25th in research nationally and 30th in primary care, with

three specialities in the top 20—AIDS, women's health, and internal medicine. UAB ranked 20th in National Institutes of Health funding and 26th in overall federal research and development funding.

During 2004, construction continued on major facilities, including a new University Hospital, the Shelby Interdisciplinary Biomedical Research Building, and a campus recreation center.

The most recent economic impact study shows that UAB's impact on the Birmingham area is \$2.9 billion. Over the past two fiscal years, the overall impact, including construction and university retirees' local expenditures, increased by an estimated 15.5 percent.

## Vision

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

## Mission

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

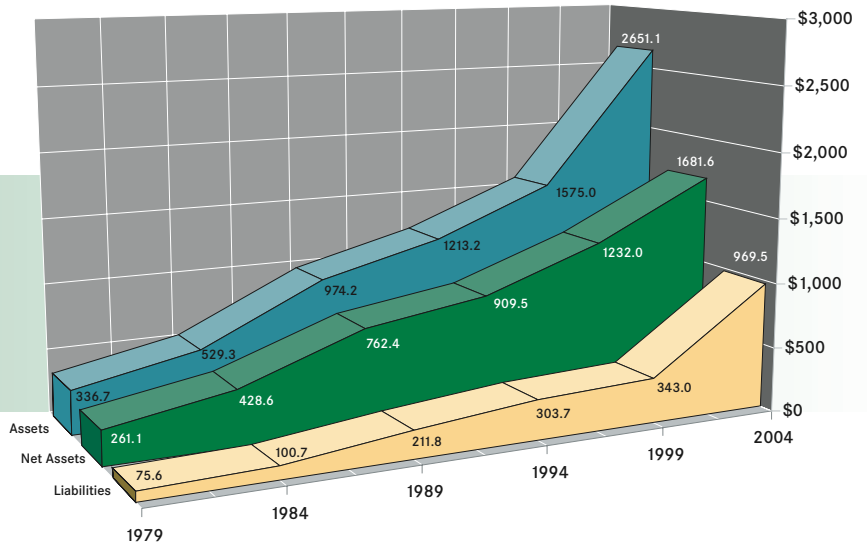
UAB's mission is carried out through its academic, research, and service programs. Undergraduate, graduate, and professional degree programs are offered through the schools of Arts and Humanities, Business, Dentistry, Education, Engineering, Health Related Professions, Medicine, Natural Sciences and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



# Financial Highlights

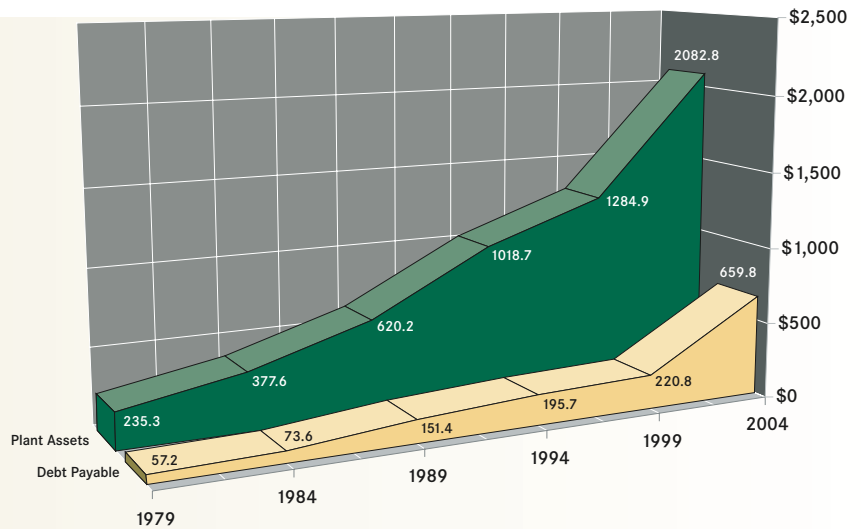
## Assets and Liabilities

Since 1979 UAB's assets have increased by \$2.3 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 \$1.4 billion.



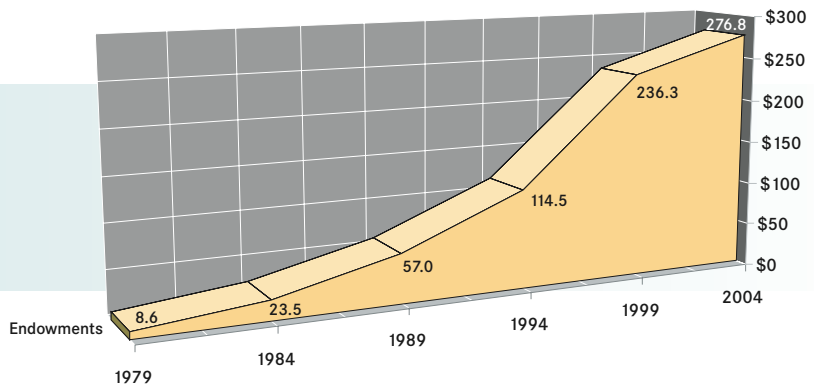
## Capital Expansion

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 1979 and the associated increase in long-term debt. The investment in plant figures do not include the effect of accumulated depreciation.



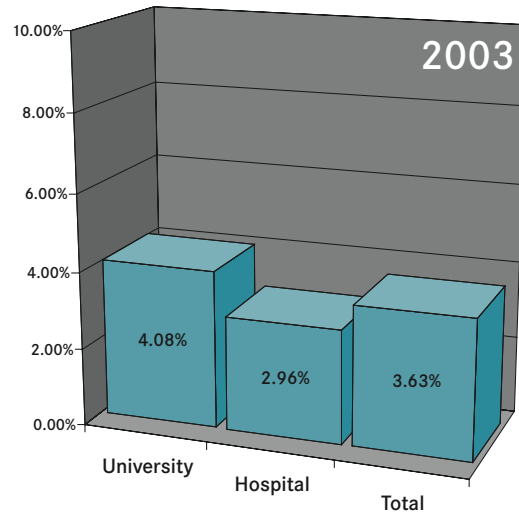
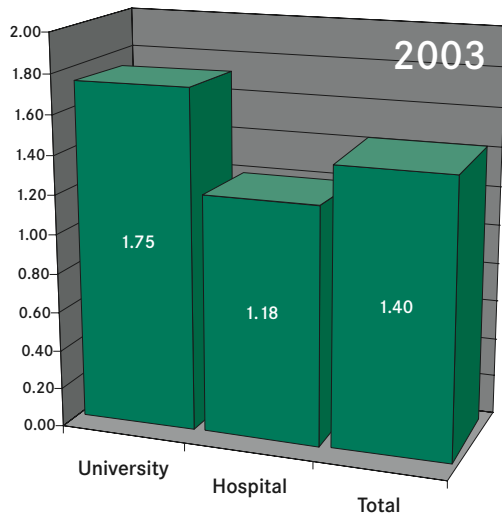
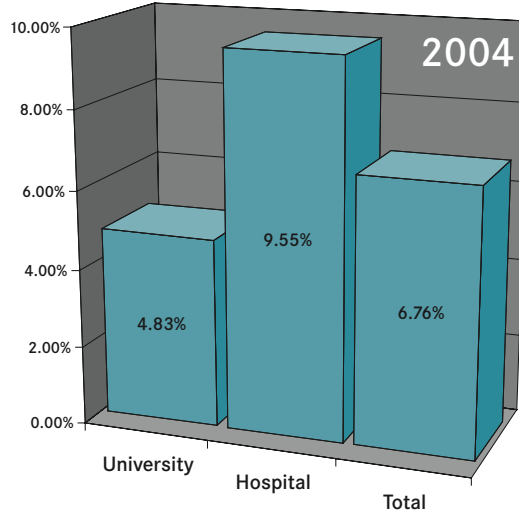
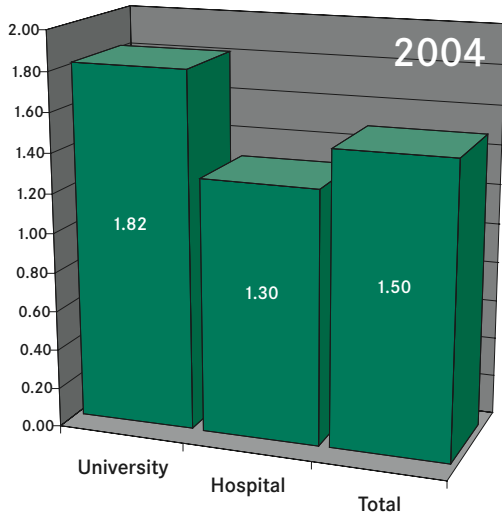
## Endowment Growth

The increase in the endowment and quasi-endowment assets from \$8.6 million to \$276.8 million over the past 25 years reflects the commitment of the community to UAB's ongoing success and sound investment program.



## Financial Ratios

The following selected ratios, calculated for the years ended September 30, 2004 and 2003, 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

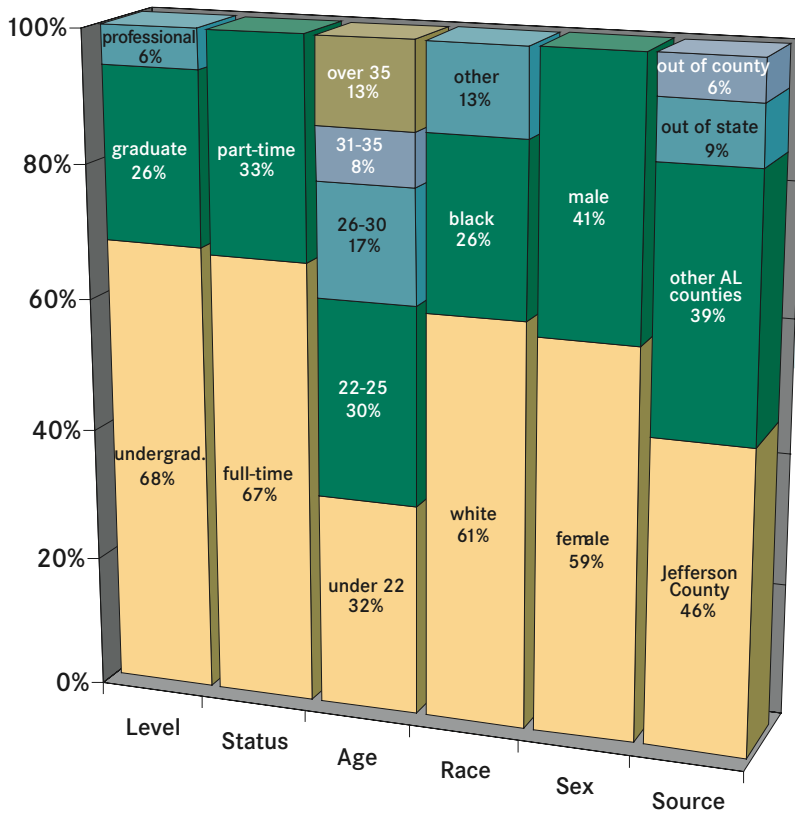
This ratio indicates the relative liquidity of the institution. A ratio of 1:1 or greater indicates that an institution has sufficient liquid assets to satisfy all related liabilities. A ratio of less than 1:1 means that there would not be sufficient liquid assets to satisfy all debts as of the reporting 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 16,357  
As of Fall 2003

Excludes Advanced Professionals

## Student Financial Aid

In fiscal year 2004, 62.7% of UAB's students received student financial aid from UAB. Financial aid disbursements of \$110.9 million were provided from the following sources:

### Federal Government

Student Loans	\$ 69,402,838
Grants	10,700,782
Work-Study	1,637,122
Subtotal Federal	\$ 81,740,742

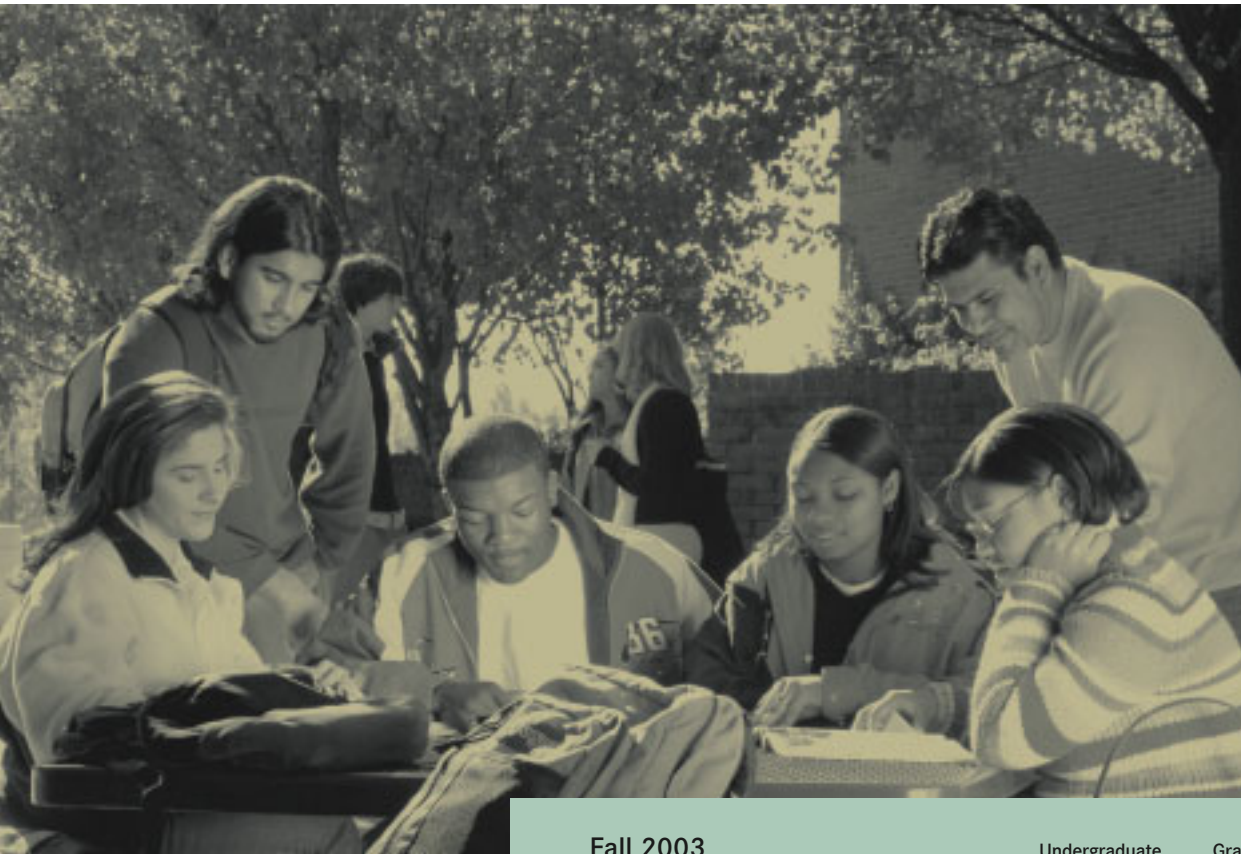
State Government \$ 124,288

### University

Loans	\$ 302,849
Scholarships	28,724,717
Subtotal University	\$ 29,027,566

Total \$ 110,892,596





## Student Headcount

Enrollment for the fall semester of the 2003-2004 school year is outlined in the table at right.

