FINANCIAL REPORT
2006 – 2007

UAH President Dr. David Williams and former UAH President Dr. Frank Franz speak at the ribbon-cutting ceremony for the Shelby Center for Science and Technology.

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The University of Alabama in Huntsville

A Space Grant College
An Affirmative Action/Equal Opportunity Institution

PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Trustees of The University of Alabama:

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses, and changes in net assets, and of cash flows which collectively comprise the financial statements of The University of Alabama in Huntsville (the "University"), a campus of The University of Alabama System, which is a component unit of the State of Alabama, present fairly, in all material respects, the respective financial position of the University and its discretely presented component unit at September 30, 2007 and 2006, and the respective changes in financial position of the University and its discretely presented component unit, and the cash flows of the University for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the University are intended to present the net assets, changes in net assets and the cash flows of only that portion of the business-type activities of the financial reporting entity of The University of Alabama System that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the net assets of The University of Alabama System as of September 30, 2007 and 2006 and its changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily 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.

PricewaterhouseCoopers LLP

January 22, 2008

The University of Alabama in Huntsville

Management's Discussion and Analysis (Unaudited)

This section of The University of Alabama in Huntsville (the University) annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal years ended September 30, 2007 and 2006. This discussion has been prepared by University management and should be read in conjunction with the financial statements and the related footnotes. The financial statements, footnotes and this discussion are the responsibility of University management.

Introduction

The University is a public research university that offers 59 degree-granting programs that meet the highest standards of excellence, including 30 bachelor's degree programs, 17 master's degree programs, and 12 Ph.D. programs through its five colleges: Administrative Science, Liberal Arts, Engineering, Nursing, and Science. The University is an autonomous campus within The University of Alabama System (the System).

The University received $98.2 million for externally funded projects during fiscal year 2007. Sponsors of research include federal and state agencies, academic institutions, industry and private foundations. Research is conducted within the individual colleges and through the University's 19 independent research centers, laboratories and institutes. Major interdisciplinary research thrusts include: optics; propulsion; space physics and astrophysics; earth system science; information technology; microgravity and materials; modeling and simulation; biotechnology; nanotechnology; and systems engineering.

Located at the southern edge of the Appalachian Mountains, Huntsville is a national center of aerospace and high technology research and development. It is home to the National Aeronautical and Space Administration's Marshall Space Flight Center, the U.S. Army Aviation and Missile Command, and the U.S. Army Space and Strategic Defense Command. The University is strategically located in Cummings Research Park, the second largest university research park in the United States and home to numerous high technology and research companies.

Financial and Enrollment Highlights

- Total net assets increased $37.9 million. The increase is primarily due to capital gifts and grants of $28.1 million, and net investment income of $9.3 million.

Equivalent Full-time Student Enrollment (FTE)

	2003	2004	2005	2006	2007
Undergraduate	4142	4283	4409	4456	4477
Graduate	855	798	729	709	773
Total	**4997**	**5081**	**5138**	**5165**	**5250**

FTE calculated using ACHE formula; Undergraduate credit hour production (chp)/15; graduate I chp/12; graduate II chp/9.

Historical Fall Headcount by Earned Hours

	2003	2004	2005*	2006*	2007*
Graduates	1570	1513	1394	1372	1513
Seniors	1327	1398	1727	1709	1761
Juniors	1106	1114	1264	1186	1116
Sophomores	972	1063	1125	1052	1087
Freshmen	1484	1472	1545	1701	1612
Others	592	476	29	71	175
Total	**7051**	**7036**	**7084**	**7091**	**7264**

* Due to Banner conversion, class level is calculated differently. Students formerly classified as "Others" are now included in class level based on hours earned. As of Fall 2005, "Others" are second bachelor's students only.

- The total of full time equivalent students increased 1.6% compared to last year. UAH also had a 2.4% increase, compared to the 0.1% increase in 2006, in the total number of students attending in the fall semester.

Degrees Conferred

	2003	2004	2005	2006	2007
Bachelor's	807	810	798	816	840
Master's	258	379	374	343	299
Doctorate	21	31	39	31	30
Certificate	17	16	31	39	21
Total	**1103**	**1236**	**1242**	**1229**	**1190**

- Approximately $50.7 million in appropriations for operations were received from the State of Alabama for fiscal year 2007. In comparison to the prior year, appropriations increased 17.1% or $7.4 million.

Statement of Net Assets

The statement of net assets presents the assets, liabilities, and net assets of the University as of the end of the fiscal year. The purpose of the statement of net assets is to present a fiscal snapshot of the University to the readers of the financial statements. The statement of net assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).
The statement of net assets provides a summary of assets available to continue the operations of the University. The statement also shows how much the University owes vendors, investors and lending institutions. Finally, the statement of net assets provides a picture of the net assets and the availability for expenditure by the University.

Net assets are divided into three major categories. The first category, **invested in capital assets, net of related debt**, provides the University's equity in property, plant and equipment owned by the University. The second asset category is **restricted net assets**, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources, as it pertains to endowments, is only available for investment purposes. Donors have primarily restricted income derived from these investments to fund scholarships and fellowships. Expendable restricted net assets are available for expenditure by the University but must be spent for purposes as determined by donors and/or external entities that have placed a time or purpose restriction on the use of the assets. The final category is **unrestricted net assets**, which are available to the University for any lawful purpose of the University. Many of the University's unrestricted net assets have been designated or reserved for specific purposes such as: repairs and replacement of equipment, capital projects, future debt service, quasi-endowments, insurance reserves, research centers and instructional departments.

A summarized comparison of the University's assets, liabilities, and net assets as of September 30 is as follows:

Summary of Statements of Net Assets

	2007	2006	2005
Current assets	$ 77,949,197	$ 71,849,951	$ 55,145,932
Noncurrent assets:			
Endowment, life income and other investments	53,066,122	50,313,001	41,988,273
Capital assets, net	184,559,344	161,158,416	133,214,803
Legal settlement receivable	5,813,776	6,718,392	-
Other	2,287,858	2,420,293	2,373,284
Total assets	323,676,297	292,460,053	232,722,292
Current liabilities	35,251,760	39,851,725	31,934,264
Noncurrent liabilities	54,611,000	56,671,000	58,176,000
Total liabilities	89,862,760	96,522,725	90,110,264
Net assets			
Invested in capital assets, net of related debt	130,845,956	105,519,987	75,910,726
Restricted	8,712,766	7,625,669	7,737,275
Unrestricted	94,254,815	82,791,672	58,964,027
Total net assets	**$ 233,813,537**	**$ 195,937,328**	**$142,612,028**

For the year ending September 30, 2007, the University's current assets increased $6.1 million. Endowment, life income and other investments increased $2.8 million. The majority of this increase is the result of endowment gains. Capital assets, net of depreciation, increased approximately $23.4 million primarily due to the construction of the Shelby Center for Science and Technology, formerly known as the Applied Sciences Building. The legal settlement receivable of $5.8 million is the net present value of an amount to be received in future years. Current liabilities decreased $4.6 million. The majority of this decrease stems from completion of the Shelby Center. Noncurrent liabilities decreased $2.1 million, the result of bond principal payments.

For the year ending September 30, 2006, the University's current assets increased $16.7 million primarily due to receivables related to grants and contracts. Endowment, life income and other investments increased $8.3 million. The majority of this increase is the result of an endowment established by the University with the proceeds of a legal settlement. Capital assets, net of depreciation, increased $27.9 million primarily due to the construction of the Shelby Center. The legal settlement receivable of $6.7 million is the net present value of an amount to be received in future years. Current liabilities increased $7.9 million. The majority of this increase stems from construction on the Shelby Center. Noncurrent liabilities decreased $1.5 million, the result of bond principal payments.

For the year ending September 30, 2007, the University's total net assets increased 19.3%. The University's investments in capital assets, net of related debt, increased approximately $25.3 million primarily due to capital gifts and grants. Restricted net assets increased $1.1 million. Unrestricted net assets increased approximately $11.5 million. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for capital projects, as well as various academic and research programs and initiatives.

For the year ending September 30, 2006, the University's total net assets increased 37.4%. The University's investments in capital assets, net of related debt, increased approximately $29.6 million primarily due to capital gifts and grants. Restricted net assets decreased $111,606. Unrestricted net assets increased approximately $23.8 million primarily due to a legal settlement of $20.4 million. Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for capital projects, as well as various academic and research programs and initiatives.

Capital Assets

At September 30, 2007 and 2006, the University had approximately $327.3 million and $295.8 million invested in capital assets and accumulated depreciation of $142.8 million and $134.7 million, respectively. Depreciation charges for fiscal year 2007 and 2006 were $9.9 million and $9.7 million, respectively.

