**NEW ISSUE - BOOK ENTRY ONLY** **RATINGS:**

| | |
|---|---|
| **Series 2009-A Bonds:** | **Series 2009-B Bonds:** |
| **Moody's: Aa3** | **Moody's: Aa3** |
| **Standard & Poor's: AA-** | **Standard & Poor's: AA-** |

*The University intends to file an election under Section 54AA(d)(1)(C) of the Internal Revenue Code of 1986, as amended, to treat the Series 2009 Bonds as Build America Bonds. In the opinion of Bond Counsel, interest on the Series 2009-A Bonds is included in the gross income of the registered owners thereof for federal income tax purposes.*

*In the opinion of Bond Counsel, under existing law, interest on the Series 2009 Bonds is exempt from Alabama income taxation. See "TAX MATTERS" herein.*

# THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA

## $135,425,000 General Revenue Bonds, The University of Alabama Series 2009-A (Taxable Direct-Pay Build America Bonds)

## $48,060,000 General Revenue Bonds, The University of Alabama Series 2009-B (Taxable)

**Dated: October 30, 2009** **Due: July 1, as shown on the inside cover**

Interest on the Series 2009-A Bonds and Series 2009-B Bonds (together, the "Series 2009 Bonds") is payable on January 1, 2010, and thereafter on each January 1 and July 1 of each year. The Series 2009 Bonds are issuable only in fully registered form and will be initially registered only in the name of Cede & Co., as nominee of the Depository Trust Company, New York, New York ("DTC"), to which principal and interest payments on the Series 2009 Bonds will be made so long as Cede & Co. is the registered owner of the Series 2009 Bonds. Individual purchases of the Series 2009 Bonds will be made in Book-Entry Only form, and individual purchasers ("Beneficial Owners") of the Series 2009 Bonds will not receive physical delivery of bond certificates. The Series 2009 Bonds will be available to purchasers in denominations of $5,000 or any integral multiple thereof only under the book entry systems maintained by DTC. Payments of principal of, premium, if any, and interest on the Series 2009 Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Birmingham, Alabama (the "Trustee"), to DTC or its nominee. So long as DTC or its nominee is the registered owner of the Series 2009 Bonds, disbursements of such payments to DTC is the responsibility of the Trustee, disbursements of such payments to DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owner is the responsibility of DTC Participants or Indirect Participants as described more fully herein.

The Series 2009 Bonds are subject to redemption prior to their respective maturities as described herein.

The Series 2009 Bonds will be issued under a Master Trust Indenture dated as of October 1, 2004, as supplemented and amended in connection with the issuance of the Series 2009 Bonds (the "Indenture"), between The Board of Trustees of The University of Alabama (the "Board") and the Trustee. The Series 2009-A Bonds constitute special or limited obligations of the Board payable solely from, and secured by a pledge of, all legally available gross revenues derived by the Board from the operation of The University of Alabama, a division of the Board (the "University"), including, without limitation, (a) General Fees, (b) all gross income, revenues and receipts from the ownership, operation or control of facilities constituting a part of the facilities of the University, including, without limitation, Athletic Revenues Dormitory Revenues and Parking and Related Revenues and (c) Contributions other than Restricted Contributions; provided, however, that the term "Pledged Revenues" shall not include any of the following: (i) State Appropriations; (ii) Restricted Contributions; (iii) any profit or loss on the sale or other disposition, not in the ordinary course of business, of fixed or capital assets; (iv) condemnation awards and other extraordinary income; (v) non-recurring items of income; (vi) any income, gain or profit resulting from any investment if at the time of receipt of such income, gain or profit the application thereof is restricted by the Indenture or other contract of the Board to a use inconsistent with application to the payment of debt service referable to any Bonds then outstanding under the Indenture; and (vii) revenues received by the Board pursuant to grants or contracts for sponsored programs, except to the extent that such revenues are allocated, by the terms of such grants or contracts, to indirect costs or to debt service (herein collectively referred to as the "Pledged Revenues"), subject to prior pledges. See "SECURITY AND SOURCE OF PAYMENT". The covenants and agreements contained in the Indenture and the Series 2009 Bonds do not and shall never constitute or give rise to a charge against the general credit of the Board or funds appropriated to the Board by the State of Alabama.

**FOR MATURITIES, AMOUNTS, RATES, PRICES, AND CUSIPS, SEE INSIDE COVER**.

The Series 2009 Bonds are offered when, as and if issued, subject to the prior sale and to the approval of the validity thereof by Maynard, Cooper & Gale, P.C., Birmingham, Alabama, Bond Counsel. Certain legal matters will be passed upon for the Board by University Counsel. It is expected that the Series 2009 Bonds in definitive form will be available for delivery through The Depository Trust Company in New York, New York, on or about October 30, 2009.

**MORGAN KEEGAN & COMPANY, INC.**

**Merchant Capital LLC** **Protective Securities, Inc.**
**BBVA Compass Bank** **Synovus Securities, Inc.**
**The Frazer Lanier Company, Incorporated** **Gardnyr Michael Capital, Inc.**
**Raymond James & Associates, Inc.**

The date of this Official Statement is October 15, 2009.

**THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA**

**$135,425,000 General Revenue Bonds, The University of Alabama**
**Series 2009-A (Taxable Direct-Pay Build America Bonds)**
**$48,060,000 General Revenue Bonds, The University of Alabama**
**Series 2009-B (Taxable)**
**Dated October 30, 2009**

**MATURITIES, AMOUNTS, RATES, PRICES AND YIELD***

**SERIES 2009-A BONDS**

| Maturity | Principal Amount | Interest Rate | Yield | CUSIP |
|---|---|---|---|---|
| 2021 | $720,000 | 5.14% | 5.14% | 914026EX3 |
| 2022 | 5,350,000 | 5.24 | 5.24 | 914026EY1 |
| 2023 | 5,535,000 | 5.34 | 5.34 | 914026ER6 |
| 2024 | 5,725,000 | 5.53 | 5.53 | 914026ES4 |
| 2025 | 5,930,000 | 5.63 | 5.63 | 914026ET2 |

$26,060,000 5.98% Term Bonds due July 1, 2029, Yield: 5.98% - CUSIP 914026EU9
$38,805,000 6.18% Term Bonds due July 1, 2034, Yield: 6.18% - CUSIP 914026EV7
$47,300,000 6.28% Term Bonds Due July 1, 2039, Yield: 6.28% - CUSIP 914026EW5

**SERIES 2009-B BONDS**

| Maturity | Principal Amount | Interest Rate | Yield | CUSIP |
|---|---|---|---|---|
| 2010 | $2,415,000 | 1.25% | 1.25% | 914026EZ8 |
| 2011 | 3,630,000 | 1.57 | 1.57 | 914026FA2 |
| 2012 | 3,685,000 | 2.25 | 2.25 | 914026FB0 |
| 2013 | 3,770,000 | 2.50 | 2.50 | 914026FC8 |
| 2014 | 3,860,000 | 3.02 | 3.02 | 914026FD6 |
| 2015 | 3,980,000 | 3.42 | 3.42 | 914026FE4 |
| 2016 | 4,115,000 | 3.82 | 3.82 | 914026FF1 |
| 2017 | 4,270,000 | 4.12 | 4.12 | 914026FG9 |
| 2018 | 4,450,000 | 4.44 | 4.44 | 914026FH7 |
| 2019 | 4,645,000 | 4.64 | 4.64 | 914026FJ3 |
| 2020 | 4,860,000 | 4.94 | 4.94 | 914026FK0 |
| 2021 | 4,380,000 | 5.14 | 5.14 | 914026FL8 |

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**This Official Statement is not to be construed as a contract or agreement between the Board and the purchasers or holders of any of the Series 2009 Bonds.**

**All quotations from and summaries and explanations of provisions of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions.**

**The information in this Official Statement has been obtained from sources which are considered dependable and which are customarily relied upon in the preparation of similar Official Statements, but such information is not guaranteed as to accuracy or completeness.**

**All estimates and assumptions contained herein are believed to be reasonable, but no representation is made that such estimates or assumptions are correct or will be realized.**

**No person, including any broker, dealer or salesman, has been authorized to give any information or to make any representation other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the Board.**

**The Trustee makes no representation or warranty as to, and has no responsibility for the accuracy or completeness of, the information contained in this Official Statement.**

**This Official Statement does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.**

**The Series 2009 Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities laws and will not be listed on any stock or other securities exchange, and neither the Securities and Exchange Commission nor any federal, state, municipal or other governmental agency will pass upon the accuracy, completeness or adequacy of this Official Statement.**

**The order and placement of material in this Official Statement, including its appendices, are not to be deemed a determination of relevance, materiality or importance, and all material in this Official Statement, including its appendices, must be considered in its entirety.**

**Any information or expressions of opinion are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create an implication that there has been no change as to the affairs of the Board since the date hereof.**

**All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions.**

**All estimates and assumptions contained herein are believed to be reasonable, but no representation is made that such estimates or assumptions are correct or will be realized.**

**IN CONNECTION WITH THE OFFERING OF THE SERIES 2009 BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2009 BONDS AT LEVELS ABOVE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE FACTS CONCERNING THE BOARD, AS DISCLOSED HEREIN, AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**The information contained in this Official Statement has been obtained from representatives of the Board, public documents, records and other sources considered to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters.**

**The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the Federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.**

**The delivery of this Official Statement at any time does not imply that any information herein is correct as of any time subsequent to its date. Any statements in this Official Statement involving estimates, assumptions and matters of opinion, whether or not so expressly stated, are intended as such and not representations of fact.**

**This Official Statement contains forward-looking statements, which can be identified by the use of the future tense or other forward-looking terms such as "may," "intend," "will," "expect," "anticipate," "plan," "management believes," "estimate," "continue," "should," "strategy," or "position" or the negatives of those terms or other variations on them or by comparable terminology. In particular, any statements, express or implied, concerning future operating results or the ability to generate Pledged Revenues or cash flow to service indebtedness are forward-looking statements. Investors are cautioned that reliance on any of those forward-looking statements involves risks and uncertainties and that, although the Board's management believes that the assumptions on which those forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate. As a result, the forward-looking statements based on those assumptions also could be incorrect, and actual results may differ materially from any results indicated or suggested by those assumptions. In light of these and other uncertainties, the inclusion of a forward-looking statement in this Official Statement should not be regarded as a representation by the Board that its plans and objectives will be achieved. All forward-looking statements are expressly qualified by the cautionary statement contained in this paragraph. The Board undertakes no duty to update any forward-looking statements.**

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**$48,060,000 General Revenue Bonds, The University of Alabama**
**Series 2009-B (Taxable)**

## INTRODUCTION

This Official Statement is furnished in connection with the issuance of General Revenue Bonds, The University of Alabama Series 2009-A (Tax-Exempt Non-AMT or Taxable Direct-Pay Build America Bonds) in the aggregate principal amount of $135,425,000 (the "Series 2009-A Bonds") and General Revenue Bonds, The University of Alabama Series 2009-B (Taxable) in the aggregate principal amount of $48,060,000 (the "Series 2009-B Bonds") by The Board of Trustees of The University of Alabama, an Alabama public corporation (the "Board"). The Board operates educational facilities in Tuscaloosa, Alabama, through its division, The University of Alabama (the "University").

The Series 2009-A Bonds and the Series 2009-B Bonds (together, the "Series 2009 Bonds") will be issued pursuant to a Master Trust Indenture dated as of October 1, 2004 (the "Master Trust Indenture"), as supplemented and amended by a First Supplemental Indenture dated as of October 1, 2004, a Second Supplemental Indenture dated as of August 1, 2004, a Third Supplemental Indenture dated as of August 1, 2004, a Fourth Supplemental Indenture dated as of September 1, 2006, a Fifth Supplemental Indenture dated as of August 1, 2008, a Sixth Supplemental Indenture dated as of October 1, 2009 (the "Sixth Supplemental Indenture"), and a Seventh Supplemental Indenture dated as of October 1, 2009 (the "Seventh Supplemental Indenture"; the Master Trust Indenture, as so supplemented and amended, being herein called the "Indenture"), between the Board and The Bank of New York Mellon Trust Company, N.A., a national banking association, as successor trustee (the "Trustee").

### The Board and the University

The Board is a public corporation and instrumentality of the State of Alabama under Section 264 of the Constitution of Alabama of 1901, as amended, and Chapter 47 of Title 16 of the Code of Alabama of 1975. The Board governs three autonomous university campuses located in Tuscaloosa, Birmingham and Huntsville, Alabama. Each campus is operated as a division by the Board.

The University is a division of the Board whose campus is located in Tuscaloosa, Alabama. Enrollment at the University for Fall 2009 was approximately 28,807.

For a description of the Board and the University, see "APPENDIX A – General Description of The University of Alabama."

### Purpose of the Issue

The Series 2009-A Bonds and the Series 2009-B Bonds are being issued for the purposes of (i) financing the cost of certain Capital Improvements at the University, and (ii) paying the costs of issuing the Series 2009 Bonds. See "THE PLAN OF FINANCING".

### Limited Obligations

The Series 2009 Bonds will be limited obligations of the Board payable solely out of the Pledged Revenues. The Series 2009 Bonds will not be debts or obligations of the State of Alabama, and debt service on the Series 2009 Bonds will not be payable out of any money provided or appropriated to the Board by the State of Alabama. See "SECURITY AND SOURCE OF PAYMENT."

**Existing and Additional Parity Bonds**

The Indenture permits the Board to issue additional parity bonds ("Additional Bonds") that will be secured on a parity with the Series 2009 Bonds and any other bonds issued thereunder. For a description of bonds already outstanding under the Indenture that are secured on a parity with the Series 2009 Bonds, see "DEBT STRUCTURE OF THE UNIVERSITY". For a description of the terms of the Indenture for the issuance of additional parity bonds in the future, see "SECURITY AND SOURCE OF PAYMENT - Sources of Payment and Pledges - *Parity Bonds"* and "- *Additional Debt Covenant*." See also "Additional Bonds" in Appendix A.

**Build America Bonds**

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") authorizes the Board to issue taxable bonds known as "Build America Bonds" to finance capital expenditures for which it could issue tax-exempt bonds and to receive a subsidy payment from the United States Treasury equal to 35% of the amount of each interest payment on such taxable bonds. The Board will issue the Series 2009-A Bonds as taxable bonds under the Recovery Act (the "Build America Bonds"). The available subsidy for the Build America Bonds will be paid to the Board; no holders of the Build America Bonds will be entitled to a tax credit. The available subsidy for the Build America Bonds will not be pledged as security for the Build America Bonds.

## GLOSSARY

This section of the Official Statement contains the definitions of certain capitalized terms used frequently in this Official Statement. In addition, certain capitalized terms used in this Official Statement and not defined in this section are defined in "APPENDIX C – SUMMARY OF THE INDENTURE."

**"Annual Financial Information"** means (to the extent not included in the related Audited Financial Statements and any related Management's Discussion and Analysis therein) the financial information and operating data (or the specified portions thereof) with respect to the University of the type contained in the Audited Financial Statements attached as Appendix A under the heading "Management's Discussion and Analysis (Unaudited).