Fall 2003	Undergraduate	Graduate	Professional*	Total
School of Arts and Humanities	1,183	48		1,231
School of Business	1,793	390		2,183
School of Education	735	948		1,683
School of Engineering	575	274		849
School of Natural Sciences and Mathematics	1,454	207		1,661
School of Social and Behavioral Sciences	1,721	215		1,936
Unclassified	2,473	641		3,114
<b>Subtotal</b>	<b>9,934</b>	<b>2,723</b>		<b>12,657</b>
Academic Health Center				
School of Medicine	6		1,492	1,498
School of Dentistry	15	5	314	334
School of Optometry		25	168	193
School of Nursing	288	259		547
School of Health Related Professions	803	574		1,377
School of Public Health		342		342
Joint Health Sciences		397		397
<b>Subtotal Academic Health Center</b>	<b>1,112</b>	<b>1,602</b>	<b>1,974</b>	<b>4,688</b>
<b>Total Enrollment</b>	<b>11,046</b>	<b>4,325</b>	<b>1,974</b>	<b>17,345</b>

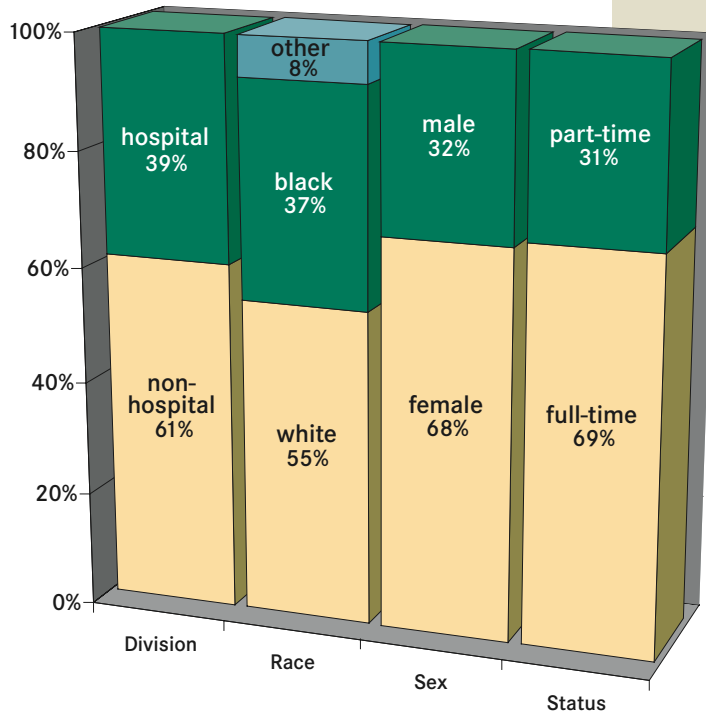
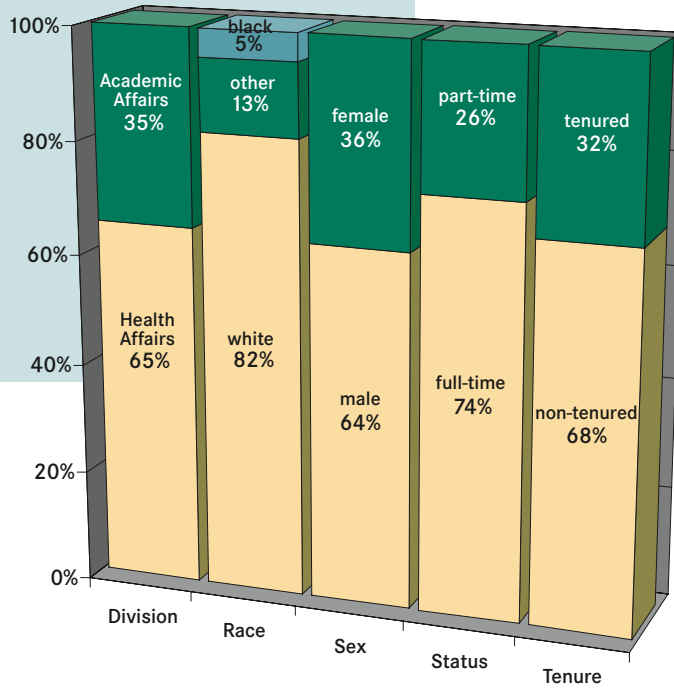
\* Includes 986 first professionals and 988 advanced professionals



# Faculty Profile

Total 2,630

As of Fall 2003



# Staff Profile

Total 16,066

As of Fall 2003

# State Appropriations

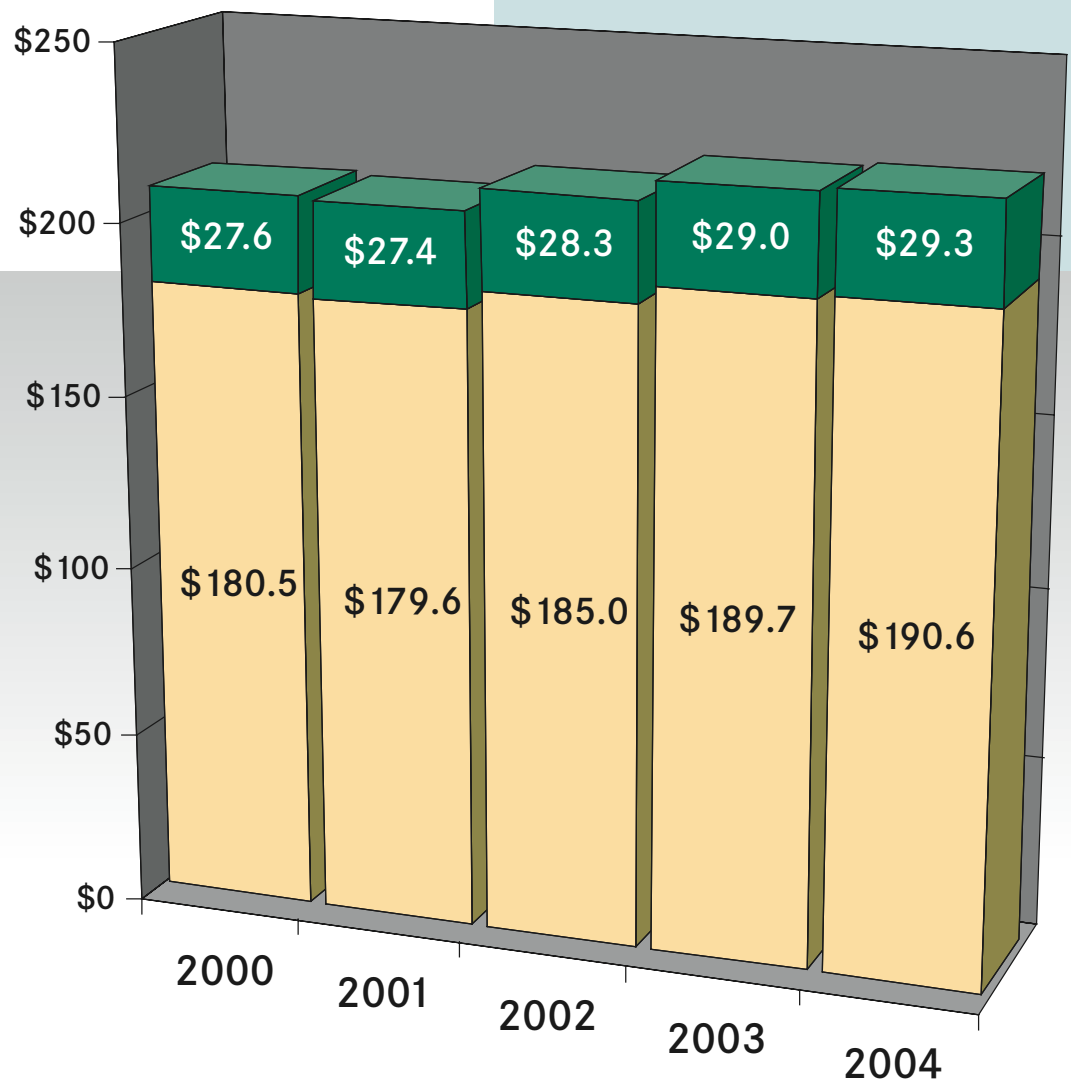
The State appropriations for UAB are made by the State Legislature based upon a process which involves requests from the Board of Trustees of The University of Alabama, and budget recommendations by the Alabama Commission on Higher Education and the Governor. State funds are appropriated annually from the Educational Trust Fund (ETF) to UAB. For the fiscal year ended September 30, 2004, UAB received direct funding from the ETF in the amount of \$219,883,401.

## Appropriations Received

Fiscal years ended September 30

(Dollars in millions)

■ Hospital    ■ University

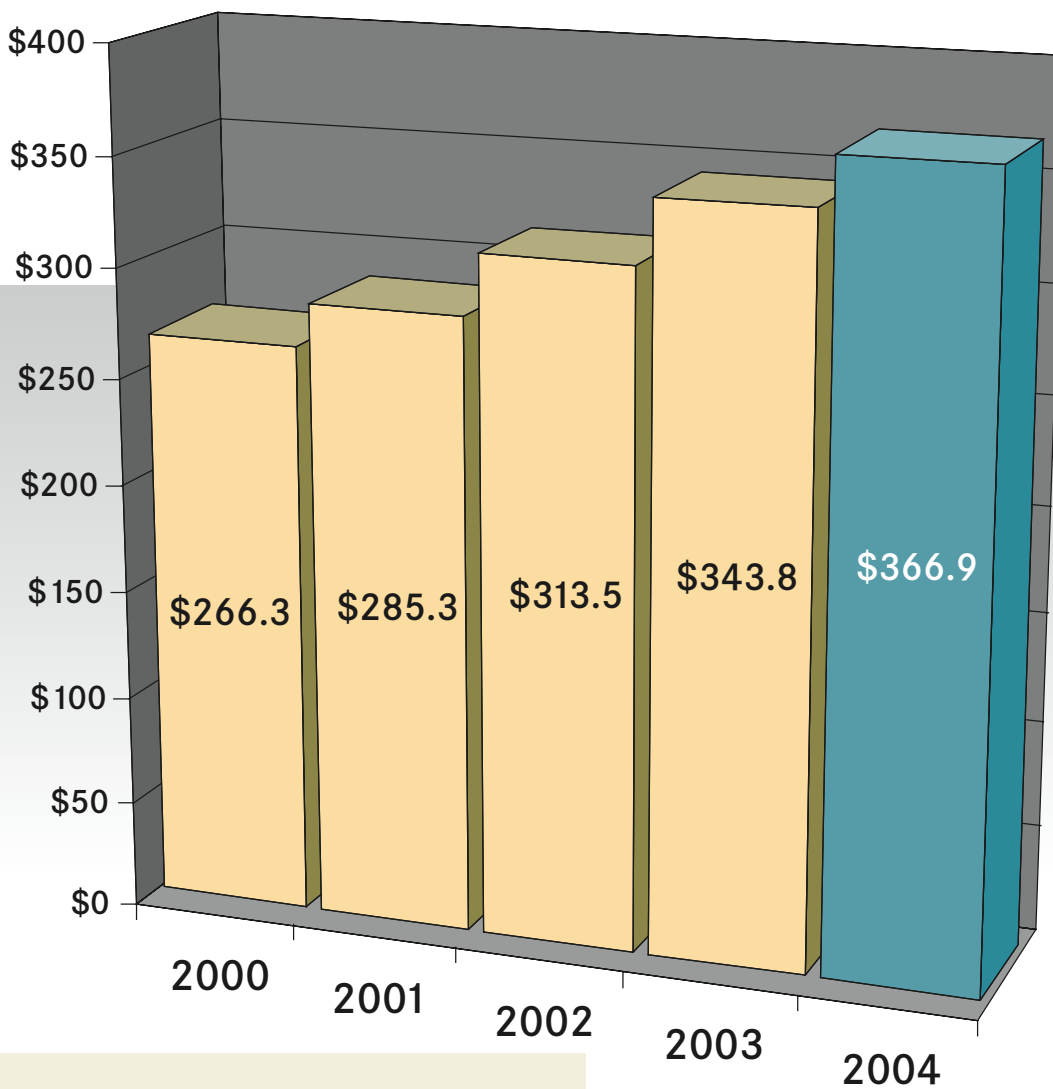


# Sponsored Grants and Contracts

During fiscal year 2004, UAB received \$366.9 million in sponsored grants and contracts revenues (including \$72.9 million of indirect cost recovery). Various federal agencies provided the majority of support for these projects, with the National Institutes of Health (NIH) being the primary sponsor. 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, and 20th in federal funds provided for

research and development expenditures. 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 \$266.3 million during 2000 to \$366.9 million during 2004, an increase of 37.8% for the period.



## Grants and Contracts Revenues

Fiscal years ended September 30

(Dollars in millions)

# Hospital

University Hospital (the “Hospital”) is a 908-bed quaternary and tertiary care medical facility and part of the UAB Health System. The Hospital 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 new University Hospital, a nine-story diagnostic and treatment facility, opened on November 17, 2004. 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 health care facilities in the UAB Health System include The Kirklin Clinic, the Callahan Eye Foundation Hospital, and UAB Medical West.



	2003	2004
<b>Beds in Service</b>	850	854
<b>Discharges</b>	40,275	41,775
<b>Inpatient Days</b>	248,032	258,786
<b>Patient Origin:</b>		
Jefferson County	41.8%	44.3%
Other Alabama Counties	49.0%	47.0%
Out of State	9.2%	8.7%

Volume statistics exclude well babies.



## Hospital Awards and Accolades

The Hospital has continued to demonstrate quality in both its patient care and work environments. It also remains the only Alabama hospital to achieve Magnet Nursing Facility status as designated by the American Nurses Credentialing Association. During fiscal year 2004, the Hospital was once again awarded the Alabama Quality Award for Continuous Quality Improvement by the Alabama Productivity Center. In addition, 14 UAB programs are ranked in *U.S. News & World Report's* annual "America's Best Hospitals" issue. The magazine selected 50 programs in 17 medical specialties nationwide. University Hospital is the only Alabama hospital included in the listing. The Hospital also received the Consumer Choice Award from the National Research Corporation and was identified again among health care's 100 most wired facilities by *Hospitals and Health Networks*.

## The New University Hospital

Opened in November 2004, the new University Hospital is an 885,000 square-foot, nine-story replacement facility. From the basement to the helipad, the building is spacious, aesthetically pleasing, and architecturally state of the art. It is home to a total of 37 operating suites, two procedure rooms, four intensive care units, three medical surgical units, and the emergency depart-

ment. Along with the patient care areas, several support departments such as Pharmacy, Central Sterile, Radiology, and Laboratory Services have relocated to the new hospital.

The second floor is the main thoroughfare from the new visitor parking deck into the hospital complex. The building has a total of 22 elevators. The visitor elevators are situated at each level on the three-story atrium, giving visitors a greater sense of orientation to the building. Three connecting bridges to other facilities and a five-level bridge over 6th Avenue South link the hospital to other patient care areas. In addition, an escalator connects the first and second floors.

The building is designed to be patient- and family-friendly. Seating for over 900 visitors includes large open public seating areas around the atrium on the first, second, fifth, and seventh floors as well as smaller waiting rooms in the nursing units and the emergency department.

The design, construction, and operations planning activities for the building continued for several years. It has been a multidisciplinary project each step of the way, with considerable input from the Hospital's medical and administrative leaders.

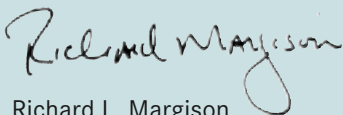


# Management's Responsibility for Financial Reporting

The accompanying financial statements of the University of Alabama at Birmingham (UAB) for the years ended September 30, 2004 and 2003, 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  
and Administration



Tricia Raczynski  
Associate Vice President  
for Financial Affairs



## To the Board of Trustees of The University of Alabama

We have audited the accompanying statements of net assets of the business-type activities and each major fund of The University of Alabama at Birmingham (UAB), one of the campuses of The University of Alabama System which is a component unit of the State of Alabama, and the related statements of revenues, expenses, and changes in net assets and cash flows as of and for the years ended September 30, 2004 and 2003, which collectively comprise UAB's basic financial statements. These basic financial statements are the responsibility of UAB's management. Our responsibility is to express opinions on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the University of Alabama Hospital and Triton Health Systems, L.L.C. were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in note 1, 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 of the financial reporting entity of The University of Alabama System that is attributable to the transactions of UAB. They do not purport to, and do not, present fairly the financial position of the University of Alabama System as of September 30, 2004 and 2003, and its changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of UAB as of September 30, 2004 and 2003, and the respective changes in its financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, effective October 1, 2003, UAB adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement 14*.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 10, 2004, on our consideration of UAB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audits.