The following table summarizes the University's capital assets, net of accumulated depreciation, as of September 30:

Capital Assets, Net

	2007	2006	2005
Land	$ 3,834,249	$ 3,076,864	$ 2,993,418
Land improvements and infrastructure, net	1,411,686	1,253,828	696,515
Buildings and building improvements, net	160,494,350	137,419,186	109,347,973
Equipment, net	11,557,690	12,399,487	13,598,854
Library books, net	4,969,702	4,793,908	4,501,334
Computer software	2,291,667	2,215,143	2,076,709
Total capital assets, net	**$ 184,559,344**	**$ 161,158,416**	**$ 133,214,803**

Major capital expenditures during the year ended September 30, 2007, included the completion of the Shelby Center. Funding for this project was provided by a combination of federal and state sources, private gifts and University resources.

Major capital expenditures during the year ended September 30, 2006, included the construction of the Shelby Center and the completion of the Fraternity & Sorority houses. Funding for these projects was provided by a combination of federal sources, private gifts and University resources.

Additional information about the University's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

The following table summarizes outstanding long-term debt by type, as of September 30:

Long-Term Debt

	2007	2006	2005
Bonds	$ 56,671,000	$ 58,666,000	$ 60,046,000
Total debt outstanding	**$ 56,671,000**	**$ 58,666,000**	**$ 60,046,000**

Principal and interest on these revenue bonds are collateralized by a pledge of revenues produced by student housing and student tuition and fees.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the statement of net assets are based on the activity presented in the statement of revenues, expenses, and changes in net assets, which presents the University's results of operations. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and expenses paid by the University, operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the University. State appropriations are nonoperating because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services in return for those revenues. Without the nonoperating revenues, in particular the state appropriations, the University would not be able to cover its costs of operations. These sources are critical to the University's financial stability and directly impact the quality of its program.

A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended September 30 is as follows:

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

	2007	2006	2005
Operating revenues:			
Tuition and fees	$ 37,731,828	$ 35,788,029	$ 34,497,632
Less: scholarship allowances	(8,960,358)	(8,161,802)	(7,683,494)
Tuition and fees, net	28,771,470	27,626,227	26,814,138
Federal, state and private grants and contracts	68,247,187	59,453,587	55,334,316
Sales and services of educational departments	2,056,537	1,490,755	2,754,994
Auxiliary, net of $352,002 in 2007 and $284,504 in 2006 of scholarship allowances	6,455,635	4,965,498	5,195,915
Total operating revenue	105,530,829	93,536,067	90,099,363
Operating expenses	154,782,312	140,825,812	127,823,831
Operating loss	(49,251,483)	(47,289,745)	(37,724,468)
Nonoperating revenues (expenses):			
State appropriations	50,675,495	43,292,282	38,516,070
Private gifts	1,887,348	3,115,836	2,684,513
Net investment income	9,277,360	4,933,857	4,369,339
Loss on disposal of capital assets	(340,407)	(149,670)	(57,169)
Interest expense	(2,450,033)	(2,695,679)	(2,707,938)
Capital gifts and grants	28,073,275	31,698,914	5,551,328
Legal settlement	4,654	20,419,505	-
Net nonoperating revenues	87,127,692	100,615,045	48,356,143
Increase in net assets	37,876,209	53,325,300	10,631,675
Net assets, beginning of year	195,937,328	142,612,028	131,980,353
Net assets, end of year	**$ 233,813,537**	**$ 195,937,328**	**$ 142,612,028**

The following is a summary of revenues by source (both operating and nonoperating) for the years ended September 30, which are used to fund the University's operating activities. Significant recurring sources of the University's revenues, such as state appropriations, are considered nonoperating, as defined by GASB Statement No. 35.

Revenue Sources

	2007		2006		2005	
State appropriations	$50,675,495	25.9%	$43,292,282	22.0%	$38,516,070	27.3%
Net investment income	9,277,360	4.7%	4,933,857	2.5%	4,369,339	3.1%
Grants and contracts	68,247,187	34.9%	59,453,587	30.2%	55,334,316	39.2%
Gifts	1,887,348	1.0%	3,115,836	1.6%	2,684,513	1.9%
Auxiliary	6,455,635	3.3%	4,965,498	2.5%	5,195,915	3.7%
Net tuition and fees	28,771,470	14.7%	27,626,227	14.0%	26,814,138	19.0%
Sales and services	2,056,537	1.1%	1,490,755	1.9%	2,754,994	2.1%
Capital gifts and grants	28,073,275	14.4%	31,698,914	16.1%	5,551,328	3.9%
Legal settlement	4,654	0.0%	20,419,505	0%	-	0%
Total revenues	**$195,448,961**		**$196,996,461**		**$141,220,613**	

Grants and contracts increased $8.8 million in fiscal year ended September 30, 2007 due to an increase in federal, state, and private grants and contracts. The $4.1 million increase in 2006 came from federal grants and contracts. Capital gifts and grants decreased $3.6 million during fiscal year 2007, while it increased $26.1 million in 2006 as result of a construction grant for the Shelby Center. The University reached an amicable settlement in a legal dispute regarding a research patent, resulting in revenue of $20.4 million for the fiscal year ending September 30, 2006.

The University receives grant and contract revenue from federal, state and local governments and private agencies. These funds are used to further the mission of the University: research, education, and public service. These funds were received in exchange for services performed and are recorded as operating revenues. The chart reflects the funding sources for federal operating grant and contract revenue for the years ended September 30:

Detail of Federal Grants & Contracts Revenue

	2007	2006	2005
National Aeronautics and Space Administration	$ 20,400,392	$ 21,325,256	$ 21,571,580
Department of Defense	21,936,611	18,947,642	16,574,411
National Science Foundation	2,301,872	3,380,912	3,744,050
Department of Education	4,224,088	4,270,366	4,020,390
Other	4,990,189	2,877,233	4,167,810
Total	**$ 53,853,152**	**$ 50,801,409**	**$ 50,078,241**

Department of Defense revenues increased approximately $3.0 million and $2.4 million in fiscal year ended September 30, 2007 and 2006, respectively, primarily due to an increase in Army contracts.

The following is a comparison of the University's operating expenses for the years ended September 30:

Operating expenses (by functional classification)

	2007	2006	2005
Instruction	$ 43,432,555	$ 39,527,055	$ 36,873,855
Research	56,019,612	48,592,689	42,234,860
Public service	1,228,713	3,869,161	4,713,340
Academic support	6,606,014	5,691,060	5,022,485
Student services	10,236,140	9,362,320	8,047,676
Institutional support	14,705,918	11,815,202	9,855,414
Operations and maintenance of plant	8,150,195	9,116,318	7,809,192
Scholarships and fellowships	211,885	641,399	569,210
Auxiliary enterprises	4,333,935	2,557,820	3,634,744
Depreciation	9,857,345	9,652,788	9,063,055
Total operating expenses	**$ 154,782,312**	**$ 140,825,812**	**$ 127,823,831**

Operating expenses (by natural classification)

	2007	2006	2005
Compensation and benefits	$ 109,443,715	$ 97,469,425	$ 88,694,854
Supplies and services	35,269,367	33,062,200	29,496,712
Depreciation	9,857,345	9,652,788	9,063,055
Scholarships and fellowships	211,885	641,399	569,210
Total operating expenses	**$ 154,782,312**	**$ 140,825,812**	**$ 127,823,831**

Instruction expense increased $3.9 million and $2.7 million in fiscal year ended September 30, 2007 and 2006, respectively, primarily due to an increase in compensation and benefits.

Research expense increased $7.4 million and $6.4 million in fiscal year ended September 30, 2007 and 2006, respectively, primarily due to an increase in contracts and grants.

Compensation and benefits increased $12.0 million and $8.8 million in fiscal year ended September 30, 2007 and 2006, respectively, primarily due to annual merit based salary increases and increases in health insurance and other benefit costs.

Statement of Cash Flows

The statement of cash flows presents the significant sources and uses of cash. The University's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts. The following is a condensed statement of cash flows for the years ended September 30:

Condensed Statements of Cash Flows

	2007	2006
Cash received from operations	$ 107,216,582	$ 80,166,963
Cash payments for operations	(145,528,995)	(128,671,485)
Net cash used in operating activities	(38,312,413)	(48,504,522)
Net cash provided by noncapital financing activites	53,951,648	60,359,138
Net cash used in capital and related financing activities	(11,008,928)	(13,761,713)
Net cash (used in) provided by investing activities	(1,102,217)	4,389,761
Net increase in cash and cash equivalents from other than operating activities	41,840,503	50,987,186
Cash and cash equivalents, beginning of year	3,990,730	1,508,066
Cash and cash equivalents, end of year	$ 7,518,820	$ 3,990,730

The University used $38.3 million of cash for operating activities in 2007, offset by approximately $54.0 million of cash provided by noncapital financing activities. Similarly, in 2006, $48.5 million of cash used for operating activities was offset by $60.4 million in cash provided by noncapital financing activities. Noncapital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operating expenses.

Cash of $11.0 million and $13.8 million in 2007 and 2006, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that included bond proceeds, gifts, grants and contracts for capital purposes.