**"Athletic Revenues"** means the following: the gross revenues derived by the Board from the intercollegiate athletic program of the University, including, without limitation, all proceeds from the sales of tickets and from other fees and charges for admission to or use of facilities in connection with athletic events at Bryant-Denny Stadium and all other athletic facilities of the University, all concession revenues from such facilities, all payments for television and other broadcast rights referable to intercollegiate athletic events in which the University is a participant or to athletic conferences or associations of which the University is a member, and all payments received by the University (or by the Board on behalf of the University) by way of settlement or otherwise from other institutions and from conferences or associations of which the University is a member and directly or indirectly related to the intercollegiate athletic program of the University.

**"Audited Financial Statements"** means those annual financial statements of the University prepared in conformity with accounting principles generally accepted in the United States of America.

**"Board"** means The Board of Trustees of The University of Alabama, an Alabama public corporation and instrumentality of the State of Alabama.

**"Contributions"** means (i) all gifts, grants, bequests, legacies, donations and contributions heretofore or hereafter made to or for the account or benefit of the Board and (ii) the income, gain or profit from any such gifts, grants, bequests, legacies, donations and contributions, but only to the extent that such income is recorded as income, gain or profit from such source on the financial records of the Board.

**"Crimson Tide Foundation"** means the Crimson Tide Foundation, a nonprofit corporation organized and existing under the laws of the State of Alabama, and includes its successors and assigns.

**"Dormitory Revenues"** means the gross revenues derived by the Board during any Fiscal Year from all the dormitories located at the University.

**“Enabling Law”** means Section 16-3-28 of the Code of Alabama 1975.

**“First Supplemental Indenture”** means that certain First Supplemental General Revenue Indenture dated as of October 1, 2004, between the Board and the Trustee, which amends the Indenture and provides for the issuance of the Series 2004-A Bonds hereinafter referred to.

**“Fifth Supplemental Indenture”** means that certain Fifth Supplemental General Revenue Indenture dated as of August 1, 2008, between the Board and the Trustee, and providing for the issuance of the Board’s General Revenue Bonds, Series 2008-A.

**“Fourth Supplemental Indenture”** means that certain Fourth Supplemental General Revenue Indenture dated as of September 1, 2006, between the Board and the Trustee, which amends the Indenture and provides for the issuance of the Series 2006 Bonds hereinafter referred to.

**“General Fees”** means all gross fees, deposits, charges, receipts and income from students enrolled at the University, whether designated as tuition, instruction fees, tuition surcharges, general fees or activity fees.

**“Indenture”** means that certain Master Trust Indenture dated as of October 1, 2004, as supplemented and amended, between the Board and the Trustee.

**“Internal Revenue Code”** means the Internal Revenue Code of 1986, as amended.

**“Parking and Related Revenues”** means the gross revenues derived by the Board from the following sources: (a) all permit and other similar fees and charges imposed by the Board with respect to the operation or parking of automobiles operated on the campus of the University and all fines imposed by the Board in connection with such operation or parking; and (b) the operation of all parking facilities of the Board at the University.

**“Pledged Revenues”** means all legally available gross revenues derived by the Board from the operation of the University, including, without limitation, (a) General Fees, (b) all gross income, revenues and receipts from the ownership operation or control of facilities constituting a part of the facilities of the University, including, without limitation, Athletic Revenues, Dormitory Revenues and Parking and Related Revenues and (c) Contributions other than Restricted Contributions; provided, however, that the term “Pledged Revenues” shall not include any of the following: (i) State Appropriations; (ii) Restricted Contributions; (iii) any profit or loss on the sale or other disposition, not in the ordinary course of business, of fixed or capital assets; (iv) condemnation awards and other extraordinary income; (v) non-recurring items of income; (vi) any income, gain or profit resulting from any investment if at the time of receipt of such income, gain or profit the application thereof is restricted by the Indenture or other contract of the Board to a use inconsistent with application to the payment of debt service referable to any Bonds then outstanding under the Indenture; and (vii) revenues received by the Board pursuant to grants or contracts for sponsored programs except to the extent that such revenues are allocated, by the terms of such grants or contracts, to indirect costs or to debt service.

**“Restricted Contributions”** means (i) Contributions that are, at the time made, restricted by the donors or makers thereof for one or more specific purposes and that by the terms of such restrictions are not available for the purpose of discharging obligations of the Board and (ii) the income, gain or profit from such Contributions if the use of such income, gain or profit is so restricted.

**“Second Supplemental Indenture”** means that certain Second Supplemental General Revenue Indenture dated as of August 1, 2004, between the Board and the Trustee, which amends the Indenture and provides for the issuance of the Series 2004-B Bonds hereinafter referred to.

**“Series 2009 Bonds**” means the Series 2009-A Bonds and Series 2009-B Bonds.

“**Series 2009-A Bonds**” means the Board’s General Revenue Bonds, Series 2009-A being offered pursuant to this Official Statement.

**“Series 2009-B Bonds”** means the Board’s General Revenue Bonds, Series 2009-B (Taxable) being offered pursuant to this Official Statement.

**"Seventh Supplemental Indenture"** means that certain Seventh Supplemental General Revenue Indenture dated as of October 1, 2009, between the Board and the Trustee, and providing for the issuance of the Series 2009-B Bonds.

**"Sixth Supplemental Indenture"** means that certain Sixth Supplemental General Revenue Indenture dated as of October 1, 2009, between the Board and the Trustee, and providing for the issuance of the Series 2009-A Bonds.

"**State Appropriations"** means any moneys appropriated to or on behalf of the Board by the State.

**"Third Supplemental Indenture"** means that certain Third Supplemental General Revenue Indenture dated as of August 1, 2004, between the Board and the Trustee, which amends the Indenture and provides for the issuance of the Series 2004-A Bonds hereinafter referred to.

**"Trustee"** means The Bank of New York Mellon Trust Company, N.A., a national banking association, in its capacity as trustee under the Indenture.

**"University"** means The University of Alabama, a division of the Board.

## THE SERIES 2009 BONDS

### The Series 2009-A Bonds

***General Description.*** The Series 2009-A Bonds will be issued in the aggregate principal amount of $135,425,000. The Series 2009-A Bonds bear interest from their date and will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. The Series 2009-A Bonds are issuable only as fully registered bonds without coupons in the denomination of $5,000 or any integral multiple thereof. The Series 2009-A Bonds bear interest at the applicable rate per annum set forth on the inside cover page of this Official Statement.

Interest on the Series 2009-A Bonds will be payable on each January 1 and July 1, beginning January 1, 2010, and will be calculated on the basis of a 360-day year with 12 months of 30 days each. The Series 2009-A Bonds are available in book-entry form only. See "Book-Entry Only System" herein. So long as Cede & Co. is the registered owner of the Series 2009-A Bonds, as nominee of the Depository Trust Company, New York, New York ("DTC"), references herein to owners of the Series 2009-A Bonds means Cede & Co. and not the Beneficial Owners (as defined hereinafter) of the Series 2009-A Bonds.

***Redemption of Series 2009-A Bonds Prior to Maturity***. The Series 2009-A Bonds will be subject to optional or mandatory redemption, as follows:

***Optional Redemption***. The Series 2009-A Bonds maturing on or after July 1, 2020 shall be subject to redemption prior to maturity, at the option of the Board, as a whole or in part (and if in part, the maturities of those to be redeemed to be selected by the Board, and if less than all the Series 2009-A Bonds of a single maturity are to be redeemed, those to be redeemed to be selected by the Trustee by lot), on July 1, 2019, or on any date thereafter, at a purchase price equal to 100% of the principal amount to be redeemed plus accrued interest to the redemption date.

***Mandatory Redemption of 2029 Term Bonds.*** The Series 2009-A Bonds maturing on July 1, 2029 (the "2029 Term Bonds") are subject to mandatory redemption prior to maturity, in integral multiples of $5,000 selected by the Trustee, at a redemption price equal to the principal amount thereof, plus accrued interest to the date affixed for redemption, in the following principal amounts on July 1, in each of the years set forth below:

| Year | Principal Amount Redeemed |
|---|---|
| 2026 | $6,145,000 |
| 2027 | 6,385,000 |
| 2028 | 6,635,000 |

$6,895,000 of the 2029 Term Bonds
will be retired at maturity

If less than all 2029 Term Bonds are to be redeemed, the principal amount of 2029 Term Bonds of each maturity to be redeemed may be specified by the Board by written notice to the Trustee, or, in the absence of timely receipt by the Trustee of such notice, shall be made pro rata, rounded to the nearest $5,000, among the Bondholders of each maturity by redeeming from each such Bondholder that principal amount which bears the same proportion to the principal amount of such stated maturity registered in the name of such Bondholder as the total principal amount of such stated maturity to be redeemed on any principal payment date bears to the aggregate principal amount of such stated maturity. In connection with any such redemption prior to maturity, the Trustee shall make appropriate entries in the Bond Register to reflect a portion of any 2029 Term Bond so redeemed and the amount of the principal remaining outstanding. The Trustee's notation in the Bond Register shall be conclusive as to the principal amount of any outstanding 2029 Term Bond at any time.

***Mandatory Redemption of 2034 Term Bonds.*** The Series 2009-A Bonds maturing on July 1, 2034 (the "2034 Term Bonds") are subject to mandatory redemption prior to maturity, in integral multiples of $5,000 selected by the Trustee, at a redemption price equal to the principal amount thereof, plus accrued interest to the date affixed for redemption, in the following principal amounts on July 1, in each of the years set forth below:

| Year | Principal Amount Redeemed |
|---|---|
| 2030 | $7,160,000 |
| 2031 | 7,450,000 |
| 2032 | 7,750,000 |
| 2033 | 8,060,000 |

$8,385,000 of the 2034 Term Bonds
will be retired at maturity

If less than all 2034 Term Bonds are to be redeemed, the principal amount of 2034 Term Bonds of each maturity to be redeemed may be specified by the Board by written notice to the Trustee, or, in the absence of timely receipt by the Trustee of such notice, shall be made pro rata, rounded to the nearest $5,000, among the Bondholders of each maturity by redeeming from each such Bondholder that principal amount which bears the same proportion to the principal amount of such stated maturity registered in the name of such Bondholder as the total principal amount of such stated maturity to be redeemed on any principal payment date bears to the aggregate principal amount of such stated maturity. In connection with any such redemption prior to maturity, the Trustee shall make appropriate entries in the Bond Register to reflect a portion of any 2034 Term Bond so redeemed and the amount of the principal remaining outstanding. The Trustee's notation in the Bond Register shall be conclusive as to the principal amount of any outstanding 2034 Term Bond at any time.

***Mandatory Redemption of 2039 Term Bonds.*** The Series 2009-A Bonds maturing on July 1, 2039 (the "2039 Term Bonds") are subject to mandatory redemption prior to maturity, in integral multiples of $5,000 selected by the Trustee, at a redemption price equal to the principal amount thereof, plus accrued interest to the date affixed for redemption, in the following principal amounts on July 1, in each of the years set forth below:

| Year | Principal Amount Redeemed |
|---|---|
| 2035 | $8,720,000 |
| 2036 | 9,075,000 |
| 2037 | 9,445,000 |
| 2038 | 9,830,000 |

$10,230,000 of the 2039 Term Bonds
will be retired at maturity

If less than all 2039 Term Bonds are to be redeemed, the principal amount of 2039 Term Bonds of each maturity to be redeemed may be specified by the Board by written notice to the Trustee, or, in the absence of timely receipt by the Trustee of such notice, shall be made pro rata, rounded to the nearest $5,000, among the Bondholders of each maturity by redeeming from each such Bondholder that principal amount which bears the same proportion to the principal amount of such stated maturity registered in the name of such Bondholder as the total principal amount of such stated maturity to be redeemed on any principal payment date bears to the aggregate principal amount of such stated maturity. In connection with any such redemption prior to maturity, the Trustee shall make appropriate entries in the Bond Register to reflect a portion of any 2039 Term Bond so redeemed and the amount of the principal remaining outstanding. The Trustee's notation in the Bond Register shall be conclusive as to the principal amount of any outstanding 2039 Term Bond at any time.

**The Series 2009-B Bonds**

***General Description.*** The Series 2009-B Bonds will be issued in the aggregate principal amount of $48,060,000. The Series 2009-B Bonds bear interest from their date and will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. The Series 2009-B Bonds are issuable only as fully registered bonds without coupons in the denomination of $5,000 or any integral multiple thereof. The Series 2009-B Bonds bear interest at the applicable rate per annum set forth on the inside cover page of this Official Statement.

Interest on the Series 2009-B Bonds will be payable on each January 1 and July 1, beginning January 1, 2010, and will be calculated on the basis of a 360-day year with 12 months of 30 days each. The Series 2009-B Bonds are available in book-entry form only. See "Book-Entry Only System" herein. So long as Cede & Co. is the registered owner of the Series 2009-B Bonds, as nominee of the Depository Trust Company, New York, New York ("DTC"), references herein to owners of the Series 2009-B Bonds means Cede & Co. and not the Beneficial Owners (as defined hereinafter) of the Series 2009-B Bonds.

***Redemption of Series 2009-B Bonds Prior to Maturity***. The Series 2009-B Bonds will be subject to optional or mandatory redemption, as follows:

***Optional Redemption***. The Series 2009-B Bonds maturing on or after July 1, 2020 shall be subject to redemption prior to maturity, at the option of the Board, as a whole or in part (and if in part, the maturities of those to be redeemed to be selected by the Board, and if less than all the Series 2009-B Bonds of a single maturity are to be redeemed, those to be redeemed to be selected by the Trustee by lot), on July 1, 2019, or on any date thereafter, at a purchase price equal to 100% of the principal amount to be redeemed plus accrued interest to the redemption date.

**General Provisions Respecting Redemption**

Partial Redemption of Series 2009 Bonds. Except in the case of mandatory redemption of 2029 Term Bonds, 2034 Term Bonds and 2039 Term Bonds, if less than all Series 2009 Bonds Outstanding of a particular subseries are to be redeemed, the principal amount of Series 2009 Bonds of each maturity of such subseries to be redeemed shall be specified by the Board by written notice to the Trustee. If less than all Series 2009 Bonds of a particular subseries and maturity are to be redeemed, the selection of those to be redeemed shall be made pro rata, rounded to the nearest $5,000, among the Series 2009 Bondholders of such maturity by redeeming from each such Series 2009 Bondholder that principal amount which bears the same proportion to the principal amount of such stated maturity of such subseries registered in the name of such Series 2009 Bondholder as the total principal amount of such stated maturity to be redeemed on any principal payment date bears to the aggregate principal amount of such stated maturity. In connection with any such redemption prior to maturity, the Trustee shall make appropriate entries in the Bond Register to reflect a portion of any Bond so redeemed and the amount of the principal remaining outstanding. The Trustee's notation in the Bond Register shall be conclusive as to the principal amount of any outstanding Series 2009 Bond at any time.

Effect of Redemption. The Series 2009 Bonds (or portions thereof as aforesaid) for whose redemption and payment provision is made in accordance with the Indenture shall thereupon cease to be entitled to the lien of the Indenture and shall cease to bear interest from and after the date fixed for redemption.

Notice of Redemption. Any notice of redemption will be given by mailing a copy of the redemption notice at least 30 days, but not more than 60 days, prior to the date fixed for redemption by registered or certified mail, postage prepaid, to each registered owner of a Series 2009 Bond (or portion thereof) to be redeemed at his address shown on the registration books.