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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise UAB's basic financial statements. The introductory section is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This section has not been subjected to the auditing procedures applied by us in the audits of the basic financial statements and, accordingly, we express no opinion on it.



December 10, 2004



# Management's Discussion and Analysis

Unaudited

The objective of management's discussion and analysis is to help readers of UAB's financial statements better understand the financial position and operating activities for the fiscal years ended September 30, 2004 and 2003. The financial statements are presented in three columns: University, Hospital, 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 following discussion and analysis provides an overview of UAB's financial activities. This discussion should be read in conjunction with the financial statements and notes to the financial statements.

## Financial Overview

UAB's financial position exhibited continued growth, as assets totaled \$2.65, \$2.50, and \$2.25 billion at September 30, 2004, 2003, and 2002, an increase of \$151.7 million or 6.07% from 2003 to 2004 and \$252.1 million or 11.22% from 2002 to 2003, primarily due to the continued expansion of capital assets and increasing investments values in conjunction with the favorable investment market position as of September 30, 2004.

Total liabilities increased \$22.5 million or 2.38% from September 30, 2003, to September 30, 2004. The increase results from continued growth in expenditures offset by the reduction in bonds payable related to annual principal payments. Total liabilities increased \$101.5 million or 12.01% from September 30, 2002, to 2003. In December 2002, UAB issued \$11,455,000 in Series 2002 General Revenue Bonds. The proceeds from this offering were used to refund \$11,630,000 of Series 1993A General Revenue Bonds. In June 2003, UAB issued \$69,930,000 of Series 2003A General Revenue Bonds. The proceeds from this offering will be used for UAB's expansion of capital assets to allow for continued growth and to refund \$6,990,000 of Series 1993 Student Housing Revenue Refunding Bonds, issued by the UAB Educational Foundation (UABEF), representing the Lease Payable to UABEF.

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, 2004, 2003, and 2002, as follows:

	2004	2003	2002
Total operating revenues	\$ 1,300,009,042	\$ 1,221,449,929	\$ 1,148,357,670
Total operating expenses	1,558,785,771	1,452,748,615	1,351,687,684
Net operating loss	\$ (258,776,729)	\$ (231,298,686)	\$ (203,330,014)
Total nonoperating income and capital endowment activities	387,962,627	381,854,074	245,550,862
Increase in net assets	\$ 129,185,898	\$ 150,555,388	\$ 42,220,848

A majority of UAB's endowment funds are invested in a common investment pool 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, 2004, 2003, and 2002, is as follows:

	2004	2003	2002
<b>Assets</b>			
Capital Assets	\$ 1,150,164,600	\$ 1,005,280,582	\$ 884,082,468
Other Assets	1,500,937,788	1,494,129,392	1,363,260,397
Total Assets	\$ 2,651,102,388	\$ 2,499,409,974	\$ 2,247,342,865
<b>Liabilities and Net Assets</b>			
Current Liabilities	\$ 313,525,238	\$ 267,602,148	\$ 209,442,672
Noncurrent Liabilities	656,024,438	679,441,012	636,088,767
Total Liabilities	\$ 969,549,676	\$ 947,043,160	\$ 845,531,439
Net Assets	1,681,552,712	1,552,366,814	1,401,811,426
Total Liabilities and Net Assets	\$ 2,651,102,388	\$ 2,499,409,974	\$ 2,247,342,865

## Unaudited

At September 30, 2004, the major categories of current assets consist primarily of cash and cash equivalents, short-term investments, and accounts receivable, which totaled \$543.0 million of the \$584.2 million, an increase of \$50.0 million or 10.1% from 2003. This increase is a result of an increase in accounts receivable resulting from an increase in grants and contracts revenue and an increase in current operating investments.

At September 30, 2003, the major categories of current assets consisted primarily of cash and cash equivalents, short-term investments, and accounts receivable, which totaled \$493.1 million of the \$523.0 million, an increase of \$72.5 million or 17.2% from 2002. This increase is a result of 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 \$313.5 million in 2004 consisted primarily of vendor payables, accrued payroll and related benefits, and deferred revenue, which totaled \$273.5 million, compared to \$229.5 million at September 30, 2003, an increase of \$44.1 million or 19.2% from 2003.

Total current liabilities of \$267.6 million in 2003 consisted primarily of vendor payables, accrued payroll and related benefits, and deferred revenue, which totaled \$229.5 million, compared to \$209.4 million at September 30, 2002, an increase of \$49.5 million or 27.5% from the prior year.

UAB's endowment, life income, and other investments increased \$28.5 million to \$279.6 million from September 30, 2003, to September 30, 2004. This increase results primarily from net investment gains and the establishment of new endowment funds through gifts and the creation of Board-designated quasi-endowments. UAB's endowment

funds consist of both permanent and quasi-endowment funds.

UAB's endowment, life income, and other investments increased \$39.6 million to \$251.0 million from September 30, 2002, to September 30, 2003. This increase resulted from net investment gains of \$36.8 million 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 \$226.3 and \$176.1 million from September 30, 2003, to September 30, 2004, and from September 30, 2002, to September 30, 2003, respectively. This increase consists primarily of capital expenditures and capital additions totaling \$280.2 and \$234.0 million in 2004 and 2003. Capital additions are com-



prised 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 \$17.2 and \$21.2 million, debt

## Net Assets

Net assets represent the residual interest in UAB's assets after liabilities are deducted. UAB's net assets at September 30, 2004, 2003, and 2002, are summarized as follows:

	2004	2003	2002
<b>University</b>			
Invested in capital assets, net of related debt	\$ 441,043,503	\$ 376,265,447	\$ 403,823,337
Restricted			
Nonexpendable	187,797,125	173,096,645	135,557,463
Expendable	179,931,971	181,296,591	133,878,012
Unrestricted	274,693,122	275,790,785	239,697,911
<b>Total Net Assets</b>	<b>\$ 1,083,465,721</b>	<b>\$ 1,006,449,468</b>	<b>\$ 912,956,723</b>
<b>Hospital</b>			
Invested in capital assets, net of related debt	\$ 63,162,698	\$ 48,414,000	\$ 64,626,388
Restricted			
Nonexpendable	128,099	128,099	128,099
Expendable	25,072,177	22,025,291	17,855,982
Unrestricted	509,724,017	475,349,956	406,244,234
<b>Total Net Assets</b>	<b>\$ 598,086,991</b>	<b>\$ 545,917,346</b>	<b>\$ 488,854,703</b>
<b>Total UAB</b>			
Invested in capital assets, net of related debt	\$ 504,206,201	\$ 424,679,447	\$ 468,449,725
Restricted			
Nonexpendable	187,925,224	173,224,744	135,685,562
Expendable	205,004,148	203,321,882	151,733,994
Unrestricted	784,417,139	751,140,741	645,942,145
<b>Total Net Assets</b>	<b>\$ 1,681,552,712</b>	<b>\$ 1,552,366,814</b>	<b>\$ 1,401,811,426</b>

proceeds of \$132.1 and \$130.0 million, and the remainder by UAB funds designated for capital purchases in 2004 and 2003, respectively.

Capital projects in process at September 30, 2004 and 2003, 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 \$659.8, \$682.5, and \$632.1 million at September 30, 2004, 2003, and 2002, respectively. The decrease in debt during 2004 consisted primarily of the principal payments made in accordance with the debt instruments. The increase in debt during 2003 consisted primarily of the issuance of \$69.9 million of General Revenue Bond Series 2003A and various capital leases, which were issued to finance the construction and acquisition of both University and Hospital facilities and equipment.

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 \$79.5 million increase in 2004 reflects the continued capital asset development in accordance with its long-range capital plan. The \$43.8 million decrease in 2003 reflects the issuance of new debt to continue 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 \$14.7 and \$37.5 million increase results from the net increase in fair value of investments and gifts in 2004 and 2003, respectively. 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.

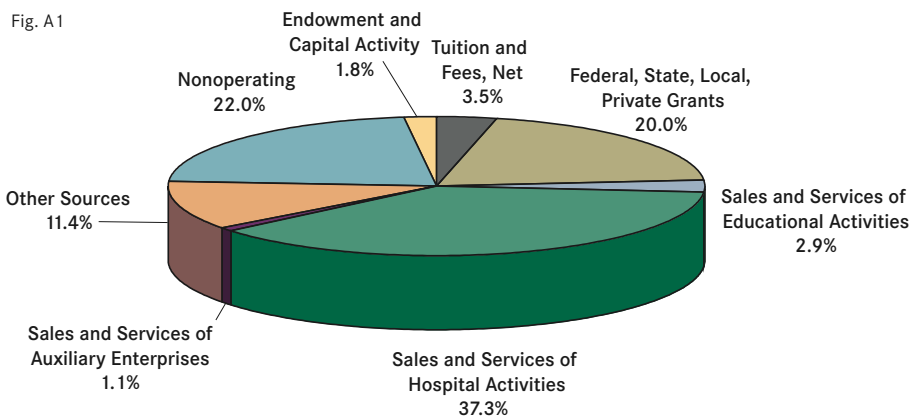
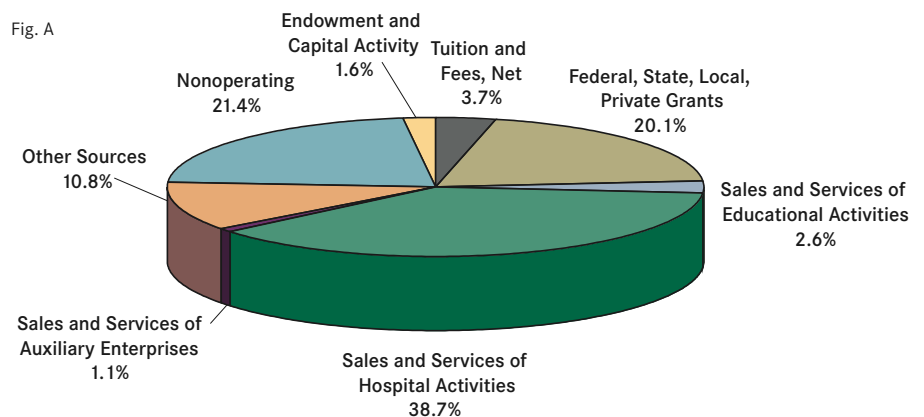
# Unaudited

## 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, 2004, 2003, and 2002, is presented at right:

	2004	2003	2002
<b>Operating Revenues</b>			
Student tuition and fees, net	\$ 62,948,898	\$ 56,829,105	\$ 50,041,457
Grants and contracts	\$ 339,577,049	\$ 320,212,707	\$ 298,956,845
Sales and services	\$ 716,096,982	\$ 661,853,414	\$ 629,031,902
Other revenues	\$ 181,386,113	\$ 182,554,703	\$ 170,327,466
<b>Revenues supporting core activities</b>	<b>\$ 1,300,009,042</b>	<b>\$ 1,221,449,929</b>	<b>\$ 1,148,357,670</b>
<b>Operating Expenses</b>			
Operating expenses	\$ 1,558,785,771	\$ 1,452,748,615	\$ 1,351,687,684
<b>Operating loss</b>	<b>\$ (258,776,729)</b>	<b>\$ (231,298,686)</b>	<b>\$ (203,330,014)</b>
<b>Nonoperating revenues (expenses)</b>			
State educational appropriations	\$ 219,883,401	\$ 218,671,755	\$ 213,310,617
Grants and contracts	\$ 17,279,413	\$ 17,713,515	\$ 11,513,037
Private gifts	\$ 33,874,299	\$ 15,052,375	\$ 21,669,842
Net investment income (loss)	\$ 99,171,347	\$ 113,744,664	\$ (24,436,600)
Interest expense	\$ (10,204,582)	\$ (12,756,260)	\$ (8,500,239)
Gain (loss) of disposal of capital assets	\$ (2,328,936)	\$ (1,806,095)	\$ 1,315,273
Capital state appropriations	\$ 5,233,490	\$ 7,549,494	\$ 13,698,109
Capital gifts and grants	\$ 11,934,310	\$ 13,608,860	\$ 5,764,866
Permanent endowments	\$ 9,424,416	\$ 9,038,222	\$ 5,973,030
Net nonoperating revenues	\$ 3,695,469	\$ 1,037,544	\$ 5,242,927
<b>Net nonoperating revenues and other changes</b>	<b>\$ 387,962,627</b>	<b>\$ 381,854,074</b>	<b>\$ 245,550,862</b>
<b>Increase in net assets</b>	<b>\$ 129,185,898</b>	<b>\$ 150,555,388</b>	<b>\$ 42,220,848</b>
Net assets, beginning of year	\$ 1,552,366,814	\$ 1,401,811,426	\$ 1,359,590,578
<b>Net assets, end of year</b>	<b>\$ 1,681,552,712</b>	<b>\$ 1,552,366,814</b>	<b>\$ 1,401,811,426</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, 2004 and 2003, respectively.



UAB measures its performance both for UAB as a whole, 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 September 30, 2004 and 2003.

Gross tuition and fees revenue increased by \$9.0 and \$8.4 million, resulting from increased enrollment in 2004 and 2003, respectively. Total student headcount of 17,345 and 16,516 increased by 829 and 840 or 5.0% and 5.4% in 2004 and 2003, respectively. Scholarship allowances applied to student accounts increased by \$2.4 and \$1.7 million in 2004 and 2003, respectively.

Fig. B

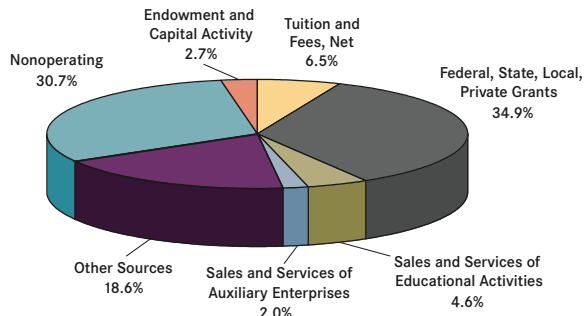


Fig. B1

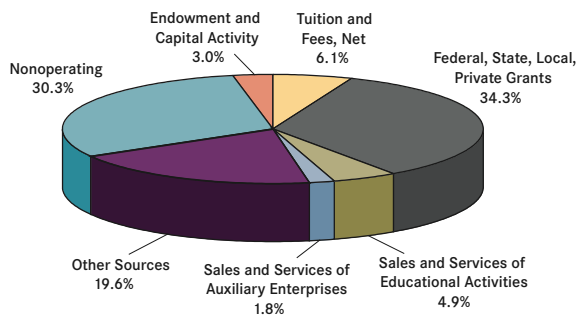


Fig. C

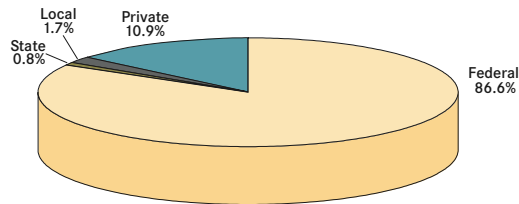
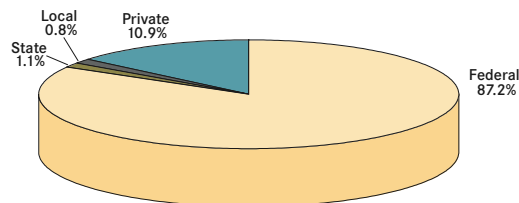


Fig. C1



UAB receives State appropriations from the State of Alabama. UAB recognized funds from the State of Alabama totaling \$225.1 and \$226.2 million, of which \$219.9 and \$218.7 million was from the ETF. The remaining \$5.2 and \$7.5 million represents Public School and College Authority funds and other state capital funds in 2004 and 2003, respectively.