Cash used in investing activities totaled $1.1 million in 2007. Cash provided by investing activities totaled $4.4 million in 2006. The differences are primarily a result of additional purchases of investments in 2007 resulting in less cash from investing.

Economic Factors That Will Affect the Future

The University's state appropriations have not kept pace with the amounts recommended by the Alabama Commission on Higher Education (ACHE). For fiscal year 2007, the University was funded at approximately 71% of the ACHE funding recommendation.

The University continues to attract federal grant and contract revenue. Over 78% of the University's federal operating revenue comes from two agencies: the National Aeronautical and Space Administration and the Department of Defense. The outcome of the federal budget process has important ramifications for the University's research budget.

The University's achievement in recent years in obtaining private and federal support is a testament to the high regard in which the University is held. The level of support underscores the continued confidence among donors and grantors in the quality of the University's programs and the importance of its mission.

The University must have a balanced array of many categories of facilities to meet its education, research and public service goals and continues to assess its long-term capital requirements. Support for the University's recent capital expenditures has been provided primarily from federal funds, bond issues repaid through student rental and facility fees, and gifts.

Requests for Information

These financial statements are designed to provide a general overview of the University and its component unit's financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of Accounting and Financial Reporting, The University of Alabama in Huntsville, 301 Sparkman Drive, Huntsville, Alabama 35899.

FINANCIAL STATEMENTS

Shelby Center for Science and Technology

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF NET ASSETS
September 30, 2007 and 2006

	2007	2006
Assets		
Current Assets:		
Cash and cash equivalents	$ 6,936,809	$ 3,470,975
Operating investments	32,970,053	25,316,957
Accounts receivable, net	33,750,162	39,355,767
Other current assets	4,292,173	3,706,252
Total current assets	77,949,197	71,849,951
Noncurrent Assets:		
Restricted cash and cash equivalents	582,011	519,755
Endowment investments	18,947,214	16,256,349
Investments for capital activities	33,536,897	33,536,897
Capital assets, net	184,559,344	161,158,416
Legal settlement receivable	5,813,776	6,718,392
Other noncurrent assets	2,287,858	2,420,293
Total noncurrent assets	245,727,100	220,610,102
Total Assets	**$ 323,676,297**	**$ 292,460,053**
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 14,567,496	$ 21,131,802
Deferred revenues	14,912,641	13,466,390
Current portion of long-term debt	2,060,000	1,995,000
Deposits held for others	3,711,623	3,258,533
Total current liabilities	35,251,760	39,851,725
Noncurrent Liabilities:		
Long-term debt	54,611,000	56,671,000
Total noncurrent liabilities	54,611,000	56,671,000
Total Liabilities	89,862,760	96,522,725
Net Assets:		
Invested in capital assets, net of related debt	130,845,956	105,519,987
Restricted:		
Nonexpendable	1,923,979	1,864,511
Expendable	6,788,787	5,761,158
Unrestricted	94,254,815	82,791,672
Total Net Assets	233,813,537	195,937,328
Total Liabilities and Net Assets	**$ 323,676,297**	**$ 292,460,053**

See accompanying notes to financial statements

UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF FINANCIAL POSITION
September 30, 2007 and 2006

	2007	2006
Assets		
Cash and cash equivalents	$ 2,347,146	$ 1,903,647
Investments	42,920,636	31,198,896
Investment real estate	2,961,613	3,515,208
Accrued interest	229,557	181,526
Mortgages receivable	88,759	103,138
Pledges receivable, net	688,791	1,380,840
Collections	219,690	219,690
Land and buildings, net	-	1,811,887
Total Assets	**$ 49,456,192**	**$ 40,314,832**
Liabilities		
Accounts payable	$ 553,427	$ 310,881
Annuity liability	463,157	433,629
Total Liabilities	1,016,584	744,510
Net Assets		
Unrestricted net assets	18,693,411	14,381,469
Temporarily restricted net assets	14,666,802	11,811,493
Permanently restricted net assets	15,079,395	13,377,360
Total Net Assets	48,439,608	39,570,322
Total Liabilities and Net Assets	**$ 49,456,192**	**$ 40,314,832**

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended September 30, 2007 and 2006

	2007	2006
Operating Revenues		
Tuition and fees	$ 37,731,828	$ 35,788,029
Less: scholarship allowances	(8,960,358)	(8,161,802)
Tuition and fees, net	28,771,470	27,626,227
Grants and contracts		
Federal	53,853,152	50,801,409
State	6,337,547	3,668,782
Private	8,056,488	4,983,396
Sales and services of educational departments	2,056,537	1,490,755
Auxiliary, net of $352,002 in 2007 and $284,504 in 2006 of scholarship allowances	6,455,635	4,965,498
Total Operating Revenues	**105,530,829**	**93,536,067**
Operating Expenses		
Compensation and benefits	109,443,715	97,469,425
Supplies and services	35,269,367	33,062,200
Depreciation	9,857,345	9,652,788
Scholarships and fellowships	211,885	641,399
Total Operating Expenses	**154,782,312**	**140,825,812**
Operating loss	(49,251,483)	(47,289,745)
Nonoperating Revenues (Expenses)		
State appropriations	50,675,495	43,292,282
Private gifts	1,887,348	3,115,836
Net investment income	9,277,360	4,933,857
Loss on disposal of capital assets	(340,407)	(149,670)
Interest expense	(2,450,033)	(2,695,679)
Legal settlement	4,654	20,419,505
Net Nonoperating Revenues	59,054,417	68,916,131
Capital gifts	1,804,455	3,077,197
Capital grants	26,268,820	28,621,717
	87,127,692	**100,615,045**
Increase in net assets	37,876,209	53,325,300
Net Assets, Beginning of Year	195,937,328	142,612,028
Net Assets, End of Year	**$ 233,813,537**	**$ 195,937,328**

See accompanying notes to financial statements

UNIVERSITY OF ALABAMA HUNTSVILLE FOUNDATION
DISCRETELY PRESENTED COMPONENT UNIT
STATEMENTS OF ACTIVITIES
Years Ended September 30, 2007 and 2006

	2007	2006
Changes in net assets		
Revenue, gains, and other support:		
Contributions	$ 2,872,160	$ 1,873,339
Rent income	24,052	26,799
Investment income	1,431,186	1,163,126
Unrealized gain/(loss) on investments	1,884,766	171,034
Realized gain/(loss) on sale of investments	7,332,640	3,583,744
Other income	322,057	89,786
Change in value of split-interest agreement	(23,668)	13,582
Total Revenues	**13,843,193**	**6,921,410**
Expenses:		
Contributions to or in support of UAH	3,341,164	4,087,226
Scholarships to UAH	707,088	729,142
Professional services	279,124	155,977
Depreciation	28,743	34,491
Other expenses	617,788	211,498
Total Expenses	**4,973,907**	**5,218,334**
Change in net assets	8,869,286	1,703,076
Net Assets, Beginning of Year	39,570,322	37,867,246
Net Assets, End of Year	**$ 48,439,608**	**$ 39,570,322**

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF CASH FLOWS
Years Ended September 30, 2007 and 2006

	2007	2006
Cash Flows from Operating Activities		
Student tuition and fees	$ 29,544,242	$ 28,339,735
Federal grants and contracts	55,106,866	38,921,307
State grants and contracts	6,451,649	2,784,306
Private grants and contracts	8,201,538	3,781,991
Sales and services of educational and other departmental activities	1,636,413	1,435,771
Auxiliary enterprises	6,275,874	4,903,853
Payments to suppliers	(35,671,384)	(32,026,137)
Payments to employees and related fringes	(109,050,571)	(96,129,672)
Payments for scholarships and fellowships	(807,040)	(515,676)
Net Cash Used in Operating Activities	**(38,312,413)**	**(48,504,522)**
Cash Flows from Capital and Related Financing Activities		
Proceeds from issuance of bonds	-	8,580,000
Principal refinanced	-	(7,910,000)
Bond issuance cost	-	(670,000)
Capital gifts, grants and contracts	33,448,550	23,481,703
Purchase of capital assets	(40,220,257)	(32,486,878)
Principal payments on capital debt	(1,995,000)	(2,050,000)
Interest payments on capital debt	(2,242,221)	(2,706,538)
Net Cash Used in Capital and Related Financing Activities	**(11,008,928)**	**(13,761,713)**
Cash Flows from Investing Activities		
Interest and dividends on investments, net	9,241,744	4,854,684
Proceeds from sales and maturities of investments	18,303,791	43,500,000
Purchase of investments	(28,647,752)	(43,964,923)
Net Cash (Used in) Provided by Investing Activities	**(1,102,217)**	**4,389,761**
Cash Flows from Noncapital Financing Activities		
State educational appropriations	50,675,495	43,292,282
Private gifts	1,887,348	3,115,836
Student direct lending receipts	17,601,431	18,504,394
Student direct lending disbursements	(17,520,371)	(17,559,683)
Amounts received from affiliates	649,113	481,212
Amounts paid to affiliates	(196,023)	(224,903)
Legal settlement	854,655	12,750,000
Net Cash Provided by Noncapital Financing Activities	**53,951,648**	**60,359,138**
Net increase in cash and cash equivalents	3,528,090	2,482,664
Cash and Cash Equivalents, Beginning of Year	3,990,730	1,508,066
Cash and Cash Equivalents, End of Year	**$ 7,518,820**	**$ 3,990,730**
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents in current assets	6,936,809	3,470,975
Restricted cash and cash equivalents	582,011	519,755
Total Cash and Cash Equivalents	**$ 7,518,820**	**$ 3,990,730**