Alternative Method of Mandatory Redemption. The Board may satisfy the mandatory redemption requirement for any Series 2009 Bond by delivery of a Series 2009 Bond of the same subseries and same maturity to the Trustee for cancellation. This requirement may also be satisfied by the Trustee's purchase of Series 2009 Bonds with funds on deposit in the Debt Service Fund created in the Indenture. The mandatory redemption requirement will be reduced by an amount equal to 100% of the principal amount of Series 2009 Bonds of such maturity so delivered or purchased.

**Transfer and Exchange**

The Series 2009 Bonds are transferable only on the Bond Register maintained at the designated corporate trust office of the Trustee in Birmingham, Alabama. See "Book-Entry Only System" for a description of provisions relating to the registration, transfer and exchange of the Series 2009 Bonds.

**Authority for Issuance**

The Series 2009 Bonds are being issued pursuant to Section 16-3-28 of the Code of Alabama 1975 (the "Enabling Law"). The Enabling Law authorizes each public corporation that conducts one or more state educational institutions under its supervision to borrow money for the purchase, construction, enlargement or alteration of its facilities and to issue interest-bearing securities in evidence of such borrowing. The borrowing public corporation may pledge to the payment of such securities the fees from students levied and to be levied by or for such institution and any other moneys and revenues not appropriated by the State of Alabama to such institution. The borrowing corporation is also authorized by the Enabling Law to agree to maintain its charges and fees at such rates and in such amounts as will produce money sufficient to pay debt service on the securities with respect to which any such pledge is made and to create and maintain any required reserve therefor. The Enabling Law also authorizes refunding securities payable from the same or different sources as the securities to be refunded.

The Enabling Law provides that neither the securities issued thereunder, nor any pledge or agreement made pursuant thereto shall be an obligation of any nature whatsoever of the State of Alabama, and that neither such securities nor any obligation arising from any such pledge or agreement shall be payable out of any moneys appropriated by the State of Alabama to the institution with respect to which such securities are issued or such pledge or agreement is made.

**Legal Investment Status**

The Enabling Law provides that bonds, notes and other securities issued under the Enabling Law shall be eligible for the investment of trust or other fiduciary funds in the exercise of prudent judgment by those making such investment.

**Book-Entry Only System**

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2009 Bonds. The Series 2009 Bonds will be issued as fully registered securities registered in the name of

Cede & Co., DTC's partnership nominee. One fully registered Series 2009 Bond certificate will be issued for each maturity of the Series 2009 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants" and, collectively with Direct Participants, "Participants"). The rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of beneficial ownership interests in the Series 2009 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for Series 2009 Bonds purchased on DTC's records. The ownership interest of each beneficial owner of a Series 2009 Bond is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the Series 2009 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the Series 2009 Bonds, except in the event that use of the Book-Entry Only System for the Series 2009 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2009 Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 2009 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the Series 2009 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2009 Bonds are credited, which may or may not be the beneficial owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If less than all of the Series 2009 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 2009 Bonds. Under its usual procedures, DTC mails an "Omnibus Proxy" to the Board as soon as possible after the record date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2009 Bonds are credited on the record date identified in a listing attached to the "Omnibus Proxy."

Principal, premium, if any, and interest payments on the Series 2009 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on a payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on a payment date. Payments by DTC Participants to beneficial owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such DTC Participant and not of DTC, the Trustee or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest to DTC is the responsibility of the Trustee. Disbursement of such payments to Direct Participants shall be the responsibility of DTC and disbursement of such payments to the beneficial owners shall be the responsibility of the Direct and Indirect Participants.

**Discontinuance of DTC Services**

DTC may discontinue providing its services as securities depository with respect to the Series 2009 Bonds at any time by giving reasonable notice to the Board. In such circumstances, in the event that a successor securities depository is not obtained, Series 2009 Bond certificates are required to be printed and delivered.

The Board and the Trustee may decide to discontinue use of the system of book-entry transfers through DTC or a successor securities depository. In that event, Series 2009 Bond certificates will be printed and delivered.

**Disclaimer**

**The information provided above under this caption has been provided by DTC. No representation is made by the Board or the Trustee as to the accuracy or adequacy of such information provided by DTC or as to the absence of material adverse changes in such information subsequent to the date hereof.**

**For so long as the Series 2009 Bonds are registered in the name of DTC or its nominee, Cede & Co., the Board and the Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series 2009 Bonds for all purposes, including payments, notices and voting. Under the Indenture, payments made by the Trustee to DTC or its nominee shall satisfy the Board's obligations under the Indenture to the extent of the payments so made.**

The Board and the Trustee shall have no responsibility or obligation with respect to:

(i) the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any beneficial ownership interest in any Series 2009 Bonds;

(ii) the delivery to any Direct Participant or Indirect Participant or any other person, other than an owner, as shown in the bond register, of any notice with respect to any Series 2009 Bond including, without limitation, any notice of redemption;

(iii) the payment to any Direct Participant or Indirect Participant or any other person, other than an owner, as shown in the bond register, of any amount with respect to the principal of, premium, if any, or interest on, any Series 2009 Bond; or

(iv) any consent given by DTC or its nominee as registered owner.

Prior to any discontinuation of the book-entry only system described under this caption, the Board and the Trustee may treat DTC as, and deem DTC to be, the absolute owner of the Series 2009 Bonds for all purposes whatsoever, including, without limitation:

(i) the payment of the principal of, premium, if any, and interest on the Series 2009 Bonds;

(ii) giving notices of redemption and other matters with respect to the Series 2009 Bonds;

(iii) registering transfers with respect to the Series 2009 Bonds; and

(iv) the selection of Series 2009 Bonds for redemption.

## SECURITY AND SOURCE OF PAYMENT

### Source of Payment

General. The Series 2009 Bonds are special or limited obligations of the Board payable solely from the Pledged Revenues, which consist of all legally available gross revenues derived by the Board from the operation of the University, including, without limitation, (a) General Fees, (b) all gross income, revenues and receipts from the ownership, operation or control of facilities constituting a part of the facilities of the University, including, without limitation, Athletic Revenues, Dormitory Revenues and Parking and Related Revenues and (c) Contributions other than Restricted Contributions; provided, however, that the term “Pledged Revenues” shall not include any of the following: (i) State Appropriations; (ii) Restricted Contributions; (iii) any profit or loss on the sale or other disposition, not in the ordinary course of business, of fixed or capital assets; (iv) condemnation awards and other extraordinary income; (v) non-recurring items of income; (vi) any income, gain or profit resulting from any investment if at the time of receipt of such income, gain or profit the application thereof is restricted by the Indenture or other contract of the Board to a use inconsistent with application to the payment of debt service referable to any Bonds then outstanding under the Indenture; and (vii) revenues received by the Board pursuant to grants or contracts for sponsored programs except to the extent that such revenues are allocated, by the terms of such grants or contracts, to indirect costs or to debt service.

Crimson Tide Foundation and Athletic Revenues. Crimson Tide Foundation was incorporated as an Alabama not-for-profit corporation in 2003 for the purpose of supporting the University’s athletic facilities and programs and is a 501(c)(3) organization. In addition to raising funds for these purposes, Crimson Tide Foundation serves the University’s interests by administering and coordinating expenditures on University athletic facilities and programs, including expenditure of certain Athletic Revenues received by the University. In order to facilitate the same, in 2006 the Crimson Tide Foundation established a trust fund solely for the purpose of administering expenditures of those Athletic Revenues assigned to it by the University, which constitute a portion of Pledged Revenues (see “SECURITY AND SOURCE OF PAYMENT”). Under the trust instrument establishing the trust fund, Crimson Tide Foundation serves as trustee of the trust fund and is empowered to exercise its discretion in expending the Athletic Revenues assigned to it on University athletic facilities and programs. Athletic Revenues deposited in the trust fund are subject to the pledge of such Athletic Revenues under the Indenture and are subject to remedies under the Indenture. If an Event of Default should occur and be continuing under the Indenture, no Athletic Revenues shall be transferred to the trust fund, and any money held in the trust fund is required to be returned to the Trustee. Crimson Tide Foundation shall not encumber or pledge the trust fund as security for the payment and performance of any obligation of Crimson Tide Foundation or any other party.

The 1831 Foundation and Student Housing Revenues. The 1831 Foundation was incorporated as an Alabama not-for-profit corporation in 2006 for the purpose of assisting the University in fulfilling and performing its primary programs and mission of educating and training students at the University. The 1831 Foundation is a 501(c)(3) organization and is the sole member of Ridgecrest Student Housing, L.L.C., an Alabama limited liability company. From 2007 to 2009, The 1831 Foundation has undertaken to acquire, construct and equip certain student housing facilities known as Ridgecrest North and Ridgecrest South that are expected to house approximately 1,500 students. The University will manage the Ridgecrest North and Ridgecrest South pursuant to a management agreement between the University and Ridgecrest Student Housing, L.L.C. Net revenues from the operation of Ridgecrest North and Ridgecrest South have been pledged to secure certain bonds issued by The Public Educational Building Authority of the City of Tuscaloosa in the aggregate principal amount of $100,460,000 (the “PEBA Bonds”), which were issued on December 23, 2008. The PEBA Bonds are not secured by any of the revenues which constitute a part of the Pledged Revenues. Moreover, the net revenues from the operation of Ridgecrest North and Ridgecrest South are not Pledged Revenues for the benefit of the Series 2009 Bonds because Ridgecrest North and Ridgecrest South are not University dormitories. Although no additional student housing facilities are currently expected to be developed by The 1831 Foundation, the University reserves the right to cooperate with The 1831 Foundation to develop additional student housing in the future.

Prior Pledges. The pledge of the Pledged Revenues made in the Indenture is subject and subordinate to a prior pledge of said revenues as respects the General Fees forming a part thereof (see definition of “General Fees” under “GLOSSARY”) for the benefit of the Board’s General Revenue Bonds, The University of Alabama Series 1997, dated June 1, 1997 (the “Series 1997 General Revenue Bonds”), and its General Revenue Bonds, The University of Alabama Series 2001, dated November 1, 2001 (the “Series 2001 General Revenue Bonds”), which were issued under a General Revenue Trust Indenture dated as of April 1, 1987, as supplemented (the "General Fee Indenture"), between the Board and The Bank of New York Mellon Trust Company, N.A., as successor trustee. The Board has covenanted not to issue any additional parity bonds under the General Fee Indenture, and the pledge of the General Fees, as a component of the Pledged Revenues, in behalf of all Indebtedness issued or incurred under the Indenture, including the Series 2009 Bonds, will be subject only to the prior pledge of such General Fees in behalf of the unrefunded portions of the Series 1997 General Revenue Bonds (now Outstanding in the principal amount of $3,335,000) and the Series 2001 General Revenue Bonds (now Outstanding in the principal amount of $30,110,000).

For a description of the Pledged Revenues and the general operations of the University, see "APPENDIX A – General Description of The University of Alabama."

The Series 2009 Bonds will not be general obligations of the Board and shall never constitute or give rise to a charge against funds appropriated to the Board by the State of Alabama.

**Security for Payment**

Pursuant to the Indenture the Board has pledged and assigned to the Trustee the Pledged Revenues and money and investments in the funds and accounts established under the Indenture. For a description of such funds and accounts, see "APPENDIX C – SUMMARY OF THE INDENTURE." Such pledge and assignment is for the benefit of all bonds and other indebtedness issued under the Indenture. The Board has heretofore issued various series of its revenue bonds secured by various portions of Pledged Revenues. Any of such revenue bonds that remain outstanding after the issuance of the Series 2009 Bonds will continue to have a pledge of such portion of Pledged Revenues that is prior to the pledge of such portion under the Indenture for so long as such revenue bonds remain outstanding, as discussed above under "Source of Payment."

The Board has designated the Series 2009-A Bonds as "Build America Bonds" for purposes of the Recovery Act and expects to receive a cash subsidy from the United States Treasury in connection therewith. The available subsidy for the Series 2009-A Bonds will be paid to the Board; no holders of the Series 2009-A Bonds will be entitled to a tax credit. Available subsidy for the Series 2009-A Bonds will not be pledged as security for the Series 2009-A Bonds.

**Parity Bonds and Other Senior Indebtedness**

The Indenture authorizes the issuance of Parity Bonds and the incurrence of certain Other Senior Indebtedness under the Indenture secured on a parity with the Series 2009 Bonds, subject to the terms and conditions specified in the Indenture. The Board has heretofore issued (i) $215,995,000 principal amount of its General Revenue Bonds, The University of Alabama Series 2004-A, for the purpose of financing the cost of constructing and equipping various capital improvements on the University campus and refunding a portion of certain revenue bonds heretofore issued by the Board, (ii) $40,575,000 principal amount of its General Revenue Bonds, The University of Alabama Series 2006-A, for the purpose of financing the costs of constructing and equipping various capital improvements on the University campus, (iii) $23,750,000 principal amount of its General Revenue Bonds, The University of Alabama Taxable Series 2006-B, for the purpose of financing various capital improvements on the University campus that are not eligible for financing on a federally tax-exempt basis, and (iv) $45,425,000 principal amount of its General Revenue Bonds, The University of Alabama Series 2008-A, for the purpose of refunding certain revenue bonds heretofore issued by the Board. See "APPENDIX C – SUMMARY OF THE INDENTURE – Parity Bonds or Other Senior Indebtedness."

The Board, acting through the University, has other miscellaneous indebtedness that is payable out of the Pledged Revenues, but such indebtedness is not secured by a pledge or assignment of the Pledged Revenues.

For a description of the debt service requirements with respect to obligations secured by a pledge or assignment of the Pledged Revenues, see "DEBT SERVICE REQUIREMENTS ON BONDS SECURED BY A PLEDGE OF THE PLEDGED REVENUES."

**Remedies**

Officers of the Board are, under existing law, subject to a mandamus action in the event that the Board defaults in payment of the principal of or the interest on the Series 2009 Bonds. However, the extent of the remedies afforded to the holders of the Series 2009 Bonds by any such suit, and the enforceability of any judgment against the Board resulting therefrom, are subject to those limitations inherent in the fact that the Series 2009 Bonds are special or limited obligations of the Board, and may be subject to, among other things,

(i) the provisions of the United States Bankruptcy Code (referred to below), and

(ii) the provisions of other statutes that may hereafter be enacted by the Congress of the United States or the Legislature of Alabama extending the time for payment of county, municipal or public authority indebtedness or imposing other constraints upon the enforcement of rights of bondholders.

**The United States Bankruptcy Code**

Provisions of the United States Bankruptcy Code permit political subdivisions of a state and certain state and local public agencies or instrumentalities that are insolvent or unable to meet their debts to file petitions for relief in the Federal Bankruptcy Court if authorized by state law. While there is no legislation currently in effect in Alabama generally authorizing public corporations such as the Board to file such petitions for relief, there is no assurance that legislation authorizing public corporations such as the Board to file petitions for relief under the Bankruptcy Code will not be enacted in the future.

Bankruptcy proceedings by the Board could have additional adverse effects on holders of the Series 2009 Bonds, including (a) delay in the enforcement of their remedies, (b) subordination of their claims or charges on the aforesaid pledged revenues to claims of those supplying goods and services to the Board after the initiation of bankruptcy proceedings and to the administrative expenses of bankruptcy proceedings, and (c) imposition without their consent of a reorganization plan reducing or delaying payment on the Series 2009 Bonds. The Bankruptcy Code contains provisions intended to insure that, in any reorganization plan not accepted by the holders of at least a majority in aggregate principal amount of the Series 2009 Bonds, the holders of the Series 2009 Bonds will have the benefit of their original claim or charge on the aforesaid pledged revenues or the "indubitable equivalent." The effect of these and other provisions of the Bankruptcy Code cannot be predicted with any certainty and may be significantly affected by judicial interpretation.