Net hospital sales and service revenue totaled \$652.7 and \$598.4 million, an increase of \$54.3 and \$27.7 million or 9.1% and 4.8% from 2003. This increase results from increased volume, Charge Description Master initiatives, and improvements in the Blue Cross and United Healthcare contracts in 2004. In 2003 inpatient discharges increased by 1.2%.

UAB recognized \$45.2, \$31.8, and \$30.3 million in gift revenue (\$1.9, \$7.7, and \$3.0 million and \$9.4, \$9.0, and \$6.0 million in capital and endowment gifts, respectively) for the years ended September 30, 2004, 2003, and 2002, 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 \$10.0, \$5.9, and \$3.0 million in 2004, 2003, and 2002, 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, 2004 and 2003, respectively.

## Unaudited

Net investment income (loss) for the years ended September 30, 2004, 2003, and 2002, consists of the following components:

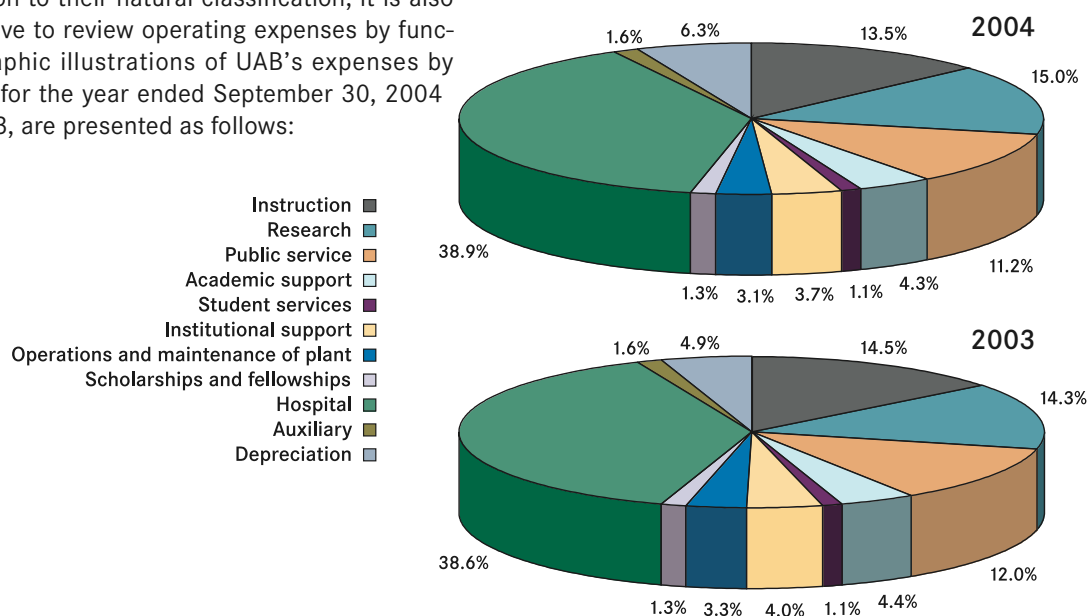
<b>Investment Income (Loss) Summary</b>			
	2004	2003	2002
Interest and dividends	\$ 52,980,760	\$ 48,841,309	\$ 36,979,999
Net (decrease) increase in the fair value of investments	43,479,940	61,261,350	(54,592,185)
Return on equity investments	2,710,647	3,642,005	(6,824,414)
	<b>\$ 99,171,347</b>	<b>\$113,744,664</b>	<b>\$ (24,436,600)</b>

A comparative summary of UAB's expenses for the years ended September 30, 2004, 2003, and 2002, is as follows:

<b>Operating Expenses-Natural Classification</b>			
	2004	2003	2002
Salaries, wages, and benefits	\$ 820,894,553	\$ 791,236,935	\$ 726,212,996
Supplies and services	619,704,905	571,283,189	538,738,739
Depreciation	98,549,412	71,513,485	73,412,037
Scholarships and fellowships	19,636,901	18,715,006	13,323,912
	<b>\$1,558,785,771</b>	<b>\$1,452,748,615</b>	<b>\$1,351,687,684</b>

Salaries, wages, and benefits increased \$29.7 and \$65.0 million or 3.8% and 9.0% from 2003 to 2004 and from 2002 to 2003, respectively. This increase is due primarily to UAB's continued growth. In addition, supplies and services expenses increased \$48.4 and \$32.5 million or 8.5% and 6.0% from 2003 to 2004 and from 2002 to 2003, respectively. This increase is primarily attributable to the growth in research efforts at UAB as well as an overall increase in the cost of day-to-day operations.

In addition to their natural classification, it is also informative to review operating expenses by function. Graphic illustrations of UAB's expenses by function for the year ended September 30, 2004 and 2003, are presented as follows:



## Unaudited

### 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 its component units' financial activities 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.



# Statement of Net Assets

September 30, 2004

	University	Hospital	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 77,271,765	\$ 47,203,327	\$ 124,475,092
Short-term investments	202,996,544	39,087,374	242,083,918
Accounts receivable, net	72,723,098	103,804,171	176,527,269
Student loans receivable, current portion	3,360,390		3,360,390
Pledges receivable, current portion	7,409,366	73,019	7,482,385
Inventories	3,128,181	9,796,634	12,924,815
Other current assets	11,817,240	5,525,635	17,342,875
<b>Total current assets</b>	<b>\$ 378,706,584</b>	<b>\$ 205,490,160</b>	<b>\$ 584,196,744</b>
<b>Noncurrent Assets</b>			
Cash designated for capital activities	\$ 1,465,661	\$ 7,715,345	\$ 9,181,006
Restricted cash and cash equivalents	1,887,434	25,976	1,913,410
Investments designated for capital activities	203,928,773	366,585,849	570,514,622
Endowment and life income investments	262,039,129	17,513,392	279,552,521
Other long-term investments	16,330,260	7,127,656	23,457,916
Student loans receivable, net	16,301,421		16,301,421
Pledges receivable	13,063,162	36,250	13,099,412
Capital assets, net	676,953,789	473,210,811	1,150,164,600
Other noncurrent assets	2,720,736		2,720,736
<b>Total noncurrent assets</b>	<b>\$ 1,194,690,365</b>	<b>\$ 872,215,279</b>	<b>\$ 2,066,905,644</b>
<b>Total Assets</b>	<b>\$ 1,573,396,949</b>	<b>\$ 1,077,705,439</b>	<b>\$ 2,651,102,388</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 115,504,993	\$ 83,035,252	\$ 198,540,245
Due to (from)	13,464,917	(13,464,917)	
Deposits	19,311,584		19,311,584
Deferred revenue-grants	35,670,064		35,670,064
Deferred revenue-other	39,332,727		39,332,727
Long-term debt, current portion	12,081,958	8,588,660	20,670,618
<b>Total current liabilities</b>	<b>\$ 235,366,243</b>	<b>\$ 78,158,995</b>	<b>\$ 313,525,238</b>
<b>Noncurrent Liabilities</b>			
Advances of federal loan funds	\$ 16,896,513	\$	\$ 16,896,513
Long-term debt	237,668,472	401,459,453	639,127,925
<b>Total noncurrent liabilities</b>	<b>\$ 254,564,985</b>	<b>\$ 401,459,453</b>	<b>\$ 656,024,438</b>
<b>Total Liabilities</b>	<b>\$ 489,931,228</b>	<b>\$ 479,618,448</b>	<b>\$ 969,549,676</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 441,043,503	\$ 63,162,698	\$ 504,206,201
Restricted			
Nonexpendable	187,797,125	128,099	187,925,224
Expendable	179,931,971	25,072,177	205,004,148
Unrestricted	274,693,122	509,724,017	784,417,139
<b>Total Net Assets</b>	<b>\$1,083,465,721</b>	<b>\$ 598,086,991</b>	<b>\$ 1,681,552,712</b>
See accompanying notes to basic financial statements			



# Statement of Net Assets

September 30, 2003

	University	Hospital	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 64,256,663	\$ 41,031,205	\$ 105,287,868
Short-term investments	190,758,504	33,684,930	224,443,434
Accounts receivable, net	72,099,203	91,305,655	163,404,858
Student loans receivable, current portion	2,960,492		2,960,492
Pledges receivable, current portion	5,335,964	125,993	5,461,957
Inventories	2,798,712	7,950,156	10,748,868
Other current assets	8,144,948	2,818,648	10,963,596
<b>Total current assets</b>	<b>\$ 346,354,486</b>	<b>\$ 176,916,587</b>	<b>\$ 523,271,073</b>
<b>Noncurrent Assets</b>			
Cash designated for capital activities	\$ 7,792,721	\$ 144,578,343	\$ 152,371,064
Investments designated for capital activities	217,476,251	301,007,409	518,483,660
Endowment and life income investments	234,870,937	16,133,093	251,004,030
Other long-term investments	14,254,179	5,420,122	19,674,301
Student loans receivable, net	16,617,391		16,617,391
Pledges receivable	9,103,585	206,250	9,309,835
Capital assets, net	627,973,088	377,307,494	1,005,280,582
Other noncurrent assets	3,398,038		3,398,038
<b>Total noncurrent assets</b>	<b>\$ 1,131,486,190</b>	<b>\$ 844,652,711</b>	<b>\$ 1,976,138,901</b>
<b>Total Assets</b>	<b>\$ 1,477,840,676</b>	<b>\$ 1,021,569,298</b>	<b>\$ 2,499,409,974</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	\$ 97,651,231	\$ 67,932,776	\$ 165,584,007
Due to (from)	13,464,917	(13,464,917)	
Deposits	18,147,132		18,147,132
Deferred revenue-grants	37,764,653		37,764,653
Deferred revenue-other	26,119,565		26,119,565
Long-term debt, current portion	11,894,152	8,092,639	19,986,791
<b>Total current liabilities</b>	<b>\$ 205,041,650</b>	<b>\$ 62,560,498</b>	<b>\$ 267,602,148</b>
<b>Noncurrent Liabilities</b>			
Advances of federal loan funds	\$ 16,937,296	\$	\$ 16,937,296
Long-term debt	249,412,262	413,091,454	662,503,716
<b>Total noncurrent liabilities</b>	<b>\$ 266,349,558</b>	<b>\$ 413,091,454</b>	<b>\$ 679,441,012</b>
<b>Total Liabilities</b>	<b>\$ 471,391,208</b>	<b>\$ 475,651,952</b>	<b>\$ 947,043,160</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	\$ 376,265,447	\$ 48,414,000	\$ 424,679,447
Restricted			
Nonexpendable	173,096,645	128,099	173,224,744
Expendable	181,296,591	22,025,291	203,321,882
Unrestricted	275,790,785	475,349,956	751,140,741
<b>Total Net Assets</b>	<b>\$ 1,006,449,468</b>	<b>\$ 545,917,346</b>	<b>\$ 1,552,366,814</b>

See accompanying notes to basic financial statements

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

Year Ended September 30, 2004

	University	Hospital	Total
<b>Operating Revenues</b>			
Gross tuition and fees	\$ 83,847,789	\$	\$ 83,847,789
Less scholarship allowance	(19,511,961)		(19,511,961)
Less bad debt expense	<u>(1,386,930)</u>		<u>(1,386,930)</u>
Net tuition and fees	62,948,898		62,948,898
Grants and contracts			
Federal	294,608,395		294,608,395
State	2,911,291		2,911,291
Local	2,233,073		2,233,073
Private	39,824,290		39,824,290
Sales and services:			
Educational activities	44,370,073		44,370,073
Hospital, net of bad debt expense of \$100,901,886		652,669,126	652,669,126
Auxiliary enterprises, net of scholarship allowance of \$387,405	19,057,783		19,057,783
Other operating revenues	181,039,931	346,182	181,386,113
<b>Total operating revenues</b>	<b>\$ 646,993,734</b>	<b>\$ 653,015,308</b>	<b>\$ 1,300,009,042</b>
<b>Operating Expenses</b>			
Salaries, wages, and benefits	\$ 500,063,290	\$ 320,831,263	\$ 820,894,553
Supplies and services	333,275,725	286,429,180	619,704,905
Depreciation	69,182,483	29,366,929	98,549,412
Scholarships and fellowships	19,636,901		19,636,901
<b>Total operating expenses</b>	<b>\$ 922,158,399</b>	<b>\$ 636,627,372</b>	<b>\$ 1,558,785,771</b>
<b>Income (loss) before other nonoperating revenues, expenses, gains and losses</b>	<b>\$ (275,164,665)</b>	<b>\$ 16,387,936</b>	<b>\$ (258,776,729)</b>
<b>Nonoperating Revenues (Expenses)</b>			
State appropriations	\$ 190,637,434	\$ 29,245,967	\$ 219,883,401
Federal grants and contracts	17,129,894		17,129,894
State grants and contracts	58,592		58,592
Private grants and contracts	90,927		90,927
Gifts	33,831,043	43,256	33,874,299
Investment income	61,748,944	37,422,403	99,171,347
Interest expense	(6,742,899)	(3,461,683)	(10,204,582)
Loss on asset disposition	(1,756,283)	(572,653)	(2,328,936)
Net other nonoperating revenue	2,949,330	746,139	3,695,469
<b>Net nonoperating revenues</b>	<b>\$ 297,946,982</b>	<b>\$ 63,423,429</b>	<b>\$ 361,370,411</b>
<b>Other Changes in Net Assets</b>			
Capital and endowment activities			
State funds-capital	\$ 5,233,490	\$	\$ 5,233,490
Capital grants and contracts	10,022,703		10,022,703
Capital gifts	1,911,607		1,911,607
Endowment gifts	9,424,416		9,424,416
<b>Net nonoperating revenues and other changes</b>	<b>\$ 324,539,198</b>	<b>\$ 63,423,429</b>	<b>\$ 387,962,627</b>
<b>Increase in net assets prior to intergovernmental transfers</b>	<b>\$ 49,374,533</b>	<b>\$ 79,811,365</b>	<b>\$ 129,185,898</b>
Intergovernmental transfers	27,641,720	(27,641,720)	
<b>Increase in net assets</b>	<b>\$ 77,016,253</b>	<b>\$ 52,169,645</b>	<b>\$ 129,185,898</b>
<b>Net Assets, beginning of year</b>	<b>1,006,449,468</b>	<b>545,917,346</b>	<b>1,552,366,814</b>
<b>Net Assets, end of year</b>	<b>\$ 1,083,465,721</b>	<b>\$ 598,086,991</b>	<b>\$ 1,681,552,712</b>