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
STATEMENTS OF CASH FLOWS -- Continued
Years Ended September 30, 2007 and 2006

	2007	2006
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (49,251,483)	$ (47,289,745)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	9,857,345	9,652,788
Changes in allowance for doubtful accounts	(122,715)	(173,570)
Changes in assets and liabilities:		
Accounts receivable	362,216	(13,624,464)
Other current assets	(585,921)	19,660
Accounts payable and accrued liabilities	(17,361)	2,520,696
Deferred revenues	1,446,251	376,083
Deposits held for others	(745)	14,030
Net Cash Used in Operating Activities	$ (38,312,413)	$ (48,504,522)
Supplemental Noncash Activities Information		
Loss on disposal of capital assets	$ 340,407	$ 149,670
Gift of capital assets	1,804,455	609,909
Capital assets acquired with a liability	999,745	7,629,565

See accompanying notes to financial statements

THE UNIVERSITY OF ALABAMA IN HUNTSVILLE
Notes to Financial Statements
Years Ended September 30, 2007 and 2006

Note 1 – Organization and Summary of Significant Accounting Policies

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

Scope of Statements - The University follows Governmental Accounting Standards Board (GASB) Statement Number 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 the University is not financially accountable should be reported as component units based on the nature and significance of their relationship with the University.

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the University, as well as its component unit, the University of Alabama Huntsville Foundation (UAHF).

UAHF is a legally separate, tax-exempt component unit of the University. UAHF is organized exclusively for charitable, scientific, and educational purposes in order to benefit the University. UAHF is governed by a 39-member board of trustees. Although the University does not control the timing or amount of receipts from UAHF, the majority of resources, or income thereon that UAHF holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by UAHF can only be used by, or for the benefit of, the University, UAHF is considered a component unit of the University. UAHF is reported in separate financial statements because of the difference in its reporting model, as further described below.

UAHF is a not-for-profit organization that reports its financial results under the Financial Accounting Standard Board (FASB) Statements. Most significant to UAHF's operations and reporting model are FASB Statement No.116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations,* FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, and FASB Statement No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*.

As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria presentation features. No modifications have been made to UAHF's financial information in the University's financial reporting entity for these differences, however significant note disclosures (see note 16) to UAHF's financial statements have been incorporated into the University's notes to the financial statements. During the years ended September 30, 2007 and 2006, UAHF distributed $4,048,252 and $4,816,368, respectively, to or for the University for both restricted and unrestricted purposes. Complete financial statements for UAHF can be obtained by calling 1-256-824-6503.

The University is also affiliated with the Eminent Scholars Foundation, Alabama Engineering Foundation, UAH Alumni Association and UAH Athletic Association. These entities' resources are not significant to the University; therefore, they do not constitute component units under the provisions of GASB Statement No. 39.

Basis of Accounting: For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities as defined by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* an amendment of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America, including all applicable effective statements of the GASB and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Net Assets: Net assets are classified into the following four categories according to external donor restrictions or availability of assets for satisfaction of University obligations:

- **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 the University. Such assets include the corpus of the University's permanent endowment funds.

  Expendable – Net assets whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time.

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

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

Investments: The University's investments are primarily reported at fair value. The University's investment portfolio is primarily invested in three separate investment pools sponsored by the System. Fair value for the investment pools is provided by the System, based on the fair value of the underlying investment securities held by each investment pool. Fair value of the underlying securities held in each investment pool is based on quoted market prices or dealer quotes, where available, or determined using net asset values provided by underlying investment partnerships or companies, which primarily invest in readily marketable securities. Certain real estate and non-readily marketable securities held in the System-sponsored Endowment Fund (Note 3) are carried at cost. Fair value for investments held by the University is determined from quoted market prices or market prices of similar instruments. Net investment income, including realized and unrealized gains and losses, is reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net assets.

Accounts Receivable: Accounts receivable consist primarily of tuition and fees charged to students, amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's contracts and grants, and amounts due related to a legal settlement. Accounts receivable are recorded net of estimated uncollectible amounts; the legal settlement receivable is recorded at net present value as the term is greater than one year.

Capital Assets: Capital assets are recorded at cost at the date of acquisition, or fair value at date of donation in the case of gifts, less accumulated depreciation. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Implementation costs include consulting expenses and allocation of internal salaries and fringes for the core implementation team, and are capitalized. Training costs are expensed as incurred.

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

Depreciation of buildings and building improvements (5-50 years), land improvements and infrastructure (10 years), library collection (10 years), computer software (10 years) and inventoried equipment (5-8 years) is computed on a straight-line basis. The University computes depreciation for certain buildings and building improvements using a componentized method

Deferred Revenues: Deferred revenues consist primarily of amounts received for fall student tuition and fees that are not earned until the next fiscal year. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Revenues: The University's policy for defining operating activities as reported on 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. Nearly all of the University's operating revenues are from exchange transactions. Certain significant revenue streams relied upon to support operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, gifts and investment income.

Auxiliary enterprise revenues are primarily generated by University Housing.

Revenues received for capital activities are considered neither operating nor nonoperating activities, and are presented after nonoperating activities on the accompanying statement of revenues, expenses, and changes in net assets.

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

Scholarship Allowances and Student Aid: Scholarship allowances applied to student accounts are recorded as an offset to student tuition and fees and auxiliary revenue. Payments of financial aid made directly to students continue to be classified as scholarship and fellowship expenses.

Internal Sales Activities: All internal sales activities to the University departments from sales and service units (motor pool, postal services, telecommunications, etc.) have been eliminated in the accompanying financial statements.

Compensated Absences: The University accrues annual leave for employees at rates based upon length of service and job classification and compensatory time based upon job classification and years worked.

Endowment Spending: For donor restricted endowments, the Uniform Management of Institutional Funds Act, as adopted in Alabama, permits The Board of Trustees of the University of Alabama (the Board) to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. The University's policy is to retain the endowment realized and unrealized appreciation within the endowment after the spending rate distributions. The Board approved a spending rate for the fiscal years ended September 30, 2007 and 2006 of 5.0% of a moving three-year average of the market (unit) value.

Use of Estimates: 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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Note 2 - Cash

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

As of September 30, 2007 and 2006, the University had cash and cash equivalents totaling $7,518,820 and $3,990,730, respectively. Included in the amounts are deposits with trustees held for reserves, which totaled $582,011 in 2007 and $519,755 in 2006.

Note 3 – Investments

The University invests its endowment funds in accordance with applicable limitations set forth in gift instruments, Board guidelines, or applicable laws. Also certain bond indentures require the University to invest the amounts held in specific construction funds, redemption funds, and bond funds in federal securities, eligible certificates, or eligible investments.

At September 30, 2007 and 2006, the University's investments included custodial credit risk category I investments (investments that are insured or registered, or securities held by the University or its agent in the University's name) and other investments not categorized by risk category as follows:

	2007	2006
Category I:		
Time deposits	$ 129,796	$ 127,382
Not categorized:		
Mutual funds	58,075	51,658
Short Term Fund	1,104,624	87,816
Intermediate Fund	22,331,854	21,203,258
Prime Fund	39,713,627	34,556,939
Endowment Fund	18,947,214	16,256,349
Agency Funds	3,168,974	2,826,801
Total Investments	$ 85,454,164	$ 75,110,203

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

Endowment Fund: The purpose of the Endowment Fund is to pool endowment and similar funds to support the System campuses, hospital and related entities in carrying out their respective missions over an indefinite time frame. Accordingly, the primary investment objectives of the Endowment Fund are to preserve the purchasing power of the principal and provide a stable source of perpetual financial support. To satisfy the long-term rate of return objective, the Endowment Fund relies on a total return strategy in which investment returns are achieved through both capital appreciation and natural income. Asset allocations are established to meet targeted returns while providing adequate diversification in order to minimize investment volatility. Of the $18,947,214 invested by the University in 2007, $4,548,538 million is donor restricted. Of the $16,256,349 invested by the University in 2006, $4,011,962 million is donor restricted.

These donor restricted amounts also include unrealized gains. As discussed in Note 1, the Endowment Fund invests in securities with non-readily determinable market values which are valued at cost. The portion of the Foundation's investment in the Endowment Fund, which is reported at cost, is $893,937 and $717,495 at September 30, 2007 and 2006, respectively. The remainder of the investment is reported at fair value.