## THE PLAN OF FINANCING

Proceeds of the Series 2009-A Bonds will be allocated to Capital Improvements at the University, including (a) public space areas included in the enclosure of the South End Zone of Bryant-Denny Stadium, including the addition of 10,000 seats, administrative offices and related space, (b) construction and improvement of Northeast campus utilities and infrastructure, including without limitation energy generation and chiller facilities, (c) renovations and updates to Lloyd Hall located at the University's campus, (d) construction of a new science and engineering buildings and renovation of certain existing facilities used by the science and engineering department, (e) parking facilities for student housing; and (f) other capital improvements, personal property and infrastructure relating to the foregoing.

Proceeds of the Series 2009-B Bonds will be allocated to Capital Improvements at the University, including (a) those private space areas of the expansion of Bryant-Denny Stadium, including skyboxes, clubhouse areas, concession areas and related space, (b) construction, improvements and renovations with respect to The University Club located on the University's campus, (c) construction, improvements and renovations with respect to certain greek houses, and (d) other capital improvements, personal property and infrastructure relating to the foregoing.

## SOURCES AND USES OF FUNDS

### General

The estimated sources and uses of funds for the plan of financing are as follows (exclusive of accrued interest):

| | |
|---|---|
| **Sources of Funds** | |
| Principal amount of Series 2009-A Bonds | $135,425,000 |
| Principal Amount of Series 2009-B Bonds | 48,060,000 |
| Total Sources | $183,485,000 |
| **Uses of Funds** | |
| Cost of Series 2009-A Capital Improvements | $134,683,090 |
| Cost of Series 2009-B Capital Improvements | 47,831,251 |
| Expenses of issuance (including Underwriters' discount, legal, accounting, and other issuance expenses) | 970,659 |
| Total Uses | $183,485,000 |

## DEBT STRUCTURE OF THE UNIVERSITY

### Outstanding Long-Term Debt Payable From the Pledged Revenues

The Board has the following long-term debt outstanding that is payable from the Pledged Revenues:

The Board has two Outstanding series of bonds issued under a General Revenue Trust Indenture dated as of April 1, 1987, as supplemented (the "1987 Trust Indenture"), between the Board and The Bank of New York Mellon Trust Company, N.A., as successor trustee. These series of bonds are secured by a pledge of the General Fees, which constitute a portion of Pledged Revenues under the Indenture. The pledge of the General Fees under the 1987 Trust Indenture is prior and superior to the pledge of that portion of Pledged Revenues contained in the Indenture with respect to the Series 2009 Bonds and all other Parity Bonds now or hereafter issued thereunder. The Outstanding series of bonds under the 1987 Trust Indenture are as follows:

Series 1997 General Fee Revenue Bonds. The Series 1997 General Fee Revenue Bonds were outstanding at September 30, 2008, in the aggregate principal amount of $3,335,000 and mature on June 1 in the years 2009 through 2011.

Series 2001 General Fee Revenue Bonds. The Series 2001 General Fee Revenue Bonds were outstanding at September 30, 2008, in the aggregate principal amount of $30,110,000 and mature on December 1 in the years 2008 through 2026.

The Board has covenanted not to issue any additional parity bonds under the 1987 Trust Indenture.

After giving effect to the issuance of the Series 2009 Bonds, the Board will have six Outstanding series of bonds issued under the Indenture. The Board's pledge of the General Fees contained in the Indenture, as a component of the Pledged Revenues, will be subject only to the prior pledge of such General Fees under the 1987 Indenture to secure the Series 1997 General Revenue Bonds and Series 2001 General Revenue Bonds referenced above. The Outstanding series of bonds under the Indenture, after issuance of the Series 2009 Bonds, will be as follows:

Series 2004-A Bonds. The Series 2004-A Bonds were issued under the Indenture in the aggregate principal amount of $215,995,000 and are Parity Bonds under the Indenture. The Series 2004-A Bonds are outstanding in the aggregate principal amount of $215,995,000 at September 30, 2008.

Series 2006-A General Revenue Bonds. The Series 2006-A General Revenue Bonds were issued under the Indenture in the aggregate principal amount of $40,575,000 and are Parity Bonds under the Indenture. The Series 2006-A Bonds are outstanding in the aggregate principal amount of $40,205,000 at September 30, 2008.

Series 2006-B General Revenue Bonds. The Series 2006-B General Revenue Bonds were issued under the Indenture in the aggregate principal amount of $23,750,000 and are Parity Bonds under the Indenture. The Series 2006-B Bonds are outstanding in the aggregate principal amount of $21,735,000 at September 30, 2008.

Series 2008-A Bonds. The Series 2008-A Bonds were issued on August 22, 2008, under the Indenture in the aggregate principal amount of $45,425,000 and are Parity Bonds under the Indenture. The Series 2008-A Bonds are outstanding in the aggregate principal amount of $45,425,000 at September 30, 2008.

Series 2009-A Bonds. These bonds are being offered pursuant to this Official Statement.

Series 2009-B Bonds. These bonds are being offered pursuant to this Official Statement.

**Outstanding Short-Term Debt Payable From Pledged Revenues**

The Board will not have any short-term debt payable from the Pledged Revenues when the Series 2009 Bonds are issued. The Board does not have any existing line of credit for working capital purposes that is payable from the Pledged Revenues.

**Additional Debt Payable From Pledged Revenues**

The Board plans to incur additional debt payable from the Pledged Revenues from time to time for the purpose of financing various campus improvements. The times, amounts, and purposes for such issuance are not yet determined. Such debt may be issued or incurred as Additional Indebtedness under the Indenture. See APPENDIX C - “Additional Indebtedness.”

**Outstanding Non-Bond Debt Payable From All Sources**

The Board has the following outstanding debt (other than Bonds) payable from various revenue sources at the University, including the Pledged Revenues or certain portions of Pledged Revenues.

THE UNIVERSITY OF ALABAMA
SCHEDULE OF OTHER LONG-TERM DEBT
as of September 30, 2008

| Description and Purpose | Date Issued | Final Maturity | Interest Rate | Original Indebtedness | Amount Retired Current Year | Amount Retired To Date | Outstanding Indebtedness | Due Within One Year | Net Long-Term Debt |
|---|---|---|---|---|---|---|---|---|---|
| **Notes payable** | | | | | | | | | |
| United States Department of Education - asbestos abatement and rehabilitation of four existing residence halls | 7/20/89 | 4/15/19 | 3.00 | $ 3,188,000 | $119,179 | $1,613,625 | $ 1,574,375 | $ 122,781 | $1,451,594 |
| G E Commercial Finance, Airplane loan for CTF- as of June 30 | 5/10/05 | 5/10/15 | 6.25 | 5,000,000 | 423,258 | 1,224,679 | 3,775,321 | 450,482 | 3,324,839 |
| Geist LLC | 1/24/07 | 2/01/21 | 6.00 | 1,800,000 | 77,435 | 250,140 | 1,549,860 | 82,081 | 1,467,779 |
| CST, LTD | 1/15/07 | 1/5/12 | 7.00 | 1,100,000 | 220,000 | 220,000 | 880,000 | 220,000 | 660,000 |
| United States Department of Education - dormitory renovations | 3/23/00 | 7/01/29 | 5.50 | 2,483,000 | 50,820 | 355,532 | 2,127,468 | 53,654 | 2,073,814 |
| Total notes payable | | | | 13,571,000 | 890,691 | 3,663,976 | 9,907,024 | 928,998 | 8,978,026 |
| Long-term leases payable | | | | | | | | | |
| Miscellaneous office equipment leases | 3/1/99 | 3/31/17 | 0.0 to 4.0 | 854,372 | 10,583 | 455,832 | 284,012 | 125,112 | 273,428 |
| Total long-term leases payable | | | | 854,372 | 10,583 | 455,832 | 284,012 | 125,112 | 273,428 |
| Total non-bond long-term debt | | | | $ 14,425,372 | $901,274 | $4,119,808 | $10,191,036 | $1,054,110 | $9,251,454 |

## DEBT SERVICE REQUIREMENTS ON BONDS
## SECURED BY A PLEDGE OF THE PLEDGED REVENUES

The following table sets forth debt service requirements, including interest, on all bonds of the Board that will be secured by a pledge of the Pledged Revenues after the Series  2008 Bonds are issued.

| | Outstanding Debt Service | | | | | | Series 2009-A | | | Series 2009-B | | | Total Debt Service |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Series 1997 | Series 2001 | Series 2004-A | Series 2006-A | Series 2006-B | Series 2008 | Principal | Interest | Total | Principal | Interest | Total | |
| 9/30/2010 | $1,217,270 | $3,061,825 | $13,430,438 | $1,959,700 | $2,193,060 | $2,900,875 | - | $5,482,981 | $5,482,981 | $2,415,000 | $1,157,115 | $3,572,115 | $33,818,264 |
| 9/30/2011 | 1,215,100 | 3,058,950 | 13,432,038 | 1,958,463 | 2,194,043 | 2,904,375 | - | 8,190,346 | 8,190,346 | 3,630,000 | 1,698,283 | 5,328,283 | 38,281,596 |
| 9/30/2012 | - | 3,061,575 | 14,449,438 | 1,957,225 | 2,197,127 | 3,103,125 | - | 8,190,346 | 8,190,346 | 3,685,000 | 1,641,292 | 5,326,292 | 38,285,126 |
| 9/30/2013 | - | 2,442,200 | 15,068,688 | 1,955,988 | 2,195,852 | 3,102,375 | - | 8,190,346 | 8,190,346 | 3,770,000 | 1,558,379 | 5,328,379 | 38,283,826 |
| 9/30/2014 | - | 2,436,500 | 15,072,438 | 1,954,750 | 2,196,352 | 3,107,650 | - | 8,190,346 | 8,190,346 | 3,860,000 | 1,464,129 | 5,324,129 | 38,282,164 |
| 9/30/2015 | - | 2,436,775 | 15,073,213 | 1,958,513 | 2,193,358 | 3,111,350 | - | 8,190,346 | 8,190,346 | 3,980,000 | 1,347,557 | 5,327,557 | 38,291,111 |
| 9/30/2016 | - | 2,432,500 | 15,076,163 | 1,957,069 | 2,196,139 | 3,120,100 | - | 8,190,346 | 8,190,346 | 4,115,000 | 1,211,441 | 5,326,441 | 38,298,757 |
| 9/30/2017 | - | 2,443,250 | 15,065,288 | 1,955,625 | 2,194,848 | 3,121,538 | - | 8,190,346 | 8,190,346 | 4,270,000 | 1,054,248 | 5,324,248 | 38,295,141 |
| 9/30/2018 | - | 2,435,500 | 15,075,238 | 1,959,181 | 2,196,228 | 3,119,288 | - | 8,190,346 | 8,190,346 | 4,450,000 | 878,324 | 5,328,324 | 38,304,103 |
| 9/30/2019 | - | 2,434,875 | 15,074,175 | 1,962,531 | 2,192,805 | 3,123,788 | - | 8,190,346 | 8,190,346 | 4,645,000 | 680,744 | 5,325,744 | 38,304,263 |
| 9/30/2020 | - | 2,439,750 | 15,071,838 | 1,955,675 | 2,194,580 | 3,124,388 | - | 8,190,346 | 8,190,346 | 4,860,000 | 465,216 | 5,325,216 | 38,301,792 |
| 9/30/2021 | - | 2,439,875 | 15,072,438 | 1,954,025 | 2,196,625 | 3,127,588 | $720,000 | 8,190,346 | 8,910,346 | 4,380,000 | 225,132 | 4,605,132 | 38,306,028 |
| 9/30/2022 | - | 2,435,250 | 15,074,925 | 1,962,375 | 2,192,475 | 3,132,088 | 5,350,000 | 8,153,338 | 13,503,338 | - | - | - | 38,300,450 |
| 9/30/2023 | - | 1,553,250 | 15,958,250 | 1,960,313 | 2,192,130 | 3,135,050 | 5,535,000 | 7,872,998 | 13,407,998 | - | - | - | 38,206,990 |
| 9/30/2024 | - | 1,554,625 | 15,956,500 | 4,153,250 | - | 3,136,550 | 5,725,000 | 7,577,429 | 13,302,429 | - | - | - | 38,103,354 |
| 9/30/2025 | - | 1,557,625 | 15,953,500 | 4,151,000 | - | 3,137,850 | 5,930,000 | 7,260,836 | 13,190,836 | - | - | - | 37,990,811 |
| 9/30/2026 | - | 1,557,125 | 15,953,250 | 4,153,250 | - | 3,150,325 | 6,145,000 | 6,926,977 | 13,071,977 | - | - | - | 37,885,927 |
| 9/30/2027 | - | 1,558,000 | 15,954,500 | 4,154,500 | - | 3,153,300 | 6,385,000 | 6,559,506 | 12,944,506 | - | - | - | 37,764,806 |
| 9/30/2028 | - | - | 17,511,000 | 4,154,500 | - | 3,157,000 | 6,635,000 | 6,177,683 | 12,812,683 | - | - | - | 37,635,183 |
| 9/30/2029 | - | - | 17,508,750 | 4,153,000 | - | 3,160,000 | 6,895,000 | 5,780,910 | 12,675,910 | - | - | - | 37,497,660 |
| 9/30/2030 | - | - | 17,510,500 | 4,154,750 | - | 3,162,250 | 7,160,000 | 5,368,589 | 12,528,589 | - | - | - | 37,356,089 |
| 9/30/2031 | - | - | 17,509,500 | 4,154,250 | - | 3,173,500 | 7,450,000 | 4,926,101 | 12,376,101 | - | - | - | 37,213,351 |
| 9/30/2032 | - | - | 17,509,250 | 4,151,250 | - | 3,178,000 | 7,750,000 | 4,465,691 | 12,215,691 | - | - | - | 37,054,191 |
| 9/30/2033 | - | - | 17,508,000 | 4,150,500 | - | 3,180,750 | 8,060,000 | 3,986,741 | 12,046,741 | - | - | - | 36,885,991 |
| 9/30/2034 | - | - | 17,514,000 | 4,153,900 | - | 3,181,500 | 8,385,000 | 3,488,633 | 11,873,633 | - | - | - | 36,723,033 |
| 9/30/2035 | - | - | - | 4,155,100 | - | - | 8,720,000 | 2,970,440 | 11,690,440 | - | - | - | 15,845,540 |
| 9/30/2036 | - | - | - | 4,153,875 | - | - | 9,075,000 | 2,422,824 | 11,497,824 | - | - | - | 15,651,699 |
| 9/30/2037 | - | - | - | - | - | - | 9,445,000 | 1,852,914 | 11,297,914 | - | - | - | 11,297,914 |
| 9/30/2038 | - | - | - | - | - | - | 9,830,000 | 1,259,768 | 11,089,768 | - | - | - | 11,089,768 |
| 9/30/2039 | - | - | - | - | - | - | 10,230,000 | 642,444 | 10,872,444 | - | - | - | 10,872,444 |
| Total | $2,432,370 | $41,339,450 | $394,383,313 | $81,404,556 | $30,725,620 | $78,004,600 | $135,425,000 | $183,270,602 | $318,695,602 | $48,060,000 | $13,381,859 | $61,441,859 | $1,008,427,370 |

### Other System Debt

The Board has incurred, and will continue to incur, debt payable solely from revenues of its two other operating divisions at the Huntsville campus and the Birmingham campus. This debt will have no claim on the Pledged Revenues or any other revenues from the operation of the University.