See accompanying notes to basic financial statements

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

Year Ended September 30, 2003

	University	Hospital	Total
<b>Operating Revenues</b>			
Gross tuition and fees	\$ 74,890,719	\$	\$ 74,890,719
Less scholarship allowance	(17,133,900)		(17,133,900)
Less bad debt expense	(927,714)		(927,714)
Net tuition and fees	<u>56,829,105</u>		<u>56,829,105</u>
Grants and contracts			
Federal	276,508,478		276,508,478
State	3,435,766		3,435,766
Local	2,828,301		2,828,301
Private	37,440,162		37,440,162
Sales and services:			
Educational activities	46,351,861		46,351,861
Hospital, net of bad debt expense of \$91,151,175		598,370,435	598,370,435
Auxiliary enterprises, net of scholarship allowance of \$360,503	17,131,118		17,131,118
Other operating revenues	182,545,839	8,864	182,554,703
<b>Total operating revenues</b>	<b>\$ 623,070,630</b>	<b>\$ 598,379,299</b>	<b>\$ 1,221,449,929</b>
<b>Operating Expenses</b>			
Salaries, wages, and benefits	\$ 495,548,324	\$ 295,688,611	\$ 791,236,935
Supplies and services	306,322,748	264,960,441	571,283,189
Depreciation	44,724,501	26,788,984	71,513,485
Scholarships and fellowships	18,715,006		18,715,006
<b>Total operating expenses</b>	<b>\$ 865,310,579</b>	<b>\$ 587,438,036</b>	<b>\$ 1,452,748,615</b>
<b>Income (loss) before other nonoperating revenues, expenses, gains and losses</b>	<b>\$ (242,239,949)</b>	<b>\$ 10,941,263</b>	<b>\$ (231,298,686)</b>
<b>Nonoperating Revenues (Expenses)</b>			
Gains and losses			
State appropriations	\$ 189,634,840	\$ 29,036,915	\$ 218,671,755
Federal grants and contracts	17,570,705		17,570,705
State grants and contracts	134,716		134,716
Private grants and contracts	8,094		8,094
Gifts	14,766,820	285,555	15,052,375
Investment income	69,133,897	44,610,767	113,744,664
Interest expense	(8,893,168)	(3,863,092)	(12,756,260)
Gain (loss) on asset disposition	(2,222,232)	416,137	(1,806,095)
Net other nonoperating revenue	2,444,477	(1,406,933)	1,037,544
<b>Net nonoperating revenues</b>	<b>\$ 282,578,149</b>	<b>\$ 69,079,349</b>	<b>\$ 351,657,498</b>
<b>Other Changes in Net Assets</b>			
Capital and endowment activities			
State funds-capital	\$ 7,549,494	\$	\$ 7,549,494
Capital grants and contracts	5,917,626		5,917,626
Capital gifts	5,121,847	2,569,387	7,691,234
Endowment gifts	9,038,222		9,038,222
<b>Net other nonoperating revenues and other changes</b>	<b>\$ 310,205,338</b>	<b>\$ 71,648,736</b>	<b>\$ 381,854,074</b>
<b>Increase in net assets prior to intergovernmental transfers</b>	<b>\$ 67,965,389</b>	<b>\$ 82,589,999</b>	<b>\$ 150,555,388</b>
Intergovernmental transfers	25,527,356	(25,527,356)	
<b>Increase in net assets</b>	<b>\$ 93,492,745</b>	<b>\$ 57,062,643</b>	<b>\$ 150,555,388</b>
<b>Net Assets, beginning of year</b>	<b>912,956,723</b>	<b>488,854,703</b>	<b>1,401,811,426</b>
<b>Net Assets, end of year</b>	<b>\$ 1,006,449,468</b>	<b>\$ 545,917,346</b>	<b>\$ 1,552,366,814</b>

See accompanying notes to basic financial statements

# Statement of Cash Flows

Year Ended September 30, 2004

	University	Hospital	Total
<b>Cash flows from operating activities</b>			
Student tuition and fees	\$ 66,601,397	\$	\$ 66,601,397
Grants and contracts	349,157,044		349,157,044
Receipts from sales and services of:			
Educational activities	42,937,640		42,937,640
Patient services		642,377,646	642,377,646
Auxiliary enterprises, net	18,782,854		18,782,854
Premiums and administrative fees collected	138,751,040		138,751,040
Payments to employees and related benefits	(507,984,529)	(317,296,256)	(825,280,785)
Payments to suppliers	(315,022,851)	(285,059,512)	(600,082,363)
Payments for scholarships and fellowships	(19,636,901)		(19,636,901)
Student loans disbursements, net of collections	(7,775)		(7,775)
Other receipts	53,219,073	346,182	53,565,255
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (173,203,008)</b>	<b>\$ 40,368,060</b>	<b>\$ (132,834,948)</b>
<b>Cash flows from investing activities</b>			
Interest and dividends from investments, net	\$ 32,538,882	\$ 16,176,568	\$ 48,715,450
Cash distributions from equity investments		1,622,973	1,622,973
Cash payments to equity investments		(1,088,022)	(1,088,022)
Proceeds from sales and maturities of investments	46,920,653		46,920,653
Contributions to system pooled investment funds	(40,931,277)	(46,901,623)	(87,832,900)
Purchases of investments	(11,481,267)	(9,064,379)	(20,545,646)
<b>Net cash provided by (used in) investing activities</b>	<b>\$ 27,046,991</b>	<b>\$ (39,254,483)</b>	<b>\$ (12,207,492)</b>
<b>Cash flows from capital and related financing activities</b>			
Other financing source-refunding bonds	\$ 23,490,010	\$ 51,516,605	\$ 75,006,615
State capital appropriations	5,233,490		5,233,490
Federal grants and contracts	5,966,231		5,966,231
Local grants and contracts	4,000,000		4,000,000
Private grants and contracts	56,472		56,472
Private gifts	4,042,222	165,680	4,207,902
Proceeds from sale of capital assets	69,871	689,224	759,095
Purchases of capital assets	(109,512,226)	(112,703,451)	(222,215,677)
Principal payments on capital debt	(34,652,351)	(60,816,109)	(95,468,460)
Interest payments on capital debt	(9,595,742)	(12,335,223)	(21,930,965)
<b>Net cash used in capital and related financing activities</b>	<b>\$ (110,902,023)</b>	<b>\$ (133,483,274)</b>	<b>\$ (244,385,297)</b>
<b>Cash flows from noncapital financing activities</b>			
State appropriations	\$ 190,637,434	\$ 29,245,967	\$ 219,883,401
Private gifts	35,081,865	100,550	35,182,415
Student direct lending disbursements, net of receipts	(9,247,534)		(9,247,534)
Intergovernmental transfers	27,641,720	(27,641,720)	
Other deposits	20,441,982		20,441,982
Deposits from affiliates	1,078,049		1,078,049
<b>Net cash provided by noncapital financing activities</b>	<b>\$ 265,633,516</b>	<b>\$ 1,704,797</b>	<b>\$ 267,338,313</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ 8,575,476</b>	<b>\$ (130,664,900)</b>	<b>\$ (122,089,424)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>72,049,384</b>	<b>185,609,548</b>	<b>257,658,932</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 80,624,860</b>	<b>\$ 54,944,648</b>	<b>\$ 135,569,508</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ (275,164,665)	\$ 16,387,936	\$ (258,776,729)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	69,182,483	29,366,929	98,549,412
Changes in assets and liabilities:			
Accounts receivable, net	10,858,025	(10,291,481)	566,544
Prepaid expenses and other assets	(5,570,440)	(6,363,410)	(11,933,850)
Accounts payable and accrued liabilities	15,474,213	11,268,086	26,742,299
Deposits from affiliates	6,690		6,690
Deferred revenue	12,010,686		12,010,686
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (173,203,008)</b>	<b>\$ 40,368,060</b>	<b>\$ (132,834,948)</b>
<b>Supplemental noncash activities information</b>			
Loss on disposal of capital assets	\$ 1,756,283	\$ 572,653	\$ 2,328,936
Gifts of capital assets	\$ 10,000	\$	\$ 10,000

See accompanying notes to basic financial statements

# Statement of Cash Flows

Year Ended September 30, 2003

	University	Hospital	Total
<b>Cash flows from operating activities</b>			
Student tuition and fees	\$ 59,944,348	\$	\$ 59,944,348
Grants and contracts	307,184,787		307,184,787
Receipts from sales and services of:			
Educational activities	46,130,799		46,130,799
Patient services		597,635,600	597,635,600
Auxiliary enterprises, net	18,211,953		18,211,953
Premiums and administrative fees collected	137,617,760		137,617,760
Payments to employees and related benefits	(490,895,927)	(294,499,113)	(785,395,040)
Payments to suppliers	(280,508,146)	(256,682,759)	(537,190,905)
Payments for scholarships and fellowships	(18,715,006)		(18,715,006)
Student loans disbursements, net of collections	(60,074)		(60,074)
Other receipts	44,928,079	8,864	44,936,943
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (176,161,427)</b>	<b>\$ 46,462,592</b>	<b>\$ (129,698,835)</b>
<b>Cash flows from investing activities</b>			
Interest and dividends from investments, net	\$ 31,049,253	\$ 19,551,262	\$ 50,600,515
Cash distributions from equity investments		2,215,548	2,215,548
Proceeds from sales and maturities of investments	18,186,506	177,493,568	195,680,074
Contributions to system pooled investment funds	(27,791,995)	(24,915,879)	(52,707,874)
Purchases of investments	(71,219,256)		(71,219,256)
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (49,775,492)</b>	<b>\$ 174,344,499</b>	<b>\$ 124,569,007</b>
<b>Cash flows from capital and related financing activities</b>			
Proceeds from issuance of capital debt	\$ 80,407,094	\$	\$ 80,407,094
State capital appropriations	7,549,494		7,549,494
Federal grants and contracts	5,650,644		5,650,644
Local grants and contracts			
Private grants and contracts	266,982		266,982
Private gifts	3,274,857	2,237,144	5,512,001
Proceeds from sale of capital assets	58,385		58,385
Purchases of capital assets	(90,746,261)	(87,708,975)	(178,455,236)
Principal payments on capital debt	(24,471,021)	(3,581,162)	(28,052,183)
Interest payments on capital debt	(12,814,887)	(13,651,731)	(26,466,618)
<b>Net cash used in capital and related financing activities</b>	<b>\$ (30,824,713)</b>	<b>\$ (102,704,724)</b>	<b>\$ (133,529,437)</b>
<b>Cash flows from noncapital financing activities</b>			
State appropriations	\$ 189,634,840	\$ 29,036,915	\$ 218,671,755
Private gifts	25,964,430	315,253	26,279,683
Student direct lending disbursements, net of receipts	(4,344,824)		(4,344,824)
Intergovernmental transfers	25,527,356	(25,527,356)	
Other deposits (receipts)	21,390,760		21,390,760
Payments related to/ due to related party	(3,337,663)	3,337,663	
Deposits from affiliates	1,716,203		1,716,203
<b>Net cash provided by noncapital financing activities</b>	<b>\$ 256,551,102</b>	<b>\$ 7,162,475</b>	<b>\$ 263,713,577</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (210,530)</b>	<b>\$ 125,264,842</b>	<b>\$ 125,054,312</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>72,259,914</b>	<b>60,344,706</b>	<b>132,604,620</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 72,049,384</b>	<b>\$ 185,609,548</b>	<b>\$ 257,658,932</b>
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities</b>			
Operating income (loss)	\$ (242,239,949)	\$ 10,941,263	\$ (231,298,686)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation expense	44,734,828	26,788,984	71,523,812
Changes in assets and liabilities:			
Accounts receivable, net	(9,039,300)	(302,464)	(9,341,764)
Prepaid expenses and other assets	(717,114)	452,453	(264,661)
Accounts payable and accrued liabilities	29,742,587	9,014,727	38,757,314
Deposits from affiliates	224,412		224,412
Deferred revenue	1,133,109	(432,371)	700,738
<b>Net cash provided by (used in) operating activities</b>	<b>\$ (176,161,427)</b>	<b>\$ 46,462,592</b>	<b>\$ (129,698,835)</b>
<b>Supplemental noncash activities information</b>			
Capital assets acquired through capital leases	\$ 86,845	\$ 148,800	\$ 235,645
Loss (gain) on disposal of capital assets	\$ 2,222,232	\$ (416,137)	\$ 1,806,095
Gifts of capital assets	\$ 48,000	\$	\$ 48,000

See accompanying notes to basic financial statements

# Notes to Financial Statements

September 30, 2004

## (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 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 of the financial reporting entity of the System that is attributable to the transactions of UAB. The System is recognized as an organization exempt from Federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Internal Revenue Code.

UAB, as a public institution, prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB), including all applicable effective statements of the GASB and all statements of the Financial Accounting Standards Board through November 30, 1989.

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 4. Investments for capital projects are included in noncurrent assets. All other investments are included as short-term investments.

**Inventories:** Inventories are carried at the lower of cost or market.

**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.

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.

**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 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.

**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.

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

**Reclassifications:** Certain reclassifications have been made to the 2003 Financial Statements included herein to conform to the 2004 presentation. Such reclassifications did not materially change total assets, liabilities, or net assets.

## (2) Scope of Statements

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.

The medical malpractice liability is maintained and managed in 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. Included in these financial statements were approximately \$32,707,000 and \$25,357,000 of trust fund liabilities that relate to HSF's participation in the fund at September 30, 2004 and 2003, respectively. This additional liability

related to HSF is not included in the self-insured liabilities detailed in Note 18.

Triton Health Systems, L.L.C., (Triton) has been presented as a blended component unit of UAB's financial statements. 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).

Triton's primary operations are conducted by VIVA Health, Inc., (VIVA Health) and VIVA Health Administration, L.L.C., (VHA). VIVA Health operates as a for-profit health maintenance organization with the purpose of providing a prescribed range of health care services through agreements with primary care physicians, specialty physicians, and ancillary service providers to a defined, enrolled population for a fixed prepaid monthly premium. VHA operates as a third-party administrator for employer groups operating in Alabama.

Complete financial statements for Triton can be obtained by contacting Triton.

Summary financial information of Triton as of and for the years ended December 31, 2003 and 2002, is included in UAB's financial statements as follows:

Assets	2003	2002
Cash and investments	\$ 58,221,282	\$ 41,687,965
Other current assets	2,614,058	2,762,285
Capital assets, net	247,848	253,560
Other assets	9,838	4,638
Total	\$ 61,093,026	\$ 44,708,448
<b>Liabilities and Net Assets</b>		
Current liabilities	\$ 24,002,420	\$ 20,472,815
Net assets	37,090,606	24,235,633
Total	\$ 61,093,026	\$ 44,708,448
<b>Major Components of Revenues, Expenses, and Changes in Net Assets</b>		
Operating revenues*	\$ 169,794,925	\$ 139,718,650
Operating expenditures	(151,148,272)	(125,684,552)
Net nonoperating expense	(5,791,680)	(5,133,882)
Increase in net assets	\$ 12,854,973	\$ 8,900,216

\* Included in Other Operating Revenues

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. There are no additional component units of UAB.

UAB is affiliated with the UAB Educational Foundation (UABEF), the UAB Research Foundation (UABRF), the University of Alabama Health Services Foundation, P.C. (HSF), and the Valley Foundation (VF). UAB is not financially accountable for these organizations; therefore, they do not constitute component units under the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

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 \$1,764,000 and \$1,695,000 for 2004 and 2003, respectively. UAB expects to receive title to certain of the properties upon retirement of the related debt. These properties have been appropriately capitalized by UAB as assets acquired under capital leases. UABEF made contributions to UAB which totaled approximately \$6,673,000 and \$4,071,000 in 2004 and 2003, respectively. Total assets were \$46,766,000 and \$46,956,000 at September 30, 2004 and 2003, respectively. Total liabilities were \$20,119,000 and \$20,204,000 at September 30, 2004 and 2003, respectively.

The UABRF was organized exclusively for charitable, scientific, and educational purposes in order to benefit UAB. It is governed by a 24-member board of directors composed of nine outside general directors not affiliated with UAB, two faculty directors, six senior directors, and seven ex-officio directors who are affiliated with UAB. Total assets were approximately \$5,185,000 and \$3,685,000 at September 30, 2004 and 2003, respectively. Total liabilities were \$2,054,000 and \$1,459,000 at September 30, 2004 and 2003, respectively.

HSF's primary purpose is to provide a group medical practice for physicians who are members of the regular faculty of the School of Medicine at UAB and serve on the University of Alabama Hospital's medical staff. It is governed by a 19-member board of directors, 16 of whom are not affiliated with UAB. An affiliation agreement (the Agreement) documents the relationship between HSF and UAB. UAB's other operating revenues include approximately \$27,809,000 and \$27,206,000 of funding

from HSF in 2004 and 2003, respectively, which is used to support the educational and research activities of UAB. These funds were paid by HSF pursuant to its tax-exempt purpose and in recognition of the mutual benefit derived by the two organizations from the enhancement and continued development of UAB's programs. The funds were negotiated with HSF as part of UAB's budget development process. In the normal course of business, HSF purchases various services from the Hospital, aggregating approximately \$613,000 and \$322,000 in 2004 and 2003, respectively, and the Hospital purchases various services from HSF, aggregating approximately \$36,888,000 and \$23,556,000 for the years ended September 30, 2004 and 2003, respectively. As a result of these transactions, the Hospital had a net payable of approximately \$58,000 and \$303,000 at September 30, 2004 and 2003, respectively.