Prime Fund: The Prime Fund is a longer-term fund used as a source of funds to meet projected cash reserve needs over a period of seven to ten years. This fund has an investment objective of growth through income and is invested in a diversified asset mix of liquid and semi-liquid securities. Long-term lockup funds with illiquid assets are inappropriate investments for this fund.

Intermediate Fund: The Intermediate Fund serves as a source of funds to meet projected cash reserve needs over a two to six year period. This fund is also used to balance the other funds when looking at the System's entire asset allocation of cash reserves relative to its investment objectives. The Intermediate Fund has an investment objective of income with preservation of capital and is invested in intermediate term fixed income securities. System policy states that at least one of the investment managers must be a large mutual fund providing daily liquidity.

Short-Term Fund: The Short-Term Fund contains the short-term cash reserves of the various System entities. Because of the different income and disbursement requirements of each entity, consolidation of these funds reduces daily cash fluctuations and minimizes the amount of short-term cash reserves needed. Assets held in the Short-Term Fund are invested with the primary objective of stability of principal and liquidity. Such investments are restricted to high quality, liquid, money market funds and other fixed income obligations with a maturity of one year or less.

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

The composition of the System's investments, by investment type, at September 30, 2007 and 2006 is as follows:

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Cash and Receivables:								
Cash	$ -	$ -	$ -	$ -	$ 336,375	$ 12,503	$ -	$ -
Accrued Income Receivables	1,221,001	981,140	956,769	1,118,196	2,502,358	2,267,460	-	-
Total Cash & Receivables	1,221,001	981,140	956,769	1,118,196	2,838,733	2,279,963	-	-
Cash and Equivalents:								
Commercial Paper	-	-	-	-	12,063,608	13,748,821	-	-
Money Market Funds	25,301,538	7,574,688	10,095,989	6,428,567	16,988,051	8,434,541	108,234,665	85,805,856
Total Cash & Equivalents	25,301,538	7,574,688	10,095,989	6,428,567	29,051,659	22,183,362	108,234,665	85,805,856
Equities:								
Common Stock	115,871,028	123,226,310	86,952,346	158,268,913	-	-	-	-
Total Equities	115,871,028	123,226,310	86,952,346	158,268,913	-	-	-	-
Fixed Income Securities:								
U.S. Government Obligations	10,835,836	16,359,318	9,338,399	18,806,639	61,111,575	65,619,783	-	-
Mortgage Backed Securities	18,017,647	3,069,336	13,665,433	9,057,376	38,875,997	39,269,785	-	-
Collateralized Mortgages	3,472,960	8,254,290	3,499,996	8,165,028	161,573,068	61,062,777	-	-
Corporate Bonds	8,871,505	9,740,519	6,639,734	11,933,901	86,153,759	158,852,908	-	-
Foreign Bonds	-	-	-	-	1,308,096	1,426,864	-	-
Total Fixed Income Securities	41,197,948	37,423,463	33,143,562	47,962,944	349,022,495	326,232,117	-	-
Commingled Funds:								
U.S. Equity Funds	213,441,109	278,168,873	146,713,790	140,886,041	-	-	-	-
Non-U.S. Equity Funds	256,757,331	149,893,182	193,752,550	49,545,096	-	-	-	-
U.S. Bond Funds	83,077,595	121,167,857	123,807,583	187,554,297	26,998,578	8,748,701	-	-
Non-U.S. Bond Funds	49,402,104	-	34,312,212	-	-	-	-	-
Hedge Funds	141,886,286	73,778,807	115,940,569	64,690,006	-	-	-	-
Private Equity Funds	26,113,788	20,670,307	-	-	-	-	-	-
Timberland Funds	9,675,974	10,000,141	-	-	-	-	-	-
Real Estate Funds	10,000,274	5,899,508	-	-	-	-	-	-
Total Commingled Funds	790,354,461	659,578,675	614,526,704	442,675,440	26,998,578	8,748,701	-	-
Total Fund Investments	972,724,975	827,803,136	744,718,601	655,335,864	405,409,107	357,164,180	108,234,665	85,805,856
Total Fund Assets	973,945,976	828,784,276	745,675,370	656,454,060	407,911,465	359,444,143	108,234,665	85,805,856
Total Fund Liabilities	(180,246)	(215,789)	(154,188)	(204,829)	(202,841)	(370,639)	-	-
Affiliated Entity Investments in Funds	(102,467,093)	(87,266,923)	-	-	-	-	-	-
Total Net Asset Value	$ 871,298,637	$ 741,301,564	$ 745,521,182	$ 656,249,231	$ 407,708,624	$ 359,073,504	$ 108,234,665	$ 85,805,856

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

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

A bond's credit quality is an assessment of the issuer's ability to pay interest on the bond, and ultimately, to pay the principal. Credit quality is evaluated by one of the independent bond-rating agencies, for example Moody's Investors Service (Moody's) or Standards and Poor's (S&P). The lower the rating, the greater the chance—in the rating agency's opinion—that the bond issuer will default, or fail to meet its payment obligations. Generally, the lower a bond's credit rating, the higher its yield should be to compensate for the additional risk.

Board policy recognizes that a limited amount of credit risk, properly managed and monitored, is prudent and provides incremental risk adjusted return over its benchmark. Credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. Fixed income holdings in a single entity (excluding obligations of the U.S. government and its agencies) may not exceed 6% of a manager's portfolio measured at market value. At least 95% of these fixed income investments must be in investment grade securities (securities with ratings of BBB- or Baa3) or higher. However, multi-strategy fixed income managers may have up to 20% of their investments in non-investment grade securities. Securities of foreign entities either dominated in U.S. dollars or other currencies are limited to 20% of a manager's portfolio.

The System's investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Lehman Aggregate Index benchmark for the fixed income portion of these pools. For the Endowment Fund, 15% of the fund is committed to fixed income investments, of which, 5% are actively managed. For the Prime Fund, 30% of the fund is invested in fixed income securities, of which, 20% are actively managed. Fixed income investments within the Endowment and Prime Funds include corporate, mortgage backed, asset backed and U.S. treasury and/or agency bonds with a minimum BBB- rating and an average duration of four years. In addition, approximately $37,000,000 and $29,000,000, in the Endowment and Prime Funds, at September 30, 2007 and 2006, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately $326,000,000 and $323,000,000, in the Endowment and Prime Funds, at September 30, 2007 and 2006, respectively.

The Intermediate Fund is benchmarked against the Lehman 1-3 Government Index with funds invested with three separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with an average duration of 1.73 years and a minimum rating of BB or higher. For September 30, 2007 and 2006, approximately $500,000 and $53,000,000, respectively, were invested by the Intermediate Fund in unrated fixed income securities, excluding commingled bond funds, money market funds and commercial paper. Fixed income commingled funds and commercial paper totaled approximately $56,000,000 and $31,000,000 at September 30, 2007 and 2006, respectively.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the campuses and hospital. These funds are invested in a bank sponsored common/collective trust fund, which in turn invests in money market, corporate, mortgage backed, asset backed and U.S. treasury and/or agency securities. These funds are all commingled with other investors.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2007 and 2006 are as follows:

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2007	2006	2007	2006	2007	2006	2007	2006
Fixed or Variable Income Securities								
U.S. Government Guaranteed	$ 10,835,836	$ 16,359,318	$ 9,338,399	$ 18,806,639	$ 61,111,575	$ 65,619,783	$ -	$ -
Other U.S. Denominated								
AAA	303,171	499,000	795,007	499,000	198,814,784	119,590,000	-	-
AA	1,217,858	1,191,000	298,298	1,752,000	36,743,521	28,772,000	-	-
A	6,243,356	6,139,000	4,533,456	6,514,000	42,491,999	44,855,000	-	-
BBB	1,704,973	1,688,000	1,923,392	3,170,000	9,360,865	10,603,000	-	-
B	-	-	-	-	-	3,464,000	-	-
Unrated	20,892,754	11,547,145	16,255,010	17,221,305	499,751	53,328,334	-	-
Commingled Funds								
U.S. Bond Funds Unrated	83,077,595	121,167,857	123,807,583	187,554,297	26,998,578	8,748,701	108,234,665	85,805,856
Non-U.S. Bond Funds: Unrated	49,402,104	-	34,312,212	-	-	-		
Money Market Funds Unrated	25,301,538	7,574,688	10,095,989	6,428,567	16,988,051	8,434,541	-	-
Commercial Paper Unrated	-	-	-	-	12,063,608	13,748,821	-	-
TOTAL	$ 198,979,185	$ 166,166,008	$ 201,359,346	$ 241,945,808	$ 405,072,732	$ 357,164,180	$ 108,234,665	$ 85,805,856

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the custodian, the System's investment securities may not be returned. Investment securities in the System sponsored investment pools are registered in the Board's name by the custodial bank as an agent for the System. Other types of investments (i.e. open-ended mutual funds, common/collective trusts) represent ownership interests that do not exist in physical or book-entry form. As a result, custodial credit risk is remote.