## DEBT SERVICE COVERAGE

### Historical Coverage

Set forth below is the historical coverage of maximum Annual Debt Service Requirements ($39,148,064 occurring in fiscal year 2019) on all obligations that will be secured by a pledge of the Pledged Revenues after the Series 2009 Bonds are issued. Based on Pledged Revenues received in Fiscal Year 2008 of $408,922,575, the projected maximum Annual Debt Service Requirement is covered approximately 10.44 times* by Pledged Revenues. See "DEBT SERVICE REQUIREMENTS ON BONDS SECURED BY A PLEDGE OF THE PLEDGED REVENUES."

| Fiscal Year Ending September 30 | Pledged Revenues | Coverage of Maximum Annual Debt Service |
|---|---|---|
| 2008 | 408,922,575 | 10.44 times |
| 2007 | 354,179,230 | 9.04 times |
| 2006 | 311,870,427 | 7.96 times |
| 2005 | 301,879,399 | 7.71 times |
| 2004 | 225,852,485 | 5.76 times |
| 2003 | 197,831,371 | 5.05 times |

### Maintenance of Pledged Revenues

In the Indenture, the Board will agree that, so long as the principal of or the interest on any of the Bonds remain unpaid or until payment thereof shall have been provided for, the Board will during each Fiscal Year levy and collect the General Fees against students enrolled at the University, Athletic Revenues, Dormitory Revenues, Parking and Related Revenues in such amounts as will, when added to gross income from other sources constituting Pledged Revenues, produce Pledged Revenues during such Fiscal Year not less than 200% of Maximum Annual Debt Service.

## INTEREST RATE SWAPS

The University currently has no interest rate swap agreements and no plans to enter into any interest rate swap agreements.

## SPECIAL CONSIDERATIONS

### Limited Source of Payment

The Series 2009 Bonds will be limited obligations of the Board, payable solely from, and secured by a pledge of, the Pledged Revenues. See "SECURITY AND SOURCE OF PAYMENT".

The Series 2009 Bonds will not be debts or obligations of the State of Alabama, and debt service on the Series 2009 Bonds will not be payable out of any money provided or appropriated to the Board by the State of Alabama. Holders of the Series 2009 Bonds shall never have the right to demand payment of the Series 2009 Bonds from the Board from any source other than the special funds established under the Indenture and the Pledged Revenues and shall be entitled to payment from such sources only on a parity basis with all other bonds outstanding under the Indenture.

The net proceeds of the Series 2009 Bonds will be deposited directly with the University to be applied to the costs of the Capital Improvements at the University and will not be held in a special fund under the Indenture or otherwise pledged to secure payment of the Series 2009 Bonds.

### Limitation on Remedies Upon Default

The Indenture does not constitute a mortgage on or security interest in any properties of the Board, and no foreclosure or sale proceedings with respect to any property of the Board may occur. The Board is exempt from all suits under the doctrine of sovereign immunity, but agents and employees of the Board may, by mandamus, be compelled to apply the Pledged Revenues to the payment of the Series 2009 Bonds in accordance with the terms of the Indenture.

The remedies available to the registered holders of the Series 2009 Bonds upon the occurrence of a default under the Indenture are in many respects dependant upon regulatory and judicial actions, which are often subject to discretion and delay. Under existing law, the remedies provided under the Indenture may not be readily available or may be limited, and no assurance can be given that a mandamus or other legal action to enforce payment under the Indenture would be successful. The various legal opinions to be delivered concurrently with the delivery of the Series 2009 Bonds will be qualified as to enforceability of the various legal instruments, limitations imposed by bankruptcy, reorganization, insolvency or similar laws affecting the rights of creditors generally and by judicial discretion applicable to equitable remedies and proceedings generally.

### State Proration

The State of Alabama appropriates money each year to the University for operating costs and nonoperating cash requirements, including capital expenditures. Because the State is mandated by its constitution to operate with a balanced budget, the State occasionally has reduced its appropriations, through a process known as "proration", when its annual revenues are not expected to meet its own budget. Proration of 9.0% was implemented in the 2009 fiscal year. Although proration will affect the University's budget, the Series 2009 Bonds are not payable from State appropriations. See "APPENDIX A – State Appropriations." On each occasion when proration was announced by the State, the University has responded by modifying amounts budgeted for contingency purposes, applying unrestricted fund balances carried over from previous years, deferring equipment purchases, reducing administrative expenses and leaving vacant positions unfilled.

### General Factors Affecting the Pledged Revenues

No representation can be made and no assurance can be given that receipts from the Pledged Revenues will be sufficient to make the required payment of debt service on the Series 2009 Bonds and pay necessary operating expenses. Such receipts are subject to a variety of factors that could adversely affect debt service coverage on the Series 2009 Bonds, including general economic conditions, population in the University's basic service area, the demand for higher education, and legislative and administrative requirements on the University's operations.

## RATINGS

Standard & Poor's Credit Markets Service ("S&P") and Moody's Investors Service ("Moody's") have assigned the respective ratings of "AA-"and "Aa3" to the Series 2009 Bonds. Any further explanation as to the significance of the above ratings may be obtained only from the appropriate rating agency. The above ratings are not recommendations to buy, sell or hold the Series 2009 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any or all of such ratings may have an adverse effect on the market price of the affected Series 2009 Bonds.

## TAX MATTERS

### General – Series 2009-A Bonds

The Board intends to file an election under Section 54AA(d)(1)(C) of the Internal Revenue Code of 1986, as amended (the "Code") to treat the Series 2009-A Bonds as "direct-pay" Build America Bonds. In the opinion of Bond Counsel, interest on the Series 2009-A Bonds is includible in the gross income of the registered owners thereof for federal income tax purposes.

### General – Series 2009-B Bonds

In the opinion of Bond Counsel interest on the Series 2009-B Bonds is includible in the gross income of the registered owners thereof for federal income tax purposes.

### State Tax Exemption

Bond Counsel is also of the opinion that, under existing law, interest on the Series 2009 Bonds will be exempt from State of Alabama income taxation.

## UNDERWRITING

The Series 2009 Bonds are to be purchased by Morgan Keegan & Company, Inc., BBVA Compass Bank, The Frazer Lanier Company, Incorporated, Gardnyr Michael Capital, Inc., Merchant Capital LLC., Protective Securities, Inc., Raymond James & Associates, Inc., Sterne Agee & Leach, Inc. and Synovus Securities, Inc. (collectively, the "Underwriters"), who have agreed to purchase the Series 2009 Bonds at an aggregate purchase price of $182,751,488.75. The purchase price reflects an underwriting discount of $733,511.25. The Underwriters intend to offer the Series 2009 Bonds to the public at the prices stated on the inside cover page hereof. The initial public offering prices set forth on the cover page may be changed by the Underwriters. The Underwriters may offer and sell the Series 2009 Bonds to certain dealers (including dealers depositing Series 2009 Bonds into investment trusts) and others at prices lower than the public offering prices set forth on the cover page.

## STATE NOT LIABLE ON SERIES 2009 BONDS

The Series 2009 Bonds are special obligations of the Board payable solely out of, and secured by a pledge of, the Pledged Revenues. Neither the principal of nor the interest on the Series 2009 Bonds nor the aforesaid pledge or any other agreement contained in the Indenture shall constitute an obligation of any nature whatsoever of the State of Alabama, and neither the Series 2009 Bonds nor any obligation arising from said pledge or agreements shall be payable out of any moneys appropriated to the Board or to the University by the State of Alabama.

## LITIGATION

### General

There is no suit, action, or proceeding of any nature, pending or threatened (1) to restrain or enjoin the issuance, sale, execution, or delivery of the Series 2009 Bonds, or (2) to contest the validity of the Series 2009 Bonds, or the proceedings of the Board taken with respect to the issuance or sale of the Series 2009 Bonds, the pledge or application of any moneys, revenues, or security provided for the payment of the Series 2009 Bonds, or the existence or powers of the Board.

The Board, with respect to the operations of the University, is a defendant in several suits filed by current and past employees claiming damages from actions arising out of the employee/employer relationship. In addition, the Board is named as a defendant in various other complaints, which request compensatory damages. However, in the opinion of the University's Counsel, the liabilities of the Board, if any, from ultimate disposition of these cases would not have a material effect on the financial statements of the University.

## LEGAL MATTERS

The legality and validity of the Series 2009 Bonds is being approved by Maynard, Cooper & Gale, P.C., Birmingham, Alabama, Bond Counsel, whose approving opinions with respect to the Series 2009 Bonds will be delivered with the Series 2009 Bonds. It is anticipated that the respective approving opinion of Bond Counsel will be in substantially the form attached hereto as Appendix D.

Bond Counsel has not been engaged and has not undertaken to review the accuracy, completeness or sufficiency of this Official Statement, except to the extent necessary for Bond Counsel to deliver its opinion that the portions of this Official Statement entitled "THE SERIES 2009 BONDS," "SECURITY AND SOURCE OF PAYMENT" and "APPENDIX C – Summary of the Indenture" fairly summarize the matters discussed therein.

The various legal opinions to be delivered concurrently with the delivery of the Series 2009 Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the authoring firm or attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or the future performance of the parties to the transaction, and the rendering of an opinion does not guarantee the outcome of any legal dispute that may arise out of the transaction.

## CONTINUING DISCLOSURE

### Board Undertaking

The Board has covenanted for the benefit of the holders of the Series 2009 Bonds to provide certain information repositories with (i) certain financial information and operating data relating to the Board on an annual basis (the "Annual Financial Information") within 180 days after the end of its fiscal year and (ii) notices ("Material Event Notices") of the occurrence of the following events, if it deems them to be material:

1. A delinquency in payment of principal of or interest on the Series 2009 Bonds.

2. Non-payment related defaults under the proceedings of the Board authorizing the Series 2009 Bonds, whether or not such defaults constitute an event of default thereunder.

3. Unscheduled draws on any debt service reserve fund reflecting financial difficulties of the Board.

4. Unscheduled draws on any credit enhancement or liquidity facility with respect to the Series 2009 Bonds reflecting financial difficulties of the Board.

5. Substitution of a credit enhancer for the one originally described in the Official Statement (if any), or the failure of any credit enhancer respecting the Series 2009 Bonds to perform its obligations under the agreement between the Board and such credit enhancer.

6. The existence of any adverse tax opinion with respect to the Series 2009 Bonds or events affecting the tax-exempt status of interest on the Series 2009 Bonds.

7. Any modification of the rights of the registered owners of the Series 2009 Bonds.

8. Redemption of any of the Series 2009 Bonds prior to the stated maturity or mandatory redemption date thereof.

9. Defeasance of the lien of any of the Series 2009 Bonds or the occurrence of circumstances which, pursuant to such authorizing proceedings, would cause the Series 2009 Bonds, or any of them, to be no longer regarded as outstanding thereunder.

10. The release, substitution or sale of the property securing repayment of the Series 2009 Bonds.

11. Any changes in published ratings affecting the Series 2009 Bonds.

In addition, the Board has covenanted to provide in a timely manner to each information repository and to the appropriate state information repository (if any), notice of the Board's failure to provide the Annual Financial Information on or before the date specified herein.

The Annual Financial Information will include financial information and operating data relating to the Board of the type found in Appendix A to this Official Statement called "ADMINISTRATION'S DISCUSSION OF OPERATIONS". In addition, the Board will provide to such repositories, when and if available, audited financial statements prepared in accordance with accounting principles described in the audited financial statements included in this Official Statement as an appendix.

The Annual Financial Information is required to be filed with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") as designated by the Securities and Exchange Commission and with any Alabama state information depository. Material Event Notices are required to be filed with each NRMSIR and any Alabama state information depository or the Municipal Securities Rulemaking Board and any Alabama state information repository. The Board will file its secondary market disclosures with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System ("EMMA").

The Board shall never be subject to money damages for its failure to comply with its obligations to provide the required information. The only remedy available to the holders of the Series 2009 Bonds for breach by the Board of its obligations to provide the required information shall be the remedy of specific performance or mandamus against appropriate officials of the Board. The failure by the Board to provide the required information shall not be an event of default with respect to the Series 2009 Bonds under the Indenture. A failure by the Board to comply with its obligations to provide the required information must be reported as described above and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Series 2009 Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Series 2009 Bonds and their market price.

No person other than the Board shall have any liability or responsibility for compliance by the Board with its obligations to provide information. The Trustee has not undertaken any responsibility with respect to any required reports, notices or disclosures.

The Board retains the right to modify its obligations described above as long as such modification is done in a manner consistent with Rule 15c2-12 of the Securities and Exchange Commission.

**Previous Compliance**

The Board has never failed to comply in all material respects with any previous undertakings with regard to the aforesaid Rule 15c2-12 to provide annual reports or notices of material events.

## INDEPENDENT ACCOUNTANTS

The financial statements of the University and its aggregate discretely presented component units as of September 30, 2008 and 2007 and for each of the years then ended, included in this Official Statement as APPENDIX B, have been audited by PricewaterhouseCoopers LLP, independent accountants, as stated in their report appearing herein.

## MISCELLANEOUS

The Board has duly authorized the execution and delivery of this Official Statement.

**THE BOARD OF TRUSTEES OF THE UNIVERSITY OF ALABAMA**

By: s/ Lynda Gilbert
Dr. Lynda Gilbert, Vice President for Financial Affairs and Treasurer of The University of Alabama

**APPENDIX A**
**General Description of The University of Alabama**

## THE BOARD

The University of Alabama System consists of three autonomous campuses at Tuscaloosa, Birmingham and Huntsville ("The University of Alabama System"), and is governed by a 17-member board known as "The Board of Trustees of The University of Alabama" (the "Board"). The Board is a public educational corporation and an instrumentality of the State of Alabama. Each campus is operated as a division by the Board. The Board includes the Governor of the State of Alabama as President *ex officio* of the Board and the State Superintendent of Education as an *ex officio* member of the Board. The other 15 members are elected by the incumbent members, and each of the congressional districts in the State is represented. The election of these 15 members is subject to confirmation or rejection by the Senate of the State of Alabama. In the event that the Senate confirms the election or chooses to take no action, each member will serve until the expiration of his term and until a successor is elected. With respect to members not yet considered by the Senate, members serve until the expiration of their term unless rejected and until the confirmation of a successor by the Senate.

Each campus has a separate President who reports to the Board through the Chancellor of The University of Alabama System. The Board determines policy and approves operating budgets, educational programs, facilities and capital financing for each campus, and sets the separate tuition and fee schedules applicable at each campus. Oversight responsibilities of the Alabama Commission on Higher Education ("ACHE") and annual requests for appropriations from the Alabama legislature are coordinated for each campus by the Chancellor with the approval of the Board.