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 16-member board of directors, consisting of three nonvoting members and 13 voting members, of whom seven are affiliated with UAB. Total assets were approximately \$6,490,000 and \$5,928,000, and total liabilities were approximately \$1,680,000 and \$1,504,000 at September 30, 2004 and 2003, respectively.

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 years ended September 30, 2004 and 2003, UAB contributed \$4,982,000 and \$4,566,630 respectively to the UAB Health System Board to support Health System administrative functions.

### **(3) Cash and Cash Equivalents**

The Board approves, by resolution, all banks or other financial institutions utilized as depositories for UAB funds. Prior to approval, each proposed depository must provide evidence of its designation by the Alabama state treasurer as a qualified public depos-



**September 30, 2004**

	University	Hospital	Total
<b>Category 1:</b>			
Time Deposits	\$ 373,335	\$ 96,149	\$ 469,484
U.S. Government Securities	37,451,463	3,881,472	41,332,935
Corporate Debt Securities	21,195,233	2,092,459	23,287,692
Corporate Equity Securities	44,005,363	8,000,756	52,006,119
<b>Total Category 1 Investments</b>	<b>\$ 103,025,394</b>	<b>\$ 14,070,836</b>	<b>\$ 117,096,230</b>
<b>Not Categorized</b>			
Mutual Funds	\$ 13,827,333	\$ 6,266,019	\$ 20,093,352
Pooled Endowment	219,096,499	17,513,392	236,609,891
Prime Fund	171,870,021	246,669,528	418,539,549
UAS Intermediate	144,978,043	119,916,320	264,894,363
Other Investments	31,716,237	18,750,520	50,466,757
Other Equity Investments		7,127,656	7,127,656
Real Estate	781,179		781,179
<b>Total Investments Not Categorized</b>	<b>\$ 582,269,312</b>	<b>\$ 416,243,435</b>	<b>\$ 998,512,747</b>
<b>Total Investments</b>	<b>\$ 685,294,706</b>	<b>\$ 430,314,271</b>	<b>\$ 1,115,608,977</b>

**September 30, 2003**

	University	Hospital	Total
<b>Category 1:</b>			
Time Deposits	\$ 371,100	\$ 94,883	\$ 465,983
U.S. Government Securities	97,435,636	3,698,747	101,134,383
Corporate Debt Securities	3,361,361	1,742,266	5,103,627
Corporate Equity Securities	37,959,287	8,618,631	46,577,918
<b>Total Category 1 Investments</b>	<b>\$ 139,127,384</b>	<b>\$ 14,154,527</b>	<b>\$ 153,281,911</b>
<b>Not Categorized</b>			
Mutual Funds	\$ 12,660,730	\$ 5,654,247	\$ 18,314,977
Pooled Endowment	193,312,042	16,133,093	209,445,135
Prime Fund	150,244,660	202,232,706	352,477,366
UAS Intermediate	138,224,979	98,774,702	236,999,681
Other Investments	23,008,897	13,876,157	36,885,054
Other Equity Investments		5,420,122	5,420,122
Real Estate	781,179		781,179
<b>Total Investments Not Categorized</b>	<b>\$ 518,232,487</b>	<b>\$ 342,091,027</b>	<b>\$ 860,323,514</b>
<b>Total Investments</b>	<b>\$ 657,359,871</b>	<b>\$ 356,245,554</b>	<b>\$ 1,013,605,425</b>

itory 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

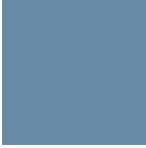

suffer a deposit loss due to QPD insolvency or default, a claim form would be filed with the state treasurer, who would use the SAFE pool collateral or other means to reimburse the loss.

As of September 30, 2004 and 2003, UAB had cash and cash equivalents totaling \$135,569,508 and \$257,658,932, respectively (\$80,624,860 and \$72,049,384 for the University and \$54,944,648 and \$185,609,548 for the Hospital).

## (4) Investments

Investments are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as nonoperating revenue in the financial statements. UAB invests its endowment funds in accordance with applicable limitations set forth in gift instruments, the Board's guidelines, and applicable laws. Certain bond indentures require UAB to invest amounts held in specific construction funds, redemption funds, and bond funds in federal securities, eligible certificates, or eligible investments. Federal securities are any securities that are direct obligations of the United States of America and securities with respect to which payment of the principal thereof and the interest thereon is unconditionally guaranteed by the United States of America. Eligible certificates mean interest-bearing certificates of deposit which are collaterally secured by federal securities. Eligible investments generally mean (1) federal securities, (2) eligible certificates, (3) certain debt securities issued by agencies of the United States of America, (4) certain debt securities of any state, territory or possession of the United States of America, (5) certain commercial paper, (6) participation certificates in federal securities, or (7) money market funds whose assets consist of investments of the types previously described in this sentence.

There are three categories or levels of custodial credit risk associated with investments for which the related descriptions are (1) insured or registered, or securities held by UAB or its agent in UAB's name,



(2) uninsured and unregistered, with securities held by a party other than UAB or its agent, but in UAB's name, and (3) uninsured and unregistered, with securities held by a counterparty, or by its trust department or agent, but not in UAB's name.

Investments in the first category include time deposits, repurchase agreements, U.S. Treasury and agency obligations, corporate debt securities, and corporate equity securities. At September 30, 2004 and 2003, UAB's investments include custodial credit risk category 1 investments, as defined above, and other investments not categorized by risk category.

Certain endowment and similar funds are invested and administered in a common investment pool established by the Board. At September 30, 2004 and 2003, respectively, the combined investment pool had total investments of approximately \$656,620,000 and \$580,585,000 at fair value and approximately \$637,959,000 and \$623,912,000 at cost. Assets of the investment pool are pooled on a fair value basis and consist of U.S. treasury and agency obligations, corporate debt securities, corporate equity securities, and mutual funds. The average annual yields for fiscal years ended September 30, 2004 and 2003, respectively, excluding gains and losses, on pooled investments amounted to 2.79% and 2.45% of total investments at fair value or 2.74% and 2.11% of total investments at cost. The average annual yields for fiscal years ended September 30, 2004 and 2003, respectively, including gains and losses, on pooled investments amounted to 13.57% and 18.74% of total investments at fair value or 13.31% and 16.12% of total investments at cost. The Board approved a spending rate of 5.0% of a moving three-year average of the fair (unit) value. In addition, the Board approved, if necessary, the utilization of realized endowment gains to meet the spending rate, with all remaining realized endowment gains reinvested in the pool. The University of Alabama System report contains further disclosure regarding this common investment pool.

In July 1998, the Board established the Prime Investment Fund, a common investment pool through which the three campuses of The University of Alabama System can invest certain operating funds that are associated with long-term expense needs. At September 30, 2004 and 2003, respectively, the combined investment pool had total investments of approximately \$546,195,000 and \$456,144,000 at

fair value and approximately \$514,439,000 and \$449,952,000 at cost. Assets of the Prime Investment Fund are pooled on a fair value basis and consist of U.S. treasury and agency obligations, corporate debt securities, corporate equity securities, and money market funds. The average annual yields for fiscal year ended September 30, 2004 and 2003, respectively, excluding gains and losses, on pooled investments amount to 2.48% and 2.75% of the total investments at fair value, or 2.58% and 2.60% of the total investments at cost.

The average annual yields for fiscal years ended September 30, 2004 and 2003, respectively, including gains and losses, on pooled investments amount to 11.53% and 17.0% at fair value, or 11.98% and 16.07% of the total investments at cost.

In September 2001, the Board established the Intermediate Fund, a common fixed income investment pool through which the three campuses of the The University of Alabama System can invest certain operating funds that are associated with anticipated expenses in the two- to four-year time frame. On September 30, 2004 and 2003, respectively, the combined investment pool had total investments of approximately \$387,012,000 and \$349,272,000 at market and approximately \$383,074,000 and \$340,563,000 at cost. Assets of the Intermediate Fund are pooled on a fair value basis and consist of U.S. treasury and agency obligations, corporate debt securities, and money market funds. The average annual yields for the fiscal year ended September 30, 2004 and 2003, respectively, excluding gains and losses, on pooled investments amounts to 4.42% and 4.78% of total investments at fair value and 4.5% and 4.92% of total investments at cost. The average annual yields for fiscal year ended September 30, 2004 and 2003, respectively, including gains and losses, on pooled investments amount to 3.45% and 4.97% of total investments at market and 3.51% and 5.10% of total investments at cost.

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 and does not possess the ability to exercise significant influence over 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 \$2,042,000 and \$1,709,000 at September 30, 2004 and 2003, respectively. 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 and does not possess the ability to exercise significant influence over 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 \$4,194,000 and \$2,991,000 at September 30, 2004 and 2003, respectively. Summary financial information of EFI as of and for the years ended September 30, 2004 and 2003, include total assets of approximately \$34,213,000 and \$33,213,000, total liabilities of approximately \$25,806,000 and \$24,825,000, and total net assets of \$8,408,000 and \$8,388,000, respectively. Separate financial statements are available for this entity.

## (5) Accounts Receivable

The composition of accounts receivable at September 30, 2004 and 2003, is summarized as follows:

University	2004	2003
Receivables from sponsoring agencies	\$ 48,539,592	\$ 59,707,213
Student accounts	8,458,149	8,819,181
Other	16,850,143	4,452,805
	<u>\$ 73,847,884</u>	<u>\$ 72,979,199</u>
Less: provision for doubtful accounts	1,124,786	879,996
<b>Total University</b>	<u><b>\$ 72,723,098</b></u>	<u><b>\$ 72,099,203</b></u>
<b>Hospital</b>		
Patient care	\$ 190,731,690	\$ 170,532,170
Other	1,006,107	
	<u>\$ 191,737,797</u>	<u>\$ 170,532,170</u>
Less: provision for doubtful accounts	87,933,626	79,226,515
<b>Total Hospital</b>	<u><b>\$ 103,804,171</b></u>	<u><b>\$ 91,305,655</b></u>
<b>Total UAB</b>		
Patient care	\$ 190,731,690	\$ 170,532,170
Receivables from sponsoring agencies	48,539,592	59,707,213
Student accounts	8,458,149	8,819,181
Other	17,856,250	4,452,805
	<u>\$ 265,585,681</u>	<u>\$ 243,511,369</u>
Less: provision for doubtful accounts	89,058,412	80,106,511
<b>Total UAB</b>	<u><b>\$ 176,527,269</b></u>	<u><b>\$ 163,404,858</b></u>

## (6) Student Loans and Pledges Receivable

The composition of student loans and pledges receivable at September 30, 2004 and 2003, is summarized below:

	2004	2003
<b>Student Loans Receivable:</b>		
<b>University</b>		
Federal loan program	\$20,178,819	\$19,736,615
University loan funds	1,353,217	1,363,225
<b>Total student loans outstanding</b>	<b>\$21,532,036</b>	<b>\$21,099,840</b>
Less: allowance for doubtful accounts	1,870,225	1,521,957
<b>Total student loans outstanding, net</b>	<b>\$19,661,811</b>	<b>\$19,577,883</b>
Less: current portion	3,360,390	2,960,492
<b>Total student loans outstanding, noncurrent</b>	<b>\$16,301,421</b>	<b>\$16,617,391</b>
<b>Pledges Outstanding:</b>		
<b>University</b>		
Operations	\$12,822,435	\$ 4,648,841
Capital	7,650,093	9,790,708
<b>Total pledges</b>	<b>\$20,472,528</b>	<b>\$14,439,549</b>
Less: current portion	7,409,366	5,335,964
<b>Total pledges, noncurrent</b>	<b>\$13,063,162</b>	<b>\$ 9,103,585</b>
<b>Hospital</b>		
Capital	\$ 109,269	\$ 332,243
<b>Total pledges</b>	<b>\$ 109,269</b>	<b>\$ 332,243</b>
Less: current portion	73,019	125,993
<b>Total pledges, noncurrent</b>	<b>\$ 36,250</b>	<b>\$ 206,250</b>
<b>Total UAB</b>		
Operations	\$12,822,435	\$ 4,648,841
Capital	7,759,362	10,122,951
<b>Total pledges</b>	<b>\$20,581,797</b>	<b>\$14,771,792</b>
Less: current portion	7,482,385	5,461,957
<b>Total pledges, noncurrent</b>	<b>\$13,099,412</b>	<b>\$ 9,309,835</b>

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.

## (7) Capital Assets

Net interest costs capitalized in 2004 were approximately \$3,283,000 (\$4,210,000 interest cost net of \$927,000 investment earnings) and \$9,067,000 (\$10,465,000 interest cost net of \$1,398,000 investment earnings) for the University and Hospital, respectively.

Capital assets activity for the years ended September 30, 2004 and 2003, is summarized at right and below:

September 30, 2004	Beginning Balance	Additions	Retirements	Ending Balance
<b>University</b>				
Capital Assets Not Being Depreciated				
Land	\$ 30,201,671	\$ 290,783	\$	\$ 30,492,454
Construction in Progress	66,109,958	68,642,513	33,645,493	101,106,978
	\$ 96,311,629	\$ 68,933,296	\$ 33,645,493	\$ 131,599,432
Capital Assets Being Depreciated				
Land Improvements	10,134,935	275,083		10,410,018
Buildings	653,859,704	46,116,780	1,243,276	698,733,208
Fixed Equipment Systems	58,401,896	8,762,424		67,164,320
Equipment	296,607,465	25,772,117	10,582,441	311,797,141
Library Materials	58,358,368	3,775,131		62,133,499
	\$ 1,077,362,368	\$ 84,701,535	\$ 11,825,717	\$ 1,150,238,186
Total Capital Assets	\$ 1,173,673,997	\$ 153,634,831	\$ 45,471,210	\$ 1,281,837,618
Less: Accumulated Depreciation	545,700,909	69,182,483	9,999,563	604,883,829
<b>Total Capital Assets, Net</b>	<b>\$ 627,973,088</b>	<b>\$ 84,452,348</b>	<b>\$ 35,471,647</b>	<b>\$ 676,953,789</b>
<b>Hospital</b>				
Capital Assets Not Being Depreciated				
Land	\$ 7,843,115	\$ 8,000	\$ 258,720	\$ 7,592,395
Construction in Progress	168,439,000	53,402,000		221,841,000
	\$ 176,282,115	\$ 53,410,000	\$ 258,720	\$ 229,433,395
Capital Assets Being Depreciated				
Land Improvements	129,467			129,467
Buildings	297,029,171	20,859,301	1,811,017	316,077,455
Fixed Equipment Systems	1,316,805	2,649,366		3,966,171
Equipment	208,130,885	49,613,456	6,356,972	251,387,369
	\$ 506,606,328	\$ 73,122,123	\$ 8,167,989	\$ 571,560,462
Total Capital Assets	\$ 682,888,443	\$ 126,532,123	\$ 8,426,709	\$ 800,993,857
Less: Accumulated Depreciation	305,580,949	29,366,929	7,164,832	327,783,046
<b>Total Capital Assets, Net</b>	<b>\$ 377,307,494</b>	<b>\$ 97,165,194</b>	<b>\$ 1,261,877</b>	<b>\$ 473,210,811</b>
<b>Total UAB</b>				
Capital Assets Not Being Depreciated				
Land	\$ 38,044,786	\$ 298,783	\$ 258,720	\$ 38,084,849
Construction in Progress	234,548,958	122,044,513	33,645,493	322,947,978
	\$ 272,593,744	\$ 122,343,296	\$ 33,904,213	\$ 361,032,827
Capital Assets Being Depreciated				
Land Improvements	10,264,402	275,083		10,539,485
Buildings	950,888,875	66,976,081	3,054,293	1,014,810,663
Fixed Equipment Systems	59,718,701	11,411,790		71,130,491
Equipment	504,738,350	75,385,573	16,939,413	563,184,510
Library Materials	58,358,368	3,775,131		62,133,499
	\$ 1,583,968,696	\$ 157,823,658	\$ 19,993,706	\$ 1,721,798,648
Total Capital Assets	\$ 1,856,562,440	\$ 280,166,954	\$ 53,897,919	\$ 2,082,831,475
Less: Accumulated Depreciation	851,281,858	98,549,412	17,164,395	932,666,875
<b>Total Capital Assets, Net</b>	<b>\$ 1,005,280,582</b>	<b>\$ 181,617,542</b>	<b>\$ 36,733,524</b>	<b>\$ 1,150,164,600</b>



Net interest costs capitalized in 2003 were approximately \$2,060,000 (\$3,870,000 interest cost net of \$1,810,000 investment earnings) and \$7,427,000 (\$10,742,000 interest cost net of \$3,315,000 investment earnings) for the University and Hospital, respectively.