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

As previously mentioned, credit risk in each investment pool is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2007 and 2006, there was no investment in a single issuer that represents 5% or more of total investments.

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

The effective durations for fixed or variable income securities, for the System Pools, at September 30, 2007 and 2006 are as follows:

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
U.S. Government Obligations	4.7	5.7	4.8	5.8	2.1	1.7	-	-
Corporate Bonds	5.4	4.7	6.2	5.0	2.0	2.5	-	-
Commingled Bond Funds	4.6	5.2	5.3	4.9	2.3	1.9	-	-

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

Investments may also include mortgage pass through securities and collateralized mortgage obligations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. At September 30, 2007 and 2006 the fair market value of these investments for the System Pools, are as follows:

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Mortgage Backed Securities	$18,017,647	$ 3,069,336	$13,665,433	$ 9,057,376	$ 38,875,997	$ 39,269,785	$ -	$ -
Collateralized Mortgage Obilgations	3,472,960	8,254,290	3,499,996	8,165,028	161,573,068	61,062,777	-	-
Total Fixed	$21,490,607	$11,323,626	$17,165,429	$17,222,404	$200,449,065	$100,332,562	$ -	$ -

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

Collateralized Mortgage Obligations: Collateralized mortgage obligations (CMOs) generate a return based upon either the payment of interest or principal on mortgages in an underlying pool. The relationship between interest rates and prepayments makes the fair value highly sensitive to changes in interest rates. In falling interest rate environments, the underlying mortgages are subject to a higher propensity of prepayments. In a rising interest rate environment, the opposite is true.

At September 30, 2007and 2006 the effective durations for these securities are as follows:

	Endowment Fund		Prime Fund		Intermediate Fund		Short Term Fund	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Mortgage Backed Securities	3.5	3.4	3.5	3.5	1.6	2.3	-	-
Collateralized Mortgage Obligations	3.8	-	2.9	-	2.5	1.6	-	-

Foreign Currency Risk: The strategic asset allocation policy for the Endowment Fund and the Prime Fund includes an allocation to non-United States equity securities. Under Board policy foreign equity holdings in a single industry should not exceed 25% of the investment manager's portfolio measured at market value, with 50% of the portfolio's holdings representing EAFE Index firms. Each investment manager must hold a minimum of 30 individual stocks with equity holdings in a single company remaining below 8% of the investment manager's portfolio, measured at market value. Hedging of foreign currency risks is allowed at the investment manager's discretion. In addition, investments in foreign bonds are allowed under Board policy. Foreign bonds denominated in U.S. dollars are limited to 20% of the investment manager's portfolio, and bonds denominated in currencies other than U.S. dollars are limited to 20% of the investment manager's portfolio, measured at market value. As of September 30, 2007 and 2006, all foreign investments are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers.

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

The System participates in a securities lending program managed by one of the System's custodial banks. The program is designed to allow the System to lend certain securities from the investment pools and receive a pledge of collateral sufficient to cover the market value of the securities lent. The collateral securities cannot be pledged or sold by the System unless the borrower defaults. At September 30, 2007 and 2006, there were approximately $3.4 million and $0, respectively, of securities on loan from the investment pools.

Note 4 – Accounts Receivable

The composition of accounts receivable at September 30, 2007 and 2006 is summarized as follows:

	2007	2006
Tuition and fees (net of allowance for doubtful accounts of $85,713 in 2007 and $202,372 in 2006)	$ 3,123,735	$ 2,768,084
Auxiliary enterprises and other operating activities	750,397	536,944
Federal, state, and private grants and contracts (net of allowance for doubtful accounts of $150,979 in 2007 and $157,035 in 2006)	28,283,609	34,933,057
Legal settlement, net present value	1,005,728	951,113
Other	586,693	166,569
Net accounts receivable	$ 33,750,162	$ 39,355,767

Note 5 – Capital Assets

Capital assets activity for the years ended September 30, 2007 and 2006 is summarized as follows:

	October 1, 2006	Additions	Retirements	September 30, 2007
Land	$ 3,076,864	$ 757,385	$ -	$ 3,834,249
Land improvements and infrastructure	5,646,582	431,156	-	6,077,738
Buildings and building improvements	180,333,351	4,783,563	-	185,116,914
Construction in progress	25,518,343	23,684,032	-	49,202,375
Equipment	55,193,841	2,435,923	(2,085,010)	55,544,754
Library books	23,584,472	1,203,066	-	24,787,538
Computer software	2,461,270	303,555	-	2,764,825
Total cost of capital assets	295,814,723	33,598,680	(2,085,010)	327,328,393
Less accumulated depreciation	134,656,307	9,857,345	(1,744,603)	142,769,049
Capital assets - net	$ 161,158,416	$ 23,741,335	$ (340,407)	$ 184,559,344

	October 1, 2005	Additions	Retirements	September 30, 2006
Land	$ 2,993,418	$ 83,446	$ -	$ 3,076,864
Land improvements and infrastructure	4,800,682	845,900	-	5,646,582
Buildings and building improvements	172,662,637	7,670,714	-	180,333,351
Construction in progress	-	25,518,343	-	25,518,343
Equipment	54,005,086	1,952,323	(763,568)	55,193,841
Library books	22,293,688	1,290,784	-	23,584,472
Computer software	2,076,709	384,561	-	2,461,270
Total cost of capital assets	258,832,220	37,746,071	(763,568)	295,814,723
Less accumulated depreciation	125,617,417	9,652,788	(613,898)	134,656,307
Capital assets - net	$ 133,214,803	$ 28,093,283	$ (149,670)	$ 161,158,416

Note 6 – Long-term Debt

Long-term debt activity for the years ended September 30, 2007 and 2006 is summarized as follows:

Type/Supported by	October 1, 2006	New Debt, net	Principal Repayment	September 30, 2007
Bonds:				
Student housing revenue	$ 30,311,000	$ -	$ 1,105,000	$ 29,206,000
General fee revenue	28,355,000	-	890,000	27,465,000
Total debts	58,666,000	$ -	$ 1,995,000	56,671,000
Less current portion	1,995,000			2,060,000
Total long-term debt	$ 56,671,000			$ 54,611,000

Type/Supported by	October 1, 2005	New Debt, net	Principal Repayment/ Defeasance	September 30, 2006
Bonds:				
Student housing revenue	$ 31,386,000	$ -	$ 1,075,000	$ 30,311,000
General fee revenue	28,660,000	8,580,000	8,885,000	28,355,000
Total debts	60,046,000	$ 8,580,000	$ 9,960,000	58,666,000
Less current portion	1,870,000			1,995,000
Total long-term debt	$ 58,176,000			$ 56,671,000

Maturities and interest on long-term debt, including obligations under capital leases, for the next five years ended September 30 and in subsequent five-year periods ended September 30 are as follows:

	Principal	Interest	Total
2008	$ 2,060,000	$ 2,387,621	$ 4,447,621
2009	2,125,000	2,323,472	4,448,472
2010	2,195,000	2,253,870	4,448,870
2011	2,275,000	2,179,919	4,454,919
2012	2,360,000	2,101,413	4,461,413
2013-2017	12,590,000	9,097,724	21,687,724
2018-2023	11,631,000	6,593,668	18,224,668
2024-2028	13,960,000	3,667,669	17,627,669
2029-2034	7,475,000	1,295,721	8,770,721
	$ 56,671,000	$ 31,901,078	$ 88,572,078

The following is a detailed schedule of long-term debt:

Description and Purpose	Date Issued	Final Maturity	Interest Rate - %	Original Indebtedness	Outstanding Indebtedness September 30, 2007	Outstanding Indebtedness September 30, 2006
Bonds Payable:						
Dormitory Revenue Bonds of 1980	5/1/1980	5/1/2020	3.00	$ 2,180,000	$ 1,030,000	$ 1,095,000
Dormitory Revenue Bonds of 1981	7/23/1982	5/1/2021	3.00	2,602,000	1,271,000	1,346,000
Student Housing Revenue Bonds-Series 2001	12/27/2001	12/1/2031	3.00 - 5.30	9,370,000	8,620,000	8,785,000
Revenue Bonds-Series 2002-A	12/19/2002	9/30/2027	1.40 - 4.75	3,965,000	3,570,000	3,675,000
Revenue Bonds-Series 2003-A	2/3/2003	9/30/2027	1.45 - 4.70	17,890,000	16,025,000	16,505,000
Student Housing Revenue Bonds-Series 2004-A	9/30/2004	9/1/2034	3.00 - 4.63	13,130,000	12,390,000	12,640,000
Student Housing Revenue Bonds-Series 2004-B	9/30/2004	9/1/2016	3.00 - 3.63	7,515,000	5,895,000	6,445,000
Revenue Bonds-Series 2005-A	10/1/2005	6/1/2025	3.00 - 4.38	8,580,000	7,870,000	8,175,000
Total Bonds Payable				65,232,000	56,671,000	58,666,000
Total Debt				$ 65,232,000	$ 56,671,000	$ 58,666,000

The University's general fee bonds and student housing bonds are subject to certain covenants. These covenants, among other things, require the University to establish and maintain reasonable fees, rates, and other charges to ensure pledged revenues are sufficient for debt service coverage; to maintain books and records pertaining to the pledged revenues; to furnish annual audits and other periodic reports that reflect the financial condition of the Borrower, the project, other pledged facilities, and other pledged assets; and to comply with certain restrictions as to additional indebtedness. The University is in compliance with all appropriate debt covenants as of September 30, 2007.