The current members of the Board and the dates of expiration of their terms are as follows:

| Name of Trustees | Expiration of Term |
|---|---|
| Governor Bob Riley, President | ex officio |
| Joseph B. Morton, Interim State Superintendent Of Education | ex officio |
| Finis E. St. John, IV, President Pro Tempore | 2013 |
| Karen P. Brooks | 2009 |
| Paul W. Bryant, Jr. | 2010 |
| Angus R. Cooper, II | 2009 |
| Judge John H. England, Jr. | 2009 |
| Joseph E. Espy, III | 2013 |
| Ronald W. Gray | 2014 |
| Andria S. Hurst | 2013 |
| Vanessa Leonard | 2011 |
| John J. McMahon, Jr. | 2010 |
| Wallace Malone, III | 2010 |
| Joe H. Ritch | 2011 |
| William Sexton | 2010 |
| Marietta Murray Urquhart | 2012 |
| James W. Wilson III | 2010 |

The Board of Trustees has designated the following Trustees Emeriti:



**Chancellor of the University of Alabama System**

Malcolm Portera was named Chancellor of the University System effective January 1, 2002. The Chancellor is the chief executive officer of the University of Alabama System, reporting directly to the Board.

## THE UNIVERSITY OF ALABAMA

The University of Alabama is the State's oldest institution of higher education, and began instructing students in 1831. The University is a fully accredited institution of higher learning offering a wide variety of undergraduate, graduate and professional programs. The campus of the University is located in Tuscaloosa, Alabama.

**Student Enrollment**

During the five-year period from Fall 2004 to Fall 2008, the University experienced an increase in the academic quality of its enrolling freshmen along with a steady rise in enrollment. This increase in the academic qualifications of the University's freshmen can be marked by the Fall 2008 freshman average ACT score of 24.2, which is above the average for the state of Alabama. During the period from 2004-2008, the University also maintained its national standing in attracting National Merit, and National Achievement Finalists by enrolling a total of 110 in Fall 2008. The rise in total enrollment at the University from 20,969 in Fall 2004 to 27,052 in Fall 2008 occurred almost entirely at the undergraduate level.

Along with increasing the academic quality of its incoming students, the University's commitment to increase campus diversity remains a high priority. During the last several years, the University has continued to work to accomplish an increase in *total* African-American student enrollment. In Fall 2008, the University had a record number of 3,060 African-American students enrolled, up 7% from Fall 2007 and comprising 11.3% of the student body overall. African-American enrollment at all levels, undergraduate and graduate, as well as on-campus and off-campus remains strong.

In summary, enrollment in terms of quality, diversity and overall numbers continues to improve at the University. The table below shows the full-time and part-time student enrollment for the Fall Semester in the years 2004 through 2008:

| | 2008 | | 2007 | | 2006 | | 2005 | | 2004 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Full-time | Part-time | Full-time | Part-time | Full-time | Part-time | Full-time | Part-time | Full-time | Part-time |
| Arts & Sciences | 6,438 | 694 | 5,984 | 642 | 5,505 | 685 | 4,960 | 816 | 4,758 | 868 |
| Commerce & Business Administration | 5,107 | 386 | 4,920 | 318 | 4,528 | 287 | 4,000 | 256 | 3,720 | 222 |
| Communication & Information Sciences | 2,.059 | 75 | 1,982 | 83 | 1,882 | 101 | 1,732 | 69 | 1,593 | 78 |
| Continuing Education | 0 | 26 | 2 | 29 | 2 | 62 | 0 | 70 | 0 | 88 |
| Education | 1,571 | 65 | 1,357 | 58 | 1,173 | 67 | 1,082 | 70 | 993 | 55 |
| Engineering | 2,128 | 98 | 1,942 | 126 | 1,745 | 111 | 1,533 | 87 | 1,450 | 90 |
| Human Environmental Sciences | 1,914 | 292 | 1,846 | 311 | 1,809 | 230 | 1,539 | 205 | 1,405 | 176 |
| Nursing | 1,189 | 114 | 1,158 | 139 | 994 | 132 | 837 | 131 | 801 | 113 |
| Social Work | 177 | 10 | 170 | 15 | 144 | 13 | 148 | 13 | 126 | 17 |
| TOTAL UNDERGRADUATE | 20,583 | 1,760 | 19,361 | 1,721 | 17,782 | 1,688 | 15,831 | 1,717 | 14,846 | 1,707 |
| Community Health Sciences | 97 | 0 | 92 | 0 | 99 | 0 | 96 | 0 | 85 | 0 |
| Graduate | 2,356 | 1,310 | 2,241 | 1,201 | 1,859 | 1,490 | 2,114 | 1,157 | 1,942 | 1,375 |
| Law | 507 | 127 | 511 | 44 | 477 | 47 | 497 | 2 | 535 | 22 |
| TOTAL CAMPUS | 23,543 | 3,197 | 22,205 | 2,966 | 20,217 | 3,225 | 18,538 | 2,876 | 17,408 | 3,104 |
| TOTAL OFF CAMPUS | 42 | 270 | 40 | 369 | 72 | 364 | 42 | 379 | 51 | 406 |
| TOTAL ENROLLMENT | 27,052 | | 25,580 | | 23,878 | | 21,835 | | 20,969 | |

FULL TIME EQUIVALENT

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Total Undergraduate | 21,418 | 20,189 | 18,588 | 16,576 | 15,542 |
| Total Graduate | 3,021 | 2,859 | 2,655 | 2,697 | 2,692 |
| Total Advanced Professional | 664 | 622 | 596 | 594 | 630 |
| Total Campus | 25,103 | 23,670 | 21,839 | 19,867 | 18,864 |
| Total Off- Campus | 163 | 228 | 252 | 232 | 245 |
| Grand Total | 25,266 | 23,898 | 22,091 | 20,100 | 19,112 |

**Student Applications, Acceptances, and Degrees Conferred**

The following table indicates fall term applications, acceptances, and matriculations for full and part-time first-time freshman and transfer students at the University in each of the academic years indicated below:

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Applications | 21,611 | 17,920 | 16,121 | 13,372 | 11,597 |
| Acceptances | 13,178 | 11,115 | 10,870 | 9,475 | 8,888 |
| Matriculations | 6,453 | 5,921 | 5,864 | 5,180 | 4,728 |
| Acceptances/Applications | 61% | 62% | 67% | 71% | 77% |
| Matriculations/Acceptances | 49% | 53% | 54% | 55% | 53% |

The following table indicates application, acceptances and matriculations for full and part-time graduate students of the University in each of the academic years indicated below:

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Applications | 3,723 | 3,494 | 3,324 | 3,171 | 3,086 |
| Acceptances | 2,086 | 1,934 | 1,934 | 1,822 | 1,684 |
| Matriculations | 1,312 | 1,120 | 1,149 | 1,075 | 1,139 |
| Acceptances/Applications | 56% | 55% | 58% | 57% | 55% |
| Matriculations/Acceptances | 63% | 58% | 59% | 59% | 68% |

The following table presents the total number of degrees conferred by the University by category for the academic years indicated below:

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Bachelors | 3,398 | 3,131 | 2,815 | 2,931 | 3,024 |
| Masters | 1,237 | 1,183 | 1,151 | 1,283 | 1,072 |
| Post-Masters Certificates | 83 | 62 | 50 | 107 | 103 |
| First Professional Degrees | 191 | 152 | 172 | 183 | 172 |
| Doctorates | 154 | 160 | 181 | 154 | 158 |
| Total | 5,063 | 4,688 | 4,369 | 4,658 | 4,529 |

**Tuition and Fees**

The following tables present full-time undergraduate and graduate tuition and fees in-state and out-of-state and law school tuition in-state and out-of-state for the upcoming, current, and past five academic years:

Undergraduate and Graduate Tuition and Fees

| Year | Tuition and Fees Per Full-Time In-State Student | Percent Increase | Tuition and Fees Per Full-Time Out of State Student | Percent Increase |
|---|---|---|---|---|
| 2008-2009 | $6,400 | 12.3% | $18,000 | 9.0% |
| 2007-2008 | $5,700 | 8.0% | $16,518 | 8.0% |
| 2006-2007 | $5,278 | 8.5% | $15,294 | 13.2% |
| 2005-2006 | $4,864 | 5.0% | $13,516 | 6.7% |
| 2004-2005 | $4,630 | 12.0% | $12,664 | 12.1% |

Law School Tuition

| Year | Tuition Per Full-Time In-State Student | Percent Increase | Tuition Per Full-Time Out of State Student | Percent Increase |
|---|---|---|---|---|
| 2008-2009 | $12,564 | 12.3% | $24,158 | 9.0% |
| 2007-2008 | $11,190 | 14.9% | $22,170 | 11.4% |
| 2006-2007 | $ 9,736 | 12.4% | $19,902 | 10.4% |
| 2005-2006 | $ 8,660 | 6.5% | $18,028 | 7.3% |
| 2004-2005 | $ 8,130 | 12.1% | $16,802 | 12.1% |

**Comparison of Undergraduate Tuition and Fees and Room and Board**

In-state and out-of-state tuition and fees at the University of Alabama and other Southern University Group institutions from adjacent states for the 2008-2009 academic year are presented in the following two tables:

In-State Tuition and Fees Comparison

| Institution | In-State |
|---|---|
| Auburn University | $6,500 |
| **The University of Alabama** | **$6,400** |
| University of Tennessee | $6,250 |
| Georgia State University | $6,056 |
| Georgia Institute of Technology | $6,040 |
| University of Georgia | $6,030 |
| University of Alabama in Huntsville | $5,932 |
| University of Alabama in Birmingham | $5,756 |
| University of Mississippi | $5,352 |
| Mississippi State University | $5,151 |
| University of Southern Mississippi | $5,096 |
| Florida State University | $3,987 |
| University of Florida | $3,790 |

Out-of-State Tuition and Fees Comparison

| Institution | Out-of-State |
|---|---|
| Georgia Institute of Technology | $25,182 |
| University of Georgia | $22,342 |
| University of Florida | $21,400 |
| Georgia State University | $20,624 |
| University of Tennessee | $19,208 |
| Florida State University | $18,432 |
| Auburn University | $18,260 |
| **The University of Alabama** | **$18,000** |
| University of Alabama in Huntsville | $13,092 |
| University of Alabama in Birmingham | $12,866 |
| University of Southern Mississippi | $12,746 |
| University of Mississippi | $12,504 |
| Mississippi State University | $12,503 |

Room and Board rates at the University of Alabama and other Southern University Group institutions from adjoining states for the 2008-2009 Academic Year are as follows:

| Institution | Room and Board Rate |
|---|---|
| Georgia State University | $9,794 |
| Florida State University | $8,402 |
| University of Alabama in Birmingham | $7,820 |
| University of Mississippi | $7,778 |
| Georgia Institute of Technology* | $7,694 |
| University of Georgia | $7,528 |
| Mississippi State University | $7,333 |
| University of Florida | $7,160 |
| University of Tennessee | $6,676 |
| University of Alabama in Huntsville | $6,576 |
| **The University of Alabama** | **$6,430** |
| University of Southern Mississippi | $5,128 |
| Auburn University | $4,130 |

*New freshmen only. All other undergraduates: $9236

**Student Financial Aid**

Approximately 65% of the students at the University of Alabama receive financial aid. All programs assisted by federal and state governments are subject to appropriation by those units of government. The following table summarizes the financial aid provided to University of Alabama students by source:

**Fiscal Year Ended September 30**

| Type of Aid | | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| Federal Aid | | | | | | |
| | Direct Loans* | $104,832,026 | $ 81,616,613 | $ 88,248,311 | $ 72,986,098 | $ 71,203,444 |
| | Perkins | 1,931,540 | 2,465,880 | 3,283,378 | 2,449,999 | 2,667,421 |
| | Work Study* | 1,305,175 | 1,302,236 | 1,488,577 | 1,431,451 | 1,411,153 |
| | Pell* | 13,352,730 | $ 11,967,259 | $ 10,235,615 | $ 10,136,359 | $ 10,734,744 |
| | SEOG* | 816,235 | 743,980 | 850,733 | 833,320 | 858,118 |
| | Total | 122,237,706 | 98,095,968 | 104,106,614 | 87,837,227 | 86,874,880 |
| State Aid | | 717,416 | $ 95,845 | $ 76,003 | $ 46,752 | $ 29,350 |
| University Aid | | | | | | |
| | Loans | 126,447 | $ 169,423 | $ 71,860 | $ 156,237 | $ 74,594 |
| | Scholarships | 51,418,896 | 47,684,807 | 35,372,005 | 34,985,913 | 34,355,587 |
| | Total | 51,545,343 | $ 47,854,230 | $ 35,443,865 | $ 35,142,150 | $ 34,430,181 |
| Grand Total | | $174,500,465 | $146,046,043 | $139,626,482 | $123,026,129 | $121,334,411 |
| Number of Applicants | | 13,460 | 13,790 | 13,192 | 13,179 | 12,395 |
| Number of Awards | | 31,214 | 29,229 | 28,916 | 23,559 | 23,100 |

*Source: Schedule of Expenditures of Federal Awards (SEFA)

**Accreditations and Memberships**

The University of Alabama is accredited by and is a member of the Southern Association of Colleges and Schools. All degree programs in professional schools and colleges subject to recognized accrediting agencies are fully accredited by the appropriate national organization. The University is a member of the National Association of State Universities and Land-Grant Colleges.

**Academic Divisions**

The University offers more than 200 undergraduate and graduate programs, awarding specific degrees in 10 schools and colleges. **The College of Arts and Sciences** is the largest academic division of the University with over 400 full-time permanent faculty positions including 10 endowed chairs and professorships in 26 departments or programs. The College includes the privately endowed Blount Undergraduate Initiative, an undergraduate program designed to create a community of undergraduate liberal arts scholars at the University; and New College, an interdisciplinary, non-traditional program for undergraduates who desire to design their degree program from divisions throughout the University. The College of Arts and Sciences has principal responsibility for delivering the undergraduate general studies curriculum and accounts for over 50 percent of undergraduate semester credit hours on campus. Master's degree programs are offered in 21 departments and 13 departments offer doctoral programs. Research and service centers in the college include Brewer-Porch Children's Center, Center for Freshwater Studies, Center for Green Manufacturing, Institute for Social Science Research, Psychological Clinic and Speech and Hearing Clinic. The College generates approximately $17 million in annual research expenditures.

**The College of Commerce and Business Administration** has over 100 full-time permanent faculty positions with several endowed chairs and professorships in four academic departments including the Culverhouse School of Accountancy. These departments offer nine undergraduate programs and seven graduate degrees including the M.B.A. and the Ph.D. with graduate degrees offered through the Manderson Graduate School of Business. The College includes the Garner Center for Current Accounting Issues, Hess Institute for Retailing Development, Alabama Real Estate Research and Education Center, Enterprise Integration Laboratory and the Bruno-Bashinsky Library and Computer Center.

**The College of Communication and Information Science** is the State's only academic unit offering degrees in communication at the bachelor's, master's, and doctoral levels. With a full-time faculty and professional staff of approximately 100, the four departments of the College offer programs leading to undergraduate and master's degrees while the Ph.D. degree is offered by the College. The College also includes the School of Library and Information Studies that offers graduate degrees including the Ph.D. in library and information studies and the M.F.A. degree in book arts, has an endowed chair and is involved in interdisciplinary research. The Center for Public Television and Radio, the Institute for Communication Research, and the Institute for Book Arts are important research and service units of the College. The University also owns WVUA-7, a commercial television station which is housed in the College and offers a variety of learning opportunities to its students.