September 30, 2003	Beginning Balance	Additions	Retirements	Ending Balance
<b>University</b>				
Capital Assets Not Being Depreciated				
Land	\$ 28,990,567	\$ 1,211,104	\$	\$ 30,201,671
Construction in Progress	69,850,651	34,597,987	38,338,680	66,109,958
	\$ 98,841,218	\$ 35,809,091	\$ 38,338,680	\$ 96,311,629
Capital Assets Being Depreciated				
Land Improvements	8,952,387	1,182,548		10,134,935
Buildings	609,809,247	50,805,557	6,755,100	653,859,704
Fixed Equipment Systems	48,607,127	9,794,769		58,401,896
Equipment	268,957,523	34,430,465	6,780,523	296,607,465
Library Materials	54,887,575	3,470,793		58,358,368
	\$ 991,213,859	\$ 99,684,132	\$ 13,535,623	\$ 1,077,362,368
Total Capital Assets	\$ 1,090,055,077	\$ 135,493,223	\$ 51,874,303	\$ 1,173,673,997
Less: Accumulated Depreciation	511,902,561	44,734,828	10,936,480	545,700,909
<b>Total Capital Assets, Net</b>	<b>\$ 578,152,516</b>	<b>\$ 90,758,395</b>	<b>\$ 40,937,823</b>	<b>\$ 627,973,088</b>
<b>Hospital</b>				
Capital Assets Not Being Depreciated				
Land	\$ 7,843,115	\$	\$	\$ 7,843,115
Construction in Progress	106,168,000	62,271,000		168,439,000
	\$ 114,011,115	\$ 62,271,000	\$	\$ 176,282,115
Capital Assets Being Depreciated				
Land Improvements	129,467			129,467
Buildings	280,374,567	16,785,700	131,096	297,029,171
Fixed Equipment Systems	1,252,346	64,459		1,316,805
Equipment	194,641,865	19,409,343	5,920,323	208,130,885
	\$ 476,398,245	\$ 36,259,502	\$ 6,051,419	\$ 506,606,328
Total Capital Assets	\$ 590,409,360	\$ 98,530,502	\$ 6,051,419	\$ 682,888,443
Less: Accumulated Depreciation	284,449,601	26,788,984	5,657,636	305,580,949
<b>Total Capital Assets, Net</b>	<b>\$ 305,959,759</b>	<b>\$ 71,741,518</b>	<b>\$ 393,783</b>	<b>\$ 377,307,494</b>
<b>Total UAB</b>				
Capital Assets Not Being Depreciated				
Land	\$ 36,833,682	\$ 1,211,104	\$	\$ 38,044,786
Construction in Progress	176,018,651	96,868,987	38,338,680	234,548,958
	\$ 212,852,333	\$ 98,080,091	\$ 38,338,680	\$ 272,593,744
Capital Assets Being Depreciated				
Land Improvements	9,081,854	1,182,548		10,264,402
Buildings	890,183,814	67,591,257	6,886,196	950,888,875
Fixed Equipment Systems	49,859,473	9,859,228		59,718,701
Equipment	463,599,388	53,839,808	12,700,846	504,738,350
Library Materials	54,887,575	3,470,793		58,358,368
	\$ 1,467,612,104	\$ 135,943,634	\$ 19,587,042	\$ 1,583,968,696
Total Capital Assets	\$ 1,680,464,437	\$ 234,023,725	\$ 57,925,722	\$ 1,856,562,440
Less: Accumulated Depreciation	796,352,162	71,523,812	16,594,116	851,281,858
<b>Total Capital Assets, Net</b>	<b>\$ 884,112,275</b>	<b>\$ 162,499,913</b>	<b>\$ 41,331,606</b>	<b>\$ 1,005,280,582</b>

## (8) Long-Term Debt

Long-term debt activity for the years ended September 30, 2004 and 2003, is summarized as follows:

In December 2002, UAB issued \$11,455,000 in Series 2002 General Revenue Bonds. The bonds pay interest at varying rates from 4.0% to 6.0% with principal due annually through December 1, 2013. The proceeds from this offering were used to refund \$11,630,000 of Series 1993A General Revenue

	Beginning Balance	New Debt	Principal Repayment	Ending Balance
<b>September 30, 2004:</b>				
<b>University</b>				
Leases payable for purchase of equipment, 6.15% to 8.79%, due various dates through 2000	\$ 102,779	\$	\$ 40,096	\$ 62,683
Lease payable Medical Advancement Foundation, variable rate interest (1.27% at September 30, 2004), due annually through 2030	24,195,000		385,000	23,810,000
Birmingham General Revenue Bonds Series 1993B, variable rate interest (3.03% at September 30, 2004), due annually through 2013	10,400,000		800,000	9,600,000
Birmingham General Revenue Bonds Series 1993C, 4.40% to 5.0%, due annually through 2009	27,951,050		27,951,050	
Birmingham General Revenue Bonds Series 1999, 4.40% to 6.0%, due annually through 2020	68,770,000		2,970,000	65,800,000
Birmingham General Revenue Bonds Series 2001, 4.0% to 5.25%, due annually through 2027	49,830,000		1,436,205	48,393,795
Birmingham General Revenue Bonds Series 2002, 2.50% to 3.80%, due annually through 2013	11,455,000		975,000	10,480,000
Birmingham General Revenue Bonds Series 2003A, 2.0% to 5.0%, due annually through 2029	69,930,000		95,000	69,835,000
Birmingham General Revenue Bonds Series 2003B, 2.0% to 3.0%, due annually through 2009		23,129,710		23,129,710
	<b>\$262,633,829</b>	<b>\$23,129,710</b>	<b>\$34,652,351</b>	<b>\$251,111,188</b>
Less: unamortized bond discount				1,360,758
<b>Total University debt</b>				<b>\$249,750,430</b>
Less: current portion				12,081,958
<b>Total University debt, noncurrent</b>				<b>\$237,668,472</b>
<b>Hospital</b>				
Lease payable for purchase of equipment	\$ 93,858	\$	\$ 58,364	\$ 35,494
Birmingham Hospital Revenue Bonds Series 1993, 4.60% to 5.0%, due annually through 2014	49,990,000		49,990,000	
Birmingham General Revenue Bonds Series 1993C, 4.40% to 5.0%, due annually through 2009	2,803,950		2,803,950	
Birmingham Hospital Revenue Bonds Series 2000A, 4.90% to 5.9%, due annually through 2031	151,145,000		2,420,000	148,725,000
Birmingham Hospital Revenue Bonds Series 2000B, variable interest rate (1.34% at September 30, 2004), due annually through 2031	107,800,000			107,800,000
Birmingham Hospital Revenue Bonds Series 2000C, variable interest rate (1.34% at September 30, 2004), due annually through 2031	39,800,000		400,000	39,400,000
Birmingham Hospital Revenue Bonds Series 2000D, variable interest rate (1.55% at September 30, 2004), due annually through 2031	78,600,000		1,425,000	77,175,000
Birmingham General Revenue Bonds Series 2001, 4.0% to 5.25%, due annually through 2027	3,000,000		143,795	2,856,205
Birmingham General Revenue Bonds Series 2003B, 2.0% to 3.0%, due annually through 2009		2,320,290		2,320,290
Birmingham Hospital Revenue Bonds Series 2004A, 2.0% to 5.0%, due annually through 2014		46,220,000	3,575,000	42,645,000
	<b>\$433,232,808</b>	<b>\$48,540,290</b>	<b>\$60,816,109</b>	<b>\$420,956,989</b>
Less: unamortized bond discount				10,908,876
<b>Total Hospital Debt</b>				<b>\$410,048,113</b>
Less: current portion				8,588,660
<b>Total Hospital debt, noncurrent</b>				<b>\$401,459,453</b>
<b>Total UAB</b>				
Leases payable for purchase of equipment, 6.15% to 8.79%, due various dates through 2000	\$ 196,637	\$	\$ 98,460	\$ 98,177
Lease payable Medical Advancement Foundation, variable rate interest (1.27% at September 30, 2004), due annually through 2030	24,195,000		385,000	23,810,000
Birmingham Hospital Revenue Bonds Series 1993, 4.60% to 5.0%, due annually through 2014	49,990,000		49,990,000	
Birmingham General Revenue Bonds Series 1993B, variable rate interest (3.03% at September 30, 2004), due annually through 2013	10,400,000		800,000	9,600,000
Birmingham General Revenue Bonds Series 1993C, 4.40% to 5.0%, due annually through 2009	30,755,000		30,755,000	
Birmingham General Revenue Bonds Series 1999, 4.40% to 6.0%, due annually through 2020	68,770,000		2,970,000	65,800,000
Birmingham Hospital Revenue Bonds Series 2000A, 4.90% to 5.9%, due annually through 2031	151,145,000		2,420,000	148,725,000
Birmingham Hospital Revenue Bonds Series 2000B, variable interest rate (1.34% at September 30, 2004), due annually through 2031	107,800,000			107,800,000
Birmingham Hospital Revenue Bonds Series 2000C, variable interest rate (1.34% at September 30, 2004), due annually through 2031	39,800,000		400,000	39,400,000
Birmingham Hospital Revenue Bonds Series 2000D, variable interest rate (1.55% at September 30, 2004), due annually through 2031	78,600,000		1,425,000	77,175,000
Birmingham General Revenue Bonds Series 2001, 4.0% to 5.25%, due annually through 2027	52,830,000		1,580,000	51,250,000
Birmingham General Revenue Bonds Series 2002, 2.50% to 3.80%, due annually through 2013	11,455,000		975,000	10,480,000
Birmingham General Revenue Bonds Series 2003A, 2.0% to 5.0%, due annually through 2029	69,930,000		95,000	69,835,000
Birmingham General Revenue Bonds Series 2003B, 2.0% to 3.0%, due annually through 2009		25,450,000		25,450,000
Birmingham Hospital Revenue Bonds Series 2004A, 2.0% to 5.0%, due annually through 2014		46,220,000	3,575,000	42,645,000
	<b>\$695,866,637</b>	<b>\$71,670,000</b>	<b>\$95,468,460</b>	<b>\$672,068,177</b>
Less: unamortized bond discount				12,269,634
<b>Total UAB debt</b>				<b>\$659,798,543</b>
Less: current portion				20,670,618
<b>Total UAB debt, noncurrent</b>				<b>\$639,127,925</b>





Bonds. UAB incurred an economic gain of approximately \$1,027,000.

In June 2003, UAB issued \$69,930,000 of Series 2003A General Revenue Bonds. The bonds pay interest at varying rates from 4.0% to 5.25% with principal due annually through October 1, 2024, and

balloon payments due October 1, 2026 and 2029. The proceeds from this offering are being used for the purpose of constructing facilities, additions, and improvements at UAB; funding capitalized interest on a portion of the Series 2003A Bonds through October 1, 2005; paying costs and expenses asso-

September 30, 2003 University	Beginning Balance	New Debt	Principal Repayment	Ending Balance
Lease payable UAB Educational Foundation Student Housing Revenue Refunding, 4.55% to 5%, due annually through 2019	\$ 7,240,000	\$	\$ 7,240,000	\$
Leases payable for purchase of equipment, 6.15% to 8.79%, due various dates through 2000	39,588	86,845	23,654	102,779
Lease payable Medical Advancement Foundation, variable rate interest (5.50% at September 30, 2003), due annually through 2030	24,560,000		365,000	24,195,000
Birmingham General Revenue Bonds Series 1993A, 5.0% to 5.75%, due annually through 2013	11,630,000		11,630,000	
Birmingham General Revenue Bonds Series 1993B, variable rate interest (2.17% at September 30, 2003), due annually through 2013	11,200,000		800,000	10,400,000
Birmingham General Revenue Bonds Series 1993C, 4.38% to 5.0%, due annually through 2009	32,363,417		4,412,367	27,951,050
Birmingham General Revenue Bonds Series 1999, 4.0% to 6.0%, due annually through 2020	71,610,000		2,840,000	68,770,000
Birmingham General Revenue Bonds Series 2001, 4.0% to 5.25% due annually through 2027	49,830,000			49,830,000
Birmingham General Revenue Bonds Series 2002, 2.50% to 3.80% due annually through 2013		11,455,000		11,455,000
Birmingham General Revenue Bonds Series 2003A, 2.0% to 5.0% due annually through 2029		69,930,000		69,930,000
	<b>\$208,473,005</b>	<b>\$81,471,845</b>	<b>\$27,311,021</b>	<b>\$262,633,829</b>
Less: unamortized bond discount				1,327,415
<b>Total University debt</b>				<b>\$261,306,414</b>
Less: current portion				11,894,152
<b>Total University debt, noncurrent</b>				<b>\$249,412,262</b>

Hospital				
Lease payable for purchase of equipment	\$ 98,587	\$ 148,800	\$ 153,529	\$ 93,858
Birmingham Hospital Revenue Bonds Series 1993, 4.6% to 5.0%, due annually through 2014	52,975,000		2,985,000	49,990,000
Birmingham General Revenue Bonds Series 1993C, 4.38% to 5.0%, due annually through 2009	3,246,583		442,633	2,803,950
Birmingham Hospital Revenue Bonds Series 2000A, 4.90% to 5.63% due annually through 2031	151,145,000			151,145,000
Birmingham Hospital Revenue Bonds Series 2000B, variable interest rate (0.68% at September 30, 2003), due annually through 2031	107,800,000			107,800,000
Birmingham Hospital Revenue Bonds Series 2000C, variable interest rate (0.90% at September 30, 2003), due annually through 2031	39,800,000			39,800,000
Birmingham Hospital Revenue Bonds Series 2000D, variable interest rate (0.68% at September 30, 2003), due annually through 2031	78,600,000			78,600,000
Birmingham General Revenue Bonds Series 2001, 4.0% to 5.25% due annually through 2027	3,000,000			3,000,000
	<b>\$436,665,170</b>	<b>\$ 148,800</b>	<b>\$ 3,581,162</b>	<b>\$433,232,808</b>
Less: unamortized bond discount				12,048,715
<b>Total Hospital Debt</b>				<b>\$421,184,093</b>
Less: current portion				8,092,639
<b>Total Hospital debt, noncurrent</b>				<b>\$413,091,454</b>