In October 2005, the University refinanced the Revenue Bonds Series 1999-A, which resulted in a reduction of future principal and interest payments of $867,032. This savings averages $43,352 a year for the next 20 years. The amounts outstanding on these bonds were paid off in December 2006 in the amount of $8,055,492. There was no defeased debt outstanding related to the Revenue Bonds Series 1999-A at September 30, 2007.

Note 7 – Self-Insurance

The University participates with other campuses in the System in a self-insurance program for general liability risks. The Board established a separate revocable trust fund for payment of these self-insurance claims under its risk retention program. Annual contributions are made to the trust fund, at an actuarially determined rate, to provide funding for the retained risk. The accompanying statements of net assets include a reserve of $219,808 and $180,957 for general liability at September 30, 2007 and 2006, respectively.

The University also maintains a self-insurance health plan. For October, November, and December of 2006, the University paid Blue Cross/Blue Shield of Alabama a monthly administrative charge in the amount of 6.5% of the claim costs actually paid in the previous month. Beginning in January 2007, the University began paying $18.25 per month per health insurance contract for administrative charges. The accompanying statements of net assets include a self-insurance reserve of $1,699,827 and $903,031 for health insurance at September 30, 2007 and 2006, respectively. Annual contributions are made to the health plan, utilizing an actuarially determined rate, to provide funding for the reserve.

The changes in the total reported self-insurance liabilities are summarized as follows:

	2007	2006
Balance, beginning of year	$ 1,083,988	$ 564,392
Claims paid	(5,237,825)	(4,913,567)
Contributions	6,073,472	5,433,163
Balance, end of year	$ 1,919,635	$ 1,083,988

Note 8 – Retirement Plans

Most employees of the University participate in the Teachers' Retirement System of Alabama (TRS), a cost sharing, multiple-employer public retirement system. In addition, certain employees meeting eligibility requirements participate in optional programs with the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA - CREF). TRS is a defined benefit plan while 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 ten 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. All regular employees of the University are members of TRS with the exception of temporary employees.

The following is a comparative of contribution requirements:

	2007	2006	2005
University contributions	$ 6,872,210	$ 5,446,436	$ 4,231,538
Employee contributions	3,675,780	3,337,432	3,013,214
Total contributions	$10,547,990	$ 8,783,868	$ 7,244,752
University contribution rate	9.36%	8.17%	7.03%
Employee contribution rate	5.00%	5.00%	5.00%

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 at September 30, 2006 (the most recent valuation date) and September 30, 2005 for TRS as a whole, determined through actuarial valuations performed as of that date, were approximately as follows:

	2006	2005
Actuarial accrued liability (AAL)	$ 23,945,100,000	$ 23,027,338,000
Actuarial valuations of assets	19,821,133,000	19,248,207,000
Overfunded (underfunded) AAL	$ (4,123,967,000)	$ (3,779,131,000)

Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2006 annual financial report of the TRS. That report is publicly available and may be obtained by contacting the TRS Communication Department at 1-800-214-2158, ext. 695.

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 exempt employees are eligible to participate from the date of employment. The University contributes a matching amount up to 5% of total salaries for participating employees. The University’s contribution is funded as it accrues and, along with that of employees, is immediately and fully vested.

The contribution for fiscal years 2007 and 2006, excluding amounts from employees who are not eligible for matching, is summarized as follows:

	2007	2006
University contributions	$ 2,300,178	$ 2,177,869
Employee contributions	3,809,214	3,549,334
Total contributions	$ 6,109,392	$ 5,727,203

The University's total salaries and wages for fiscal years 2007 and 2006 are summarized in the table below:

	2007	2006
Total Salaries and Wages	$ 84,649,422	$ 76,614,033
Salaries and Wages of employees participating in:		
TRS	$ 73,253,206	$ 72,107,266
TIAA - CREF	$ 48,921,107	$ 41,490,439

Note 9 – Post-Employment Benefits

Certain retired employees may elect to continue to participate in the University's group health plan until eligible for Medicare by paying the full cost of the plan premium. Retired employees age sixty-five or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer and the University's health care plan becomes the secondary insurer. Despite the availability of the University's plan, most retirees elect to participate in the Public Education Employees Health Insurance Plan (PEEHIP) with TRS, in which case the retirees pay a portion of the PEEHIP premium, with the University paying an allocation toward the cost of retiree coverage. The University paid $1,307,488 and $1,174,476 for 273 and 256 retirees for the year ended September 30, 2007 and 2006, respectively. Refer to Note 15 for the impact of the University's adoption of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), during the year ended September 30, 2007.

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 eligible for tuition assistance benefits for themselves as well as for their spouse and unmarried dependent children.

Note 10 – Compensated Absences

Certain University employees accrue vacation and sick leave at varying rates depending upon their years of continuous service and payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. The statement of net assets includes accruals of $3,542,706 and $2,897,495 as of September 30, 2007 and 2006, respectively, for accrued vacation pay and salary-related payments associated with vacation pay. There is no such accrual recognized for sick leave benefits because no terminal cash benefit is available to employees for accumulated sick leave.

Note 11 – Federal Direct Lending 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. The University began participation in the FDSLP on July 1, 1995. As a university qualified to originate loans, the University is responsible for handling the complete loan process, including funds management as well as promissory note functions. The University is not responsible for collection of these loans. For fiscal years ended September 30, 2007 and 2006, the University disbursed approximately $17,520,400 and $17,559,700 respectively, under the FDSLP.

Note 12 – Contracts and Grants

At September 30, 2007, the University has been awarded approximately $49.0 million in contracts and grants which have 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.

Note 13 – Contingencies and Commitments

The University has sovereign immunity and is therefore, in the opinion of System Counsel, immune to ordinary tort actions. The University has consistently been dismissed from lawsuits on the basis of the sovereign immunity doctrine. That doctrine also protects the University from vicarious liability arising from the negligence of its employees. As a matter of policy, the University has chosen to indemnify its employees through a self-insured trust fund against liability arising from the performance of their official duties. There are some exceptions to the sovereign immunity doctrine, most notably federal court cases arising under the federal constitution or federal statutes. The University is engaged in various legal actions in the ordinary course of business. Management does not believe the ultimate outcome of those actions will have a material adverse effect on the financial statements.

The University has contracted for a portion of the construction of the Applied Sciences Building. At September 30, 2007, the estimated remaining cost to complete the construction of this facility was $5.5 million, which is expected to be paid from federal and state sources.

Beginning October 1, 2007, UAH will be constructing a new parking facility known as the Intermodal Parking Facility. The estimated cost to complete the construction of this facility is $6.7 million, which is expected to be paid from federal resources.

Note 14 – Operating Expenses by Function

Operating expenses by functional classification for the years ended September 30, 2007 and 2006 are summarized as follows:

	Year Ended September 30, 2007					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 29,590,279	$ 8,616,597	$ 5,225,679	$ -	$ -	$ 43,432,555
Research	34,710,985	9,079,752	12,228,875	-	-	56,019,612
Public service	231,874	78,449	918,390	-	-	1,228,713
Academic support	3,983,923	1,143,440	1,478,651	-	-	6,606,014
Student services	4,472,341	1,219,091	4,544,708	-	-	10,236,140
Institutional support	7,913,711	3,417,478	3,374,729	-	-	14,705,918
Operations and maintenance of plant	3,081,584	1,078,441	3,990,170	-	-	8,150,195
Scholarships and fellowships	-	-	-	-	211,885	211,885
Auxiliary enterprises	664,725	161,045	3,508,165	-	-	4,333,935
Depreciation	-	-	-	9,857,345	-	9,857,345
Total Operating Expenses	$ 84,649,422	$ 24,794,293	$ 35,269,367	$ 9,857,345	$ 211,885	$ 154,782,312