**The University of Alabama School of Medicine - Tuscaloosa Campus/The College of Community Health Sciences** is committed to educating and training 3rd and 4th year medical students and family practice residents to provide compassionate, high quality health care to its patients. In addition, the College is engaged in research and in administering programs aimed at increasing the number of rural students who prepare for health and medical careers in Rural Alabama in support of the educational and services components of its mission: overall improving health care in Alabama. With a faculty of over 45 and a clinical staff of over 100, the College also operates two clinical institutions. The University Medical Center is a multidisciplinary ambulatory care facility with seven primary care specialties for patient care and training. In addition, the Student Health Center provides excellent care for a growing student population and leadership for a number of University-wide health initiatives, including the nationally-recognized award-winning AlcoholEdu program. The College also operates the University's Faculty/Staff Clinic and the University's Employee Wellness Program. It also houses the Rural Health Institute for Clinical and Translational Science, and the Center for the Study of Tobacco and Society research unit.

**The College of Education** has approximately 80 full-time, tenure-earning faculty housed in six departments. The College (a) offers undergraduate, master's, educational specialist, and doctoral programs which prepare educators to be effective decision makers who facilitate student learning and (b) recruits high quality candidates and encourages them to be self-directed life-long learners; provides comprehensive instructional programs; and fosters educational research and service. The College operates four centers and a variety of outreach services, coordinated through the Office of Research and Services, which provide professional development opportunities for in-service educators and other professionals in the state and beyond.

**The College of Engineering** has approximately 100 full-time permanent faculty positions with several endowed chairs and professorships in eight departments. These departments offer undergraduate degrees in eight fields, master's degrees in nine fields, and doctoral degrees in seven fields, with programs in computer science included at each degree level. The College operates a research bureau and several centers, institutes, and laboratories. The College expends over $16 million annually in external funding.

**The College of Human Environmental Sciences** has over 40 full-time faculty positions in five departments. These departments offer 10 major programs at the undergraduate level, a comprehensive degree program with several options at the master's level, and a doctoral program in Health Education. The College operates University Child Care Services including the Infant Laboratory and Child Development Center and the RISE program for disabled infants and preschool children.

**The Capstone College of Nursing** offers bachelor's and master's degrees in nursing with over 1200 undergraduate and 50 graduate students. In Fall 2008, the College will begin offering the new Doctor of Nursing Practice (DNP) degree. With its focus on health care for rural populations, the College also operates a federally qualified health center (FQHC) in Parrish, Alabama. The tremendous growth of the College (190% since 2000) has necessitated a new building for the College, and construction will begin in 2009.

**The School of Law** is the only State-assisted law school in Alabama. It includes approximately 40 full-time permanent faculty positions, several endowed chairs and professorships, and offers the juris doctor degree as well as master's degrees in comparative law and in taxation. The School operates several law-related research and service offices, including the Alabama Law Institute.

**The School of Social Work** is the only school in Alabama offering degrees in social work at the bachelor's, master's, and doctoral levels. With approximately 25 full-time faculty positions, the School offers advanced preparation for social workers throughout the state and conducts research on topics related to the delivery of social services.

**The Honors College** was established in 2003 to house the three University-wide honors programs: the University Honors Program, the Computer-Based Honors Program, and the International Honors Program. The College is committed to assisting students to achieve their potential and be recognized and rewarded for that achievement. The College also includes the University Fellows Experience, a program that prepares approximately 40 of the most able and dedicated students for remarkable lives of leadership in and service to their community, state, nation, and world.

**The College of Continuing Studies** offers short-term conferences, workshops, and seminars for business, industry, government and the professions as well as courses for academic credit from the foregoing degree-granting colleges and schools. The Paul W. Bryant Conference Center is operated by the College.

**University Libraries** include Amelia Gayle Gorgas Library (humanities and social sciences), Angelo Bruno Business Library, McLure Education Library, Eric and Sarah Rodgers Library for Science and Engineering, W.S. Hoole Special Collections Library, Map Library, Health Sciences Library, and Bounds Law Library. Also, librarians manage reading rooms for Social Work and the College of Communication and Information Sciences. The libraries include almost 337,000 square feet of space. The staff of over 190 maintains a collection of 2.8 million cataloged volumes, over 1.8 million government documents, over 3 million microfilm, over 40,000 print and electronic subscriptions, and over 32,000 linear feet of manuscript and archival collections. The University of Alabama is a member of the Association of Research Libraries, Coalition for Networked Information, Association of Southeastern Research Libraries, and the Network of Alabama Academic Libraries and is a regional depository for federal documents.

In addition to these academic divisions, the University includes a number of interdisciplinary research and service organizations. The Center for Materials for Information Technology is an interdisciplinary research program with faculty from several colleges. The thrust of this research effort includes basic and applied research on materials which can be used for information storage media and recording heads, as well as research on the storage and retrieval of very large data bases.

**The Alabama Institute for Manufacturing Excellence (AIME)**, in partnership with industry, state government and federal research agencies, provides research, technology development, technology assistance and technology transfer to facilitate value added innovation and foster entrepreneurship leading to commercialization of intellectual property. AIME is comprised of a variety of technology research and development and deployment centers addressing crucial manufacturing thrusts including: information technology; operations research and analysis; product, process and equipment design; environmentally conscious manufacturing; product and materials processing; and information dissemination and training.

**The Center for Business and Economic Research** serves as the state's central reservoir for business, economic and demographic data. The Center responds to requests for information, develops an annual econometric model, originates independent research projects and disseminates information through periodic publications.

**The Alabama International Trade Center** assists firms and public agencies in locating and arranging for international business agreements and projects.

**The Alabama Productivity Center** is involved in technology transfer to improve the productivity of manufacturing and service firms throughout Alabama. The Center undertakes basic research in productivity analysis and improvement employing state-of-the-art technology.

**The University of Alabama Administration**

**Dr. Robert E. Witt** was appointed President of The University of Alabama on March 1, 2003. Prior to his appointment at The University of Alabama, he served as President of The University of Texas at Arlington and Dean of the College and Graduate School of Business at The University of Texas at Austin where he held the Centennial Chair in Business Education Leadership.

President Witt received his B. A. in Economics from Bates College, his MBA from Tuck School at Dartmouth College, and his Ph.D. from Penn State. He serves on the Board of Directors of the Black Warrior Council Boy Scouts of America, the Tuscaloosa County Industrial Development Authority, and is Chairman of the Board of the West Alabama Chamber of Commerce. He was recently appointed by President George W. Bush to serve on the President's Council of Advisors on Science and Technology.

**Dr. Judy Bonner** was promoted to Executive Vice President and Provost on April 1, 2006 after serving as Provost and Vice President for Academic Affairs since March, 2003. Dr. Bonner holds two degrees from The University of Alabama – the B.S. in Nutrition and the M.S. in Food and Nutrition, and the Ph.D. in Human Nutrition from The Ohio State University.

She served as Dean of the College of Human Environmental Studies at The University of Alabama since 1989 and, prior to that, Special Assistant to the President, Assistant Academic Vice President, and Head of the Department of Human Nutrition and Hospitality Management. She has held faculty positions at The University of Alabama in Birmingham and The Ohio State University. Dr. Bonner is an active member of civic, scientific and professional organizations and is the author of numerous books and articles.

**Dr. Joe Benson,** Vice President for Research and Vice Provost, was appointed on February 13, 2009. Dr. Benson received his B.A. degree in Geology from the College of Wooster in 1968. He subsequently received his M.S. degree in 1971 and his Ph.D. degree in 1976, both from the University of Cincinnati. From 1973 through 1978 Dr. Benson was a Research Geologist for the Lake Erie Section of the Ohio Geological Survey in Sandusky, Ohio. In 1978 he joined The University of Alabama as Assistant Professor of Geological Sciences and was subsequently promoted to Associate and then Professor. From 1990 to 1998 he served as Chair of the Department of Geological Sciences. In 1998 he became Assistant Dean for Natural Sciences and Mathematics in the College of Arts and Sciences and in 2001 was named Senior Associate Dean for the College.

Dr. Benson has published over 60 articles in the fields of sedimentary petrology, sedimentology, and stratigraphy. He has received over $3M in external grant funding and has supervised the theses or dissertations of 23 graduate students. He received The University of Alabama's Outstanding Commitment to Teaching Award in 1987, the Gulf Coast Association of Geological Societies Outstanding Educator Award in 2004, and was co-recipient of the A.I. Levorsen Memorial Award (Best Petroleum Geology Presentation) and Best Paper Awards at the 1981 meeting of the Gulf Coast Association of Geological Societies.

**Dr. Lynda Gilbert**, Vice President for Financial Affairs and Treasurer joined the University in this position on August 1, 2005. Dr. Gilbert continued to serve in an interim capacity as Vice Chancellor for Financial Affairs for The University of Alabama System as a search was conducted for her replacement through August, 2006. She joined the University System on November 17, 2003 as Vice Chancellor for Financial Affairs. Prior to joining The University of Alabama System, Dr. Gilbert was Vice President for Fiscal Affairs at Texas Tech University. Previously, Dr. Gilbert held similar positions with the University of Southern Mississippi and the University of Arkansas, Division of Agriculture. She spent sixteen years on the financial affairs staff at Texas A&M University.

Dr. Gilbert received her bachelor's degree from Texas A&M in 1975 and later earned a master's degree in accounting there in 1983. Her Ph.D. in Higher Education Administration with an emphasis on higher education finance was earned at Texas A&M University in 1998. She is a Certified Public Accountant and is a Certified Government Financial Manager.

**Dr. Mark Nelson** serves as Vice President for Student Affairs and Vice Provost. He was appointed on November 1, 2008. Dr. Nelson joined the University in 1991 as a faculty member in the Communication Studies Department. He served as Associate Dean for the College of Communication & Information Sciences from 1996-2006 and Assistant Provost for Academic Affairs from 2006-2008.

Dr. Nelson provides consulting services for numerous organizations and governmental agencies throughout the Southeast. His training repertoire includes such topics as Public Speaking, Listening, Interpersonal and Group Dynamics, Leadership Development and Team building. His research interests include leadership, interpersonal communication competence, communication education and diversity. He is the co-author of two books and has authored numerous papers for presentation at the National Communication Association. Dr. Nelson has received numerous awards including The University of Alabama Outstanding Commitment to Teaching Award, The Knox

Hagood Outstanding Faculty Member in Communication, The John Blackburn Outstanding University Advisor Award and the DSR-TKA Outstanding Alumnus Award.

**Dr. Pam Parker,** Vice President for University Advancement has served in her current position since October 4, 2007. In her role, Dr. Parker oversees many key areas of the University, including public relations, marketing, and communications; all fundraising; gift recording and receipting; the University's database; and the Alumni Association. Dr. Parker earned her bachelor's, master's, and doctoral degrees from the University.

She joined the University in 1986 as the director of events and scholarships for the National Alumni Association, and she served in a variety of development positions, including major gift officer for the College of Education and director of development for the College of Arts and Sciences. Before her promotion to Vice President, Dr. Parker also served as Associate Vice President for Development.

**Dr. Samory Pruitt** became Vice President for Community Affairs on August 1, 2004. In his post, he is responsible for developing and managing the University's public outreach programs and providing campus leadership in enhancing the quality of life within the campus community by addressing such issues as inclusiveness, cultural competency, and equal opportunity. The motto of his division is "*Engaging Communities and Changing Lives.*" Dr. Pruitt has worked for The University of Alabama since 1986 in increasingly responsible positions in management and administration in the divisions of Financial Affairs, University Advancement, and the President's Office.

He received his B.A. in mathematics, his M.A. in public administration, and his Ph.D. in higher education administration from The University of Alabama. He is actively involved in the West Alabama area where he serves on the Board of Directors for Youth Emergency Services, The First Tee, the Black Belt Community Foundation, and the Tuscaloosa Public Library. Pruitt is a member of the Tuscaloosa International Rotary Club, Omega Psi Phi Fraternity, Inc. and is a 1995 graduate of Leadership Tuscaloosa. In 2001, he helped to create the Ozzie Newsome Bridge Builder Celebrity golf tournament to raise funds for local youth programs and scholarships. Pruitt was recently appointed by the Governor of Alabama to serve as Education chair for the West Alabama Regional Action Commission which covers six Alabama counties.

## ADMINISTRATION'S DISCUSSION OF OPERATIONS

### Budgetary Process

The Board, prior to the October 1 beginning of each fiscal year, adopts the ensuing year's budget for the University as well as for the other campuses in the University System. Annual University budgets are based upon detailed budget requests submitted by each department and administrative unit of the University. These budget requests are in turn based upon budgetary guidelines formulated by the Office of the Chancellor. Revenue estimates, consisting principally of State appropriations, student tuition and ancillary revenues, are based upon projections made by the financial staff at the University. Each year, the President of the University submits a University budget to the Chancellor of the System, who in turn presents the budget to the Finance Committee of the Board for its review. The Finance Committee normally recommends adoption of a final University budget by the entire Board at its September meeting.

### Financial Operations

The financial statements of the University have been prepared in accordance with accounting principles, generally accepted in the United States of America, as prescribed by the Government Accounting Standards Board ("GASB"), including all applicable effective statements of the GASB and all statements of the Financial Accounting Standards Board through November 30, 1989, 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.

GASB Statement No. 35 establishes standards for external funding financial reporting for all public colleges and universities and requires that resources by classified for accounting and reporting purposes.

Into the following three net asset categories: according to external donor restrictions or availability of assets for:

- **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 the use of which by the University are 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 or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for academic, research and capital programs.

A summary of the University's net assets at September 30, for each year indicated below are as follows:

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Current assets: | | | | | |
| Cash and cash equivalents | $ 1,460,303 | $ 11,718,163 | $ 35,800,558 | $ 24,532,728 | $ 38,265,963 |
| Short term investments | 145,569,481 | 87,312,111 | 74,626,817 | 55,051,396 | 63,733,667 |
| Accounts receivable, net | 135,311,028 | 135,287,669 | 54,597,972 | 40,288,600 | 33,983,238 |
| Other | 40,176,187 | 37,316,053 | 36,411,856 | 29,000,057 | 30,834,479 |
| Noncurrent assets: | | | | | |
| Endowment, Life income and other investments | 719,503,093 | 821,804,269 | 708,691,882 | 711,256,413 | 689,803,026 |
| Capital assets, net | 835,790,255 | 777,148,748 | 732,525,105 | 603,685,661 | 498,598,334 |
| Other | 54,967,402 | 64,529,464 | 67,970,413 | 60,695,707 | 50,351,017 |
| Total assets | 1,932,777,749 | 1,935,116,477 | 1,710,624,603 | 1,524,510,562 | 1,405,569,724 |
| Current liabilities: | 214,265,532 | 171,681,873 | 163,942,468 | 138,568,818 | 136,128,004 |
| Noncurrent liabilities | 378,004,547 | 383,512,591 | 388,316,092 | 329,938,332 | 331,159,010 |
| Total liabilities | 592,270,079 | 555,194,464 | 552,258,560 | 468,507,150 | 467,287,014 |
| Net assets: | | | | | |
| Invested in capital assets, net of related debt | 478,161,759 | 418,421,868 | 408,136,653 | 382,682,636 | 350,877,390 |
| Restricted | 575,335,152 | 651,427,112 | 504,988,230 | 460,482,380 | 415,850,284 |
| Unrestricted | 287,010,759 | 310,073,033 | 245,241,160 | 212,838,396 | 171,555,036 |
| Total net assets | $ 1,340,507,670 | $1,379,922,013 | $1,158,366,043 | $1,056,003,412 | $938,282,710 |

**Endowment and Similar Funds**

Endowment and Similar Funds are subdivided into appropriate classifications. Pure endowment funds are those received from benefactors who, by the terms of their conveying instruments, have stipulated that the principal of their gift may never be expended. Funds identified as quasi endowment are funds which the Board, rather than the donor, has determined are to be retained and invested until the Board, at its discretion, authorizes their expenditure. The income of such funds may be either restricted or unrestricted as to use. Income derived from investments of Endowment and Similar Funds is normally accounted for in the fund to which it is restricted or, if unrestricted, as revenue in Unrestricted Current Funds.