Total UAB				
Lease payable UAB Educational Foundation Student Housing Revenue Refunding, 4.55% to 5.0%, due annually through 2019	\$ 7,240,000	\$	\$ 7,240,000	\$
Leases payable for purchase of equipment, 6.15% to 8.79%, due various dates through 2000	138,175	235,645	177,183	196,637
Lease payable Medical Advancement Foundation, variable rate interest (5.50% at September 30, 2003), due annually through 2030	24,560,000		365,000	24,195,000
Birmingham Hospital Revenue Bonds Series 1993, 4.6% to 5.0%, due annually through 2014	52,975,000		2,985,000	49,990,000
Birmingham General Revenue Bonds Series 1993A, 5.0% to 5.75%, due annually through 2013	11,630,000		11,630,000	
Birmingham General Revenue Bonds Series 1993B, variable rate interest (2.17% at September 30, 2003), due annually through 2013	11,200,000		800,000	10,400,000
Birmingham General Revenue Bonds Series 1993C, 4.375% to 5.0%, due annually through 2009	35,610,000		4,855,000	30,755,000
Birmingham General Revenue Bonds Series 1999, 4.0% to 6.0%, due annually through 2020	71,610,000		2,840,000	68,770,000
Birmingham Hospital Revenue Bonds Series 2000A, 4.90% to 5.63% due annually through 2031	151,145,000			151,145,000
Birmingham Hospital Revenue Bonds Series 2000B, variable interest rate (0.68% at September 30, 2003), due annually through 2031	107,800,000			107,800,000
Birmingham Hospital Revenue Bonds Series 2000C, variable interest rate (0.90% at September 30, 2003), due annually through 2031	39,800,000			39,800,000
Birmingham Hospital Revenue Bonds Series 2000D, variable interest rate (0.68% at September 30, 2003), due annually through 2031	78,600,000			78,600,000
Birmingham General Revenue Bonds Series 2001, 4.0% to 5.25% due annually through 2027	52,830,000			52,830,000
Birmingham General Revenue Bonds Series 2002, 2.50% to 3.80% due annually through 2013		11,455,000		11,455,000
Birmingham General Revenue Bonds Series 2003A, 2.0% to 5.0% due annually through 2029		69,930,000		69,930,000
	<b>\$645,138,175</b>	<b>\$81,620,645</b>	<b>\$30,892,183</b>	<b>\$695,866,637</b>
Less: unamortized bond discount				13,376,130
<b>Total UAB debt</b>				<b>\$682,490,507</b>
Less: current portion				19,986,791
<b>Total UAB debt, noncurrent</b>				<b>\$662,503,716</b>

Maturities and interest on notes, leases, and bonds payable for the next five years and in the subsequent five-year incremental periods are as follows:

<b>University</b>			
<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$ 12,081,958	\$ 9,779,903	\$ 21,861,861
2006	14,096,450	9,352,423	23,448,873
2007	14,623,806	8,906,340	23,530,146
2008	15,078,126	8,403,823	23,481,949
2009	13,327,684	7,883,027	21,210,711
2010-2014	64,147,854	31,280,329	95,428,183
2015-2019	53,465,310	17,457,280	70,922,590
2020-2024	37,055,000	7,406,490	44,461,490
2025-2029	22,820,000	2,317,772	25,137,772
2030-2033	4,415,000	21,781	4,436,781
<b>Total University</b>	<b>\$ 251,111,188</b>	<b>\$ 102,809,168</b>	<b>\$ 353,920,356</b>

<b>Hospital</b>			
<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$ 8,588,659	\$ 13,772,342	\$ 22,361,001
2006	8,876,110	13,495,358	22,371,468
2007	9,206,194	13,207,868	22,414,062
2008	9,726,874	12,829,108	22,555,982
2009	9,932,316	12,431,573	22,363,889
2010-2014	56,172,146	55,696,390	111,868,536
2015-2019	64,824,690	44,707,872	109,532,562
2020-2024	87,985,000	33,579,758	121,564,758
2025-2029	138,335,000	18,918,085	157,253,085
2030-2033	27,310,000	2,499,168	29,809,168
<b>Total Hospital</b>	<b>\$ 420,956,989</b>	<b>\$ 221,137,522</b>	<b>\$ 642,094,511</b>

<b>Total UAB</b>			
<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2005	\$ 20,670,617	\$ 23,552,245	\$ 44,222,862
2006	22,972,560	22,847,781	45,820,341
2007	23,830,000	22,114,208	45,944,208
2008	24,805,000	21,232,931	46,037,931
2009	23,260,000	20,314,600	43,574,600
2010-2014	120,320,000	86,976,719	207,296,719
2015-2019	118,290,000	62,165,152	180,455,152
2020-2024	125,040,000	40,986,248	166,026,248
2025-2029	161,155,000	21,235,857	182,390,857
2030-2033	31,725,000	2,520,949	34,245,949
<b>Total UAB</b>	<b>\$ 672,068,177</b>	<b>\$ 323,946,690</b>	<b>\$ 996,014,867</b>

ciated with this issuance; and refunding \$6,990,000 of Series 1993 Student Housing Revenue Refunding Bonds, issued by the UAB Educational Foundation, representing the Lease Payable to UABEF. UAB incurred an economic gain of approximately \$663,000.

On October 30, 2003, UAB issued \$25,450,000 in Series 2003B General Revenue Bonds. The bonds pay interest at varying rates from 2.0% to 3.0% with principal due annually through October 1, 2009. The proceeds from this offering were used to refund \$25,045,000 of Series 1993C General Revenue Bonds. UAB incurred an economic gain of approximately \$1,514,000 and an accounting loss of \$612,000.

In April 2004, UAB issued \$46,220,000 in Series 2004A Hospital Revenue Bonds. The bonds pay interest at varying rates from 2.0% to 5.0% with principal due annually through September 1, 2014. The proceeds from this offering were used to refund \$48,865,000 of Series 1993 Hospital Revenue Bonds. UAB incurred an economic gain of approximately \$1,820,000 and an accounting loss of \$1,893,000.

The Hospital Series 1993, 2000A, 2000B, 2000C, 2000D, and 2004A Revenue Trust Indentures contain certain restrictive covenants (see note 10). The Hospital's management believes that it was in compliance with respect to these covenants at September 30, 2004.

## (9) Other Noncurrent Liabilities

The activity with respect to other noncurrent liabilities for the years ended September 30, 2004 and 2003, is as follows:

University	2004	2003
Advances of federal loan funds, beginning of year	\$ 16,937,296	\$ 16,927,421
Deposits received	\$ 3,840,400	3,828,691
Deposits disbursed	\$ (3,881,183)	(3,818,816)
<b>Advances of federal loan funds, end of year</b>	<b>\$ 16,896,513</b>	<b>\$ 16,937,296</b>

## (10) Pledged Revenues

Pledged revenues, adjusted operating expenses, and historical debt service coverage ratio for 2004 and 2003, as defined by the Series 1993, 2000A, 2000B, 2000C, 2000D, and 2004A Hospital Revenue Trust Indentures, are as follows:

Hospital Bonds	2004	2003
Total pledged revenues	\$ 690,611,197	\$ 641,999,270
Adjusted operating expense	\$ 607,260,443	\$ 560,649,052
Net facilities income	\$ 83,350,754	\$ 81,350,218
Maximum debt service coverage	\$ 28,299,781	\$ 28,299,781
Historical debt service coverage ratio	2.95:1	2.87:1

Pledged revenues for 2004 and 2003, as defined by the Series 1993A, 1993B, 1993C, 1999, 2001, 2002, 2003A, and 2003B General Revenue Trust Indentures, are as follows:

University Bonds	2004	2003
Tuition and fees	\$ 83,847,789	\$ 74,890,719
Indirect cost recovery	72,867,977	68,647,335
Sales and services of educational activities	44,370,073	46,351,861
Auxiliary sales and services	19,445,188	17,491,621
Endowment and investment income (loss)	38,289,740	19,283,775
Other sources	53,219,073	44,928,079
<b>Total pledged revenues</b>	<b>\$ 312,039,840</b>	<b>\$ 271,593,390</b>



## (11) Employee Benefits

### Retirement and Pension Plans

Most employees of UAB participate in the Teachers' Retirement System of Alabama (TRS), a cost-sharing, multiple-employer public retirement system. Certain employees also participate in an optional plan with the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). TRS is a defined benefit plan and the TIAA-CREF programs are defined contribution plans.

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 2004 and 2003, respectively, were approximately \$66,860,000 and \$53,885,000, which consisted of \$37,930,000 and \$25,988,000 from UAB and \$28,930,000 and \$27,897,000 from employees. UAB's contribution was 6.56% and 5.02% of salaries and wages for covered employees in 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 actuarial accrued liability (AAL), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL and the actuarial valuation of assets at June 30, 2003 (the most recent valuation date), for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately \$19,357,735,000 and \$18,110,470,000, respectively, resulting in an underfunded AAL of approximately \$1,247,265,000. Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2003, annual financial report of the Teachers' Retirement System of Alabama.

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, 2003, 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 2004 and 2003, respectively, excluding employee amounts not eligible for matching, were approximately \$23,414,000 and \$20,738,000, which included approximately \$11,707,000 and \$10,369,000 each from UAB and its employees.

UAB's total salaries and wages for fiscal years 2004 and 2003, respectively, were approximately \$677,122,000 and \$640,561,000. Total salaries and wages during fiscal years 2004 and 2003 for covered employees participating in TRS and TIAA-CREF were approximately \$578,197,000 and \$557,520,000 and \$236,736,000 and \$230,172,000, 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 themselves. 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 \$22,433,900 and \$21,475,600 (\$14,528,700 and \$12,605,100 related to the University and \$7,905,200 and \$8,870,500 related to the Hospital) as of September 30, 2004 and 2003, respectively, for accrued vacation pay and salary-related payments associated with vacation pay. There is no such accrual recognized for sick leave benefits because there is no terminal cash benefit available to employees for accumulated sick leave.

## **(12) Federal Direct Student Loan Program**

The Federal Direct Student Loan Program (FDSLP) was established under the Higher Education Act of 1965, as amended in the Student Loan Reform Act of 1993. The FDSLP enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the university rather than through private lenders. UAB began participation in the FDSLP on July 1, 1994. As a university qualified to originate loans, UAB is responsible for handling the complete loan process, including funds management, as well as promissory note functions. UAB is not responsible for collection of these loans. During the years ended September 30, 2004 and 2003, respectively, UAB disbursed approximately \$65,522,000 and \$56,271,000 under the FDSLP.

## **(13) Grants and Contracts**

At September 30, 2004 and 2003, respectively, UAB had been awarded approximately \$290,297,000 and \$310,206,000 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.

## **(14) 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 2001. Revenue from the Medicare program accounted for approximately 27% and 29% of the Hospital’s net patient service revenue for the years ended September 30, 2004 and 2003, respectively.
- 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 2002. Revenue from the Blue Cross program accounted for approximately 23% of the Hospital’s net patient service revenue for both the years ended September 30, 2004 and 2003.
- 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 \$7,001,000 in 2004 and \$6,056,000 in 2003, 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 12% of the Hospital’s net patient service revenue for both the years ended September 30, 2004 and 2003.

- 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 net patient service revenue follows:

	2004	2003
Gross patient service revenue	\$ 1,835,780,000	\$ 1,609,457,000
Capitation revenue	\$ 38,529,000	\$ 33,500,000
Less provision for contractual and other adjustments	\$ 1,164,851,000	\$ 992,421,000
Less provision for bad debts	\$ 100,902,000	\$ 91,151,000
	<u>\$ 608,556,000</u>	<u>\$ 559,385,000</u>

## (15) Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services, and supplies and equivalent service statistics. The following information measures the level of charity care provided during the years ended September 30, 2004 and 2003:

	2004	2003
Approximate charges foregone, based on established rates	\$ 64,556,000	\$ 55,480,000
Estimated costs and expenses incurred to provide charity care	\$ 21,592,000	\$ 19,481,000
Percentage of charity charges to total charges	3.4%	3.3%

## (16) 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, 2004 and 2003, follows:

	2004	2003
Other	32%	29%
Self-pay patients	22	24
Medicare	16	11
Blue Cross	15	14
Medicaid	15	22
	<u>100%</u>	<u>100%</u>

## (17) Construction Commitments and Financing

At September 30, 2004, UAB had capital expenditure plans in excess of \$855,111,000. 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 \$357,605,000. This estimated remaining cost is expected to be financed from bond proceeds and UAB reserves of \$262,897,000, federal funds of \$50,597,000, State funds of \$24,245,000, and other non-UAB funding sources of \$19,866,000. During 2004 and 2003, respectively, approximately \$134,423,000 and \$129,950,000 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 \$146,637,000 and \$111,871,000.

## (18) Self-Insurance

UAB is self-insured for medical malpractice, general liability, and employee health care. The risks are subject to various claims and aggregate limits, with excess liability coverage provided by an independent insurer. 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. These liabilities are generally based on actuarial valuations and are reported at present value. The discount rates used range from 4% to 5%.

Changes in the total self-insured liabilities for the years ended September 30, 2004 and 2003, are presented below:

University	2004	2003
Balance, beginning of year	\$ 15,977,585	\$ 9,843,162
Claims incurred and changes in estimates	19,999,866	23,475,347
Claim payments	(19,074,841)	(17,340,924)
<b>Balance, end of year</b>	<b>\$ 16,902,610</b>	<b>\$ 15,977,585</b>
<b>Hospital</b>		
Balance, beginning of year	\$ 22,589,837	\$ 19,877,087
Claims incurred and changes in estimates	25,402,589	22,093,236
Claim payments	(20,025,407)	(19,380,486)
<b>Balance, end of year</b>	<b>\$ 27,967,019</b>	<b>\$ 22,589,837</b>
<b>Total UAB</b>		
Balance, beginning of year	\$ 38,567,422	\$ 29,720,249
Claims incurred and changes in estimates	45,402,455	45,568,583
Claim payments	(39,100,248)	(36,721,410)
<b>Balance, end of year</b>	<b>\$ 44,869,629</b>	<b>\$ 38,567,422</b>





## (19) 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. As a matter of policy, UAB has chosen to indemnify its employees through a self-insured trust fund against liability arising from the performance of their official duties. While UAB is not aware of any impending threat to this doctrine, UAB is a named insured under the terms of a self-insured malpractice liability trust fund and excess insurance purchased from commercial companies (Note 18). 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.

During January 2002, UAB received a subpoena from the United States Department of Health and Human Services, Office of Inspector General (the OIG) requesting certain documents. The subpoena is part of an investigation of alleged Medicare and grant irregularities, generally seeking information relating to effort reporting and billing for services rendered as part of research trials. UAB's billing practices and records are currently being audited by the OIG in connection with the investigation. The outcome of this investigation and the impact, if any, on the financial statements of UAB cannot currently be determined.

## (20) Operating Expenses by Function

Operating expenses by functional classification for the years ended September 30, 2004 and 2003, are as follows:

September 30, 2004	Salaries, Wages, and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 178,590,313	\$ 31,240,790	\$	\$	\$ 209,831,103
Research	154,277,890	79,214,855			233,492,745
Public service	40,280,509	134,370,105			174,650,614
Academic support	50,247,942	17,527,802			67,775,744
Student services	10,333,923	6,473,822			16,807,745
Institutional support	35,335,115	22,955,047			58,290,162
Operation and maintenance of plant	20,716,986	27,469,390			48,186,376
Scholarships and fellowships	3,000			19,636,901	19,639,901
Hospital	320,831,263	286,429,180			607,260,443
Auxiliary	10,277,612	14,023,914			24,301,526
Depreciation			98,549,412		98,549,412
<b>Total operating expenses</b>	<b>\$ 820,894,553</b>	<b>\$ 619,704,905</b>	<b>\$ 98,549,412</b>	<b>\$ 19,636,901</b>	<b>\$ 1,558,785,771</b>

September 30, 2003	Salaries, Wages, and Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	\$ 179,187,638	\$ 30,947,233	\$	\$	\$ 210,134,871
Research	141,683,067	65,819,931			207,502,998
Public service	42,740,586	131,183,689			173,924,275
Academic support	47,716,409	17,538,760			65,255,169
Student services	10,214,397	5,343,416			15,557,813
Institutional support	44,248,070	14,168,594			58,416,664
Operation and maintenance of plant	20,421,454	27,102,307			47,523,761
Scholarships and fellowships	1,381	1,373		18,715,006	18,717,760
Hospital	295,688,611	264,960,441			560,649,052
Auxiliary	9,335,322	14,217,445			23,552,767
Depreciation			71,513,485		71,513,485
<b>Total operating expenses</b>	<b>\$ 791,236,935</b>	<b>\$ 571,283,189</b>	<b>\$ 71,513,485</b>	<b>\$ 18,715,006</b>	<b>\$ 1,452,748,615</b>



## (21) Recently Issued Pronouncements

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*, Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, Statement No. 44, *Economic Condition Reporting: The Statistical Section*, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. UAB is continuing to evaluate the effect these GASB statements will have on its financial statements.

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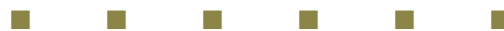
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