	Year Ended September 30, 2006					
	Salaries and Wages	Fringe Benefits	Supplies and Services	Depreciation	Scholarships and Fellowships	Total
Instruction	$ 27,432,336	$ 7,851,756	$ 4,242,963	$ -	$ -	$ 39,527,055
Research	29,612,344	7,575,511	11,404,834	-	-	48,592,689
Public service	1,416,186	329,411	2,123,564	-	-	3,869,161
Academic support	3,418,685	935,490	1,336,885	-	-	5,691,060
Student services	4,017,128	1,104,794	4,240,398	-	-	9,362,320
Institutional support	7,193,510	1,944,954	2,676,738	-	-	11,815,202
Operations and maintenance of plant	2,890,969	982,638	5,242,711	-	-	9,116,318
Scholarships and fellowships	-	-	-	-	641,399	641,399
Auxiliary enterprises	632,875	130,838	1,794,107	-	-	2,557,820
Depreciation	-	-	-	9,652,788	-	9,652,788
Total Operating Expenses	$ 76,614,033	$ 20,855,392	$ 33,062,200	$ 9,652,788	$ 641,399	$ 140,825,812

Note 15 – Recently Issued Accounting Standards

The GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45), in July 2004. This Statement requires governmental entities to recognize and match other postretirement benefit costs, for example health and life insurance expense, with related services received and also to provide information regarding the actuarial accrued liability and funding level of the benefits associated with past services. The requirements of this Statement are effective in three phases based on a government’s total annual revenues in the first fiscal year ending after June 15, 1999 with phase I for periods beginning after December 15, 2006. In fiscal year 2007, the University elected to adopt the Statement as of October 1, 2006 and expense the fiscal year 2007 amount during the current year. The impact of GASB 45 includes increases to operating expenses and liabilities, with resulting decreases in unrestricted net assets. The adoption of GASB 45 did not have a material impact on the University's financial statements principally because most retirees elect to participate in the State-sponsored PEEHIP which is a multi-employer plan. GASB 45 did not affect the University's accounting for the PEEHIP. Refer to Note 9 for further discussion on the University's other post-retirement benefit plans.

The GASB issued Statement No. 47, *Accounting for Termination Benefits* (GASB 47), in July 2005. GASB 47 establishes recognition, measurement, and disclosure requirements for both voluntary termination benefits (for example, early-retirement incentives) and involuntary termination benefits (for example, severance benefits). The requirements of GASB 47 are effective in two parts. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this statement should be implemented simultaneously with the requirements of GASB 45. For all other termination benefits, this statement was effective for financial statements for periods beginning after June 15, 2005. The University adopted this Statement effective October 1, 2005; the adoption of this Statement did not have a material impact on the University's financial statements.

The GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB 48), in September 2006. This Statement establishes criteria to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. GASB 48 is effective for financial statement periods beginning after December 15, 2006. The University is currently evaluating the impact, if any, that GASB 48 will have on its financial statements.

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

The GASB issued Statement No. 50, *Pension Disclosures - and amendment of GASB Statements No. 25 and No.* 27 (GASB 50), in May 2007. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits. This Statement is effective for periods beginning after June 15, 2007, except for requirements related to the use of the entry age actuarial cost method for the purpose of reporting a surrogate funded status and funding progress of plans that use the aggregate actuarial cost method, which are effective for periods for which the financial statements and required supplementary information contains information resulting from actuarial valuations as of June 15, 2007, or later. The University is currently evaluating the impact, if any, that GASB 50 will have on its financial statements.

The GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), in June 2007. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The Statement is effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively. The University is currently evaluating the impact, if any, that GASB 51 will have on its financial statements.

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

Note 16 – Component Unit

Basis of Accounting – University of Alabama Huntsville Foundation

The financial statements of UAHF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of UAHF and changes therein are classified and reported as follows:

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

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

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

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

In accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, investments in debt securities and investments in equity securities with readily determinable fair values are reported at their fair values based on published market prices. Other investments, including real estate, are stated at cost or fair value at date of donation in the case of gifts. Changes in fair values are reported as unrealized gains or losses in the statement of activities and changes in net assets. All interest income and realized gains and losses are reported in the statement of activities and changes in net assets.

Investment real estate is stated at cost at the date of acquisition or appraised value at the date of donation in the case of gifts.

Investments – The cost and fair value of investments at September 30, 2007 and 2006 are presented below:

	2007		2006	
	Fair Value	Cost	Fair Value	Cost
Certificates of deposit	$ 91,696	$ 91,696	$ 88,245	$ 88,245
Pooled Endowment Fund	24,755,634	22,411,365	21,029,829	19,512,214
Marketable debt securities	4,144,097	4,119,363	3,139,163	3,140,561
Marketable equity securities	12,473,114	11,208,211	6,339,578	6,058,621
Mutual funds	1,456,095	1,394,289	602,081	588,310
Total	$ 42,920,636	$ 39,224,924	$ 31,198,896	$ 29,387,951

Certain endowment and similar funds are invested and administered in a common investment pool (Pooled Endowment Fund) established by the Board of Trustees of the University of Alabama. At September 30, 2007 and 2006 respectively, the combined investment pool had total investments of approximately $972,725,000 and $827,800,000 at fair value. Assets of the investment pool are pooled on a fair value basis and consist of cash, U.S. Treasury and agency obligations, corporate debt securities, corporate equity securities, mutual funds, and real estate funds.

Restricted Net Assets – Restricted net assets are classified as either temporarily restricted net assets and available for the following purposes, or permanently restricted net assets, which are restricted to investment in perpetuity, the income from which is expendable for the following purposes at September 30, 2007 and 2006:

	Temporarily Restricted		Permanently Restricted	
	2007	2006	2007	2006
Student support	$ 7,679,987	$ 5,747,289	$ 8,310,930	$ 7,723,009
Faculty support	4,028,241	3,221,236	3,863,455	3,863,455
Academic support	2,564,637	2,450,181	2,854,582	1,740,468
Facilities renovation	287,209	297,191	-	-
Other	106,728	95,596	50,428	50,428
Total	$ 14,666,802	$ 11,811,493	$ 15,079,395	$ 13,377,360

During August 2007, UAHF transferred ownership of the Lowe House valued at approximately $1.8 million to the University.

Note 17 – Segment Information

The University constructed Southeast Housing and issued bonds in 1980 and 1982. The bonds were payable from revenues received by the University for the use and occupancy of the facility. Condensed financial information of the University's segment is as follows:

Condensed Balance Sheets

	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	2007	**2006**	**2007**	**2006**
Assets				
Current assets	$ 302,688	$ 355,180	$ 640,111	$ 561,095
Capital assets, net of accumulated depreciation	1,360,102	1,468,683	1,757,712	1,887,842
Total assets	$ 1,662,790	$ 1,823,863	$ 2,397,823	$ 2,448,937
Liabilities				
Current liabilities	$ 79,446	$ 80,259	$ 92,163	$ 93,100
Noncurrent liabilities	965,000	1,030,000	1,348,000	1,408,931
Total liabilities	$ 1,044,446	$ 1,110,259	$ 1,440,163	$ 1,502,031
Net assets				
Invested in capital assets, net of related debt	330,102	373,683	486,712	541,841
Restricted				
Expendable	72,000	72,000	280,000	280,000
Unrestricted	216,242	267,921	190,948	125,065
Total net assets	618,344	713,604	957,660	946,906
Total liabilities and net assets	$ 1,662,790	$ 1,823,863	$ 2,397,823	$ 2,448,937

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	2007	**2006**	**2007**	**2006**
Operating revenues	$ 411,713	$ 394,909	$ 648,300	$ 615,539
Operating expenses	(374,474)	(289,389)	(473,813)	(472,971)
Depreciation expense	(108,580)	(108,580)	(130,129)	(130,129)
Operating income	(71,341)	(3,060)	44,358	12,439
Nonoperating revenues (expenses)	(23,919)	(28,046)	(33,604)	(37,405)
Transfers from general fund	-		-	819,747
Changes in net assets	(95,260)	(31,106)	10,754	794,781
Net assets, beginning of year	713,604	744,710	946,906	152,125
Net assets, end of year	$ 618,344	$ 713,604	$ 957,660	$ 946,906

Condensed Statements of Cash Flows

	Dorm Revenue Bonds 1980		Dorm Revenue Bonds 1981	
	2007	**2006**	**2007**	**2006**
Cash flows from				
Operating activities	$ 26,456	$ 97,063	$ 180,454	$ 61,590
Capital and related financing activities	(98,890)	(95,753)	(116,196)	(113,336)
Investing activities	9,971	7,707	7,593	5,930
Net decrease in cash	(62,463)	9,017	71,851	(45,816)
Cash, beginning of year	191,625	182,608	416,954	462,770
Cash, end of year	$ 129,162	$ 191,625	$ 488,805	$ 416,954

Note 18- Legal Settlement

In July 2006, Nektar Therapeutics (Nektar) and the University announced the settlement of the University's litigation against Nektar and Dr. Milton Harris, in exchange for a total cash payment of $25,000,000. Under the terms of the agreement, Nektar and Dr. Harris jointly made an upfront payment totaling $15,000,000 to the University during fiscal year 2006. The University received $1,000,000 during 2007, and Nektar will pay the University the sum of $1,000,000 per year for the next nine years.

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