The investments of certain Endowment and Similar Funds are invested and administered in a common investment pool established by the Board for all three campuses.

During 2008, the University elected to change its method of valuing land and other real estate held as investments by endowments to market value, whereas in all prior years such investments were carried at cost. The new method of accounting for land and other real estate held as investments by endowments was applied, effective October 1, 2006, pursuant to GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments* and comparative financial statements for 2007 have been adjusted to apply the new method retrospectively.

The market values of the investments for the Endowment and Similar Funds of the University as of September 30, for each of the following fiscal years is shown below:

| Year | Market Value |
|---|---|
| 2008 | $523,042,615 |
| 2007 | $589,042,662 |
| 2006 | $454,057,013 |
| 2005 | $413,831,421 |
| 2004 | $358,823,732 |

**Capital Campaign**

On April 8, 2006, The University announced a $500 million capital campaign that focuses on student scholarships, faculty support, campus facilities and priority needs. At its conclusion, the “Our Students, Our Future,” campaign raised $612 million.

More than half of the campaign funds raised will go to scholarships and $175 million of that will be endowed to commemorate the University’s 175th anniversary. To date, the University has received 129 gifts of $1 million or more. The campaign has received gifts from 102,274 donors. Faculty and staff have given or pledged more than $11 million. The University’s last capital campaign concluded in 1998, raising $224 million.

**Foundations**

The Capstone Foundation is a nonprofit corporation organized exclusively for educational, scientific, and charitable purposes and specifically to assist and aid The University of Alabama in fulfilling and performing its educational, training and research programs. The Foundation is an agency formed separate from the University and is not part of The University of Alabama System.

The Crimson Tide Foundation is a nonprofit corporation existing to promote and support The University of Alabama intercollegiate athletics program. The Foundation commenced operations on October 1, 2004. The Foundation is a blended component unit of the University. See "SECURITY AND SOURCE OF PAYMENT - Source of Payment - Crimson Tide Foundation and Athletic Revenues" herein.

The National Alumni Association is a nonprofit corporation existing to promote and encourage the interest in The University of Alabama. The Association is an agency formed separate from the University and is not part of The University of Alabama System.

The University of Alabama Law School Foundation is a nonprofit corporation existing to promote the study and teaching of law at, or under the auspices of, The University of Alabama School of Law. The Foundation is an agency formed separate from the University and is not part of The University of Alabama System.

The 1831 Foundation is a nonprofit corporation formed in June 2006 to engage in matters pertaining to real property for the benefit of The University of Alabama, including property acquisitions and ownership of residence halls. The Foundation is an agency formed separate from the University and is not part of The University of Alabama System. See "SECURITY AND SOURCE OF PAYMENT - Source of Payment - The 1831 Foundation and Student Housing Revenues" herein.

**Insurance Coverage**

Alabama law requires that all State departments and agencies maintain fire and extended coverage insurance with the State Insurance Fund to the extent of at least 75% of the actual value on all buildings and contents. The University reports 100% values on its facilities to the State Insurance Fund. Insurable values are reviewed and updated annually. Boiler & Machinery insurance is also provided through the State Insurance Fund’s agreement with Travelers.

The University is a participant in the UAB Professional Liability Trust Fund (“PLTF”), which provides protection against claims and expenses arising out of the performance of professional services in the rendering of patient care.

Funding in the Trust is based on actuarial computation. In addition to the exposure assumed by the PLTF, the University System maintains an extensive excess insurance liability insurance program for any claim(s) that may exceed the obligations of the PLTF.

The University is also a participant in the Comprehensive General Liability Trust Fund (“CGLTF”), which is administered by the University System. This Trust Fund provides protection against general liability, employment practices, management liability and educators legal liability claims. Funding in the Trust is based on actuarial computation. In addition to the exposure assumed by the CGLTF, the University System maintains an extensive excess insurance liability insurance program for any claim(s) that may exceed the obligations of the CGLTF.

Comprehensive automobile liability, fidelity, and other policies are maintained with various insurance companies qualified under Alabama law to assume respective risks undertaken.

**Retirement Plans**

Most employees participate in the Teachers’ Retirement System of Alabama, a multi-employer defined benefit plan. Payments under this plan are funded as they accrue. The portion of the actuarial present value of accumulated plan benefits and the net assets available for benefits under the Teachers’ Retirement Systems of Alabama pertaining solely to the University are not determinable. The University’s contribution requirements under this plan were approximately $27.9 million in 2008 and $20.2 million in 2007. The employee’s contributed share for the same period were $11.9 million and $10.8 million, respectively. The University also has an optional defined contribution pension plan covering all academic and certain administrative employees. Pension contributions under this plan are funded as they accrue. The University’s pension costs under this plan were approximately $13.4 million in 2008 and $12.1 million in 2007 which were matched by employee contributions. See "APPENDIX B - Notes to Financial Statements", Notes 9 through 17.

The University has completed an actuarial study of its reportable liability for other post-retirement benefits in accordance with GASB 45 and has initiated funding of that liability. The University expects to fund future liabilities for other post-retirement benefits on a current basis. See "APPENDIX B - Notes to Financial Statements", Note 17.

**Physical Plant**

The University owns all of its campus property. The principal physical facilities of the University include 7,360,326 net assignable square feet of building space located in approximately 285 campus and off-campus buildings.

The following table sets forth the book value of various assets of the University in each of the Fiscal Years indicated:

| | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| Land | $ 12,875,689 | $ 10,851,689 | $ 9,216,339 | $ 9,216,339 | $ 9,089,098 |
| Land Improvements | 29,716,131 | 21,484,226 | 13,616,354 | 13,616,354 | 13,607,930 |
| Infrastructure | 29,089,575 | 25,237,076 | 23,921,462 | 23,719,270 | 22,814,383 |
| Buildings and fixed equipment | 949,479,188 | 880,666,715 | 829,018,483 | 675,438,635 | 570,201,872 |
| Equipment | 105,250,175 | 107,070,734 | 107,977,115 | 154,905,469 | 142,504,807 |
| Library Materials & Collections | 104,416,436 | 103,248,560 | 99,775,379 | 89,618,377 | 83,416,359 |
| Total Cost of Capital Assets | 1,230,827,194 | 1,148,559,000 | 1,083,525,132 | 966,514,444 | 841,634,449 |
| Less accumulated depreciation | (395,036,939) | (371,410,252) | (351,000,027) | (362,828,783) | (339,591,881) |
| Capital Assets, net | 835,790,255 | 777,148,748 | 732,525,105 | 603,685,661 | 502,042,568 |

**Deferred Maintenance**

The University continually monitors, plans, and updates the status of required upgrades, repairs, and renovations needed to the facilities on campus. The work encompasses many diverse items such as replacing heating and air systems, roofs and windows, and upgrading electrical, plumbing and life safety systems. This work is addressed through several different programs and planned out a minimum of five years in advance as mandated by the Board of Trustees. When possible, the work is executed through a general renovation project; otherwise a standalone project is planned to address a specific issue. Currently the University budgets $6 Million per year to address these projects specifically not included in a Capital Project.

**State Appropriations**

Historically, the University has received appropriations from the State to defray a portion of the costs of operations and for non-operating cash requirements, including capital expenditures. Funds are appropriated primarily on an unrestricted basis to the University.

The Governor submits an appropriations request for the University in the annual State budget. The State appropriations request for the University is formulated by the Governor after receiving an appropriations request from the Board and appropriations recommendations by the Alabama Commission on Higher Education ("ACHE"). ACHE evaluates and coordinates appropriations requests for the State's public institutions of higher education. After open hearings are held on the separate budgets, ACHE presents to each institution, as well as the Governor and the Legislature, a single unified budget containing budget recommendations for separate appropriations to each of the institutions. The recommendations of ACHE are derived from its assessment of the actual funding needs of each of the universities as presented to it by each university's president.

Pursuant to the provisions of Section 213 of the Constitution of the State of Alabama as amended by Amendment 26, the State is required to have a balanced budget. This requirement is implemented by means of the 1932 Budget and Financial Control Act, which mandates a reduction of appropriations pro rata ("proration") when necessary during a fiscal year to prevent a deficit. Proration generally occurs as a result of the difficulties inherent in projecting tax receipts several months in advance of the commencement of a fiscal year. However, a constitutional proration fund (the Educational Trust Fund Rainy Day account) has been established within the Alabama Trust Fund (a permanent, irrevocable trust funded by oil and gas royalties and lease payments) to be used if the appropriations from the Education Trust Fund (which funds K-12 and postsecondary education in Alabama) are prorated. The amount withdrawn from the Rainy Day Fund in a fiscal year may not exceed 6.5% of the previous year's fiscal year's ETF appropriations that would be funded by the Alabama Trust Fund. The Education Trust Fund would have to repay the amounts used from this constitutional fund within six years.

In the past, when proration was announced by the State, the University responded by modifying amounts budgeted for contingency purposes, applying unrestricted fund balances carried over from previous years, deferring equipment purchases, reducing operational expenses, not filling vacant positions and increasing tuition. The University will adjust for future prorations, if any, by taking similar actions.

State appropriations for the fiscal years listed below are indicated in the following table:

| State Fiscal Year | Appropriations |
|---|---|
| 2008 | $199,417,373 |
| 2007 | $171,299,493 |
| 2006 | $145,930,652 |
| 2005 | $126,910,824 |
| 2004 | $123,076,215 |

The 2009 budget bill was passed and signed by the Governor in June 2008. The University was appropriated $175,866,813 in this bill. However, on December 15, 2008, the Governor declared that the tax revenue was not sufficient to fund the appropriations for the 2009 budget year and authorized proration of the education budget. Proration was called at 12.5% and adjusted to 9.0% by using the Rainy Day Fund. In July 2009, an additional proration of two percent was declared, which further reduced the University's 2009 appropriation to $156,521,464. The 2010 Budget Bill appropriated $153,083,807 to the University. This budget will begin the new fiscal year in proration of 7.5%. In addition to this prorated appropriation, federal stimulus funds of $14,699,372 have been allocated to the University for 2010. There can be no assurance of future State appropriations. The University expects to be able to absorb this loss of State funds, without material reduction of its budget, through a combination of increased tuition, any increased enrollment and internal reserves, as described above. State Appropriations are not, and cannot lawfully be, pledged under the Indenture as part of the Pledged Revenues and are not a source of payment for the Series 2009 Bonds.

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# APPENDIX B

## Financial Statements of the University for the Fiscal Year Ended September 30, 2008

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# THE UNIVERSITY OF ALABAMA

# FINANCIAL REPORT
## 2007-2008

# *The University of Alabama*


# 2007-2008 Financial Report

*Table of Contents*

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers LLP**
1901 6th Ave. North
Suite 1600
Birmingham AL 35203
Telephone (205) 252 8400
Facsimile (205) 252 7776

**Report of Independent Auditors**

To the Board of Trustees of The University of Alabama:

In our opinion, the financial statements listed in the accompanying table of contents on page 1, which collectively comprise the financial statements of The University of Alabama (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 aggregate discretely presented component units at September 30, 2008 and 2007, and the respective changes in financial position of the University and its aggregate discretely presented component units, 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 an opinion 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 financial position of The University of Alabama System as of September 30, 2008 and 2007 and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the year ended September 30, 2008 the University changed the manner in which it accounts for land and other real estate held as investments by endowments.

The management’s discussion and analysis on pages 3 through 13 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.

Our audit was conducted for the purpose of forming an opinion on the University's financial statements. The enrollment and financial ratio information on pages 14 through 17 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

PricewaterhouseCoopers LLP

January 12, 2009

# The University of Alabama
# Management's Discussion and Analysis (Unaudited)

This section of The University of Alabama's (the "University") annual financial report presents a discussion and analysis of the financial performance of the University during the fiscal years ended September 30, 2008 and 2007. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes and this discussion are the responsibility of management.

## The University of Alabama

The University, the State of Alabama's (the "State") oldest institution of higher education, is the senior comprehensive doctoral-level institution in Alabama and began instructing students in 1831. Established by constitutional provision, with subsequent statutory mandates and authorizations, the University advances the intellectual and social condition of all the people of the State through quality programs of research, instruction and service. The University bases its activities on a broad range of research programs, many of which are recognized for their contributions to the economic, technological and cultural growth of the State and region. The University is a fully accredited institution of higher learning offering a wide variety of undergraduate, graduate and professional programs. The University is located in Tuscaloosa, Alabama.

The University is accredited by and is a member of the Southern Association of Colleges and Schools. All degree programs in professional schools and colleges subject to recognized accrediting agencies are fully accredited by the appropriate national organization. The University is a member of the National Association of State Universities and Land-Grant Colleges.

The University is governed by The Board of Trustees of The University of Alabama (the "Board"), a body corporate under Alabama Law. The Board also governs The University of Alabama at Birmingham and The University of Alabama in Huntsville, which along with the University make up The University of Alabama System (the "System"). The Board determines policy, and approves operating budgets, educational programs, facilities and capital financings for each campus, and sets the separate tuition and fee schedules applicable at each campus. Oversight responsibilities of the Alabama Commission on Higher Education ("ACHE") and annual requests for appropriations from the Alabama legislature are coordinated for each campus by the Chancellor of the System with the approval of the Board.

## Overview of Financial Statements

The University's financial statements present the financial condition, the results of operations and cash flows of the University and its discretely presented component units through five primary financial statements and notes to the financial statements. Three of the primary statements, the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows, present the financial position, changes in financial position and cash flows of the University. The financial statements of certain affiliated foundations are presented discretely from the University. The notes to the financial statements provide additional information that is essential to a full understanding of the financial statements. A summary of new accounting standards and their anticipated effects conclude the footnotes with brief summations of Governmental Accounting Standards Board ("GASB") Statements 45, 48, 49, 50, 51 and 52.

## Statement of Net Assets

The statement of net assets presents the financial position of the University at the end of the fiscal year. This statement reflects the various assets, liabilities and net assets of the University as of the fiscal years ended September 30, 2008 and 2007.

From the data presented, readers of the statement of net assets have the information to determine the assets available to continue the operations of the University. They may also determine how much the University owes vendors, investors and lending institutions. Finally, the statement of net assets outlines the net assets (assets minus liabilities) available to the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the University's equity in property, plant and equipment owned by the University. The second category is restricted net assets, which is divided into two categories, non-expendable and expendable. The corpus of non-expendable 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 time or purpose restrictions on the use of the assets. The last category, unrestricted net assets, discloses the net assets available to the University for any lawful purpose of the University.

At September 30, 2008, the University's assets exceeded $1.9 billion, liabilities were $592.3 million leaving net assets that exceed $1.3 billion, an overall decrease in net assets of $39.4 million from 2007. A summary of the University's assets, liabilities and net assets follows:

## Condensed Statements of Net Assets

| | September 30, 2008 | September 30, 2007 As Adjusted (Note 1) | September 30, 2006 |
|---|---|---|---|
| Current assets | | | |
| Cash and cash equivalents | $ 1,460,303 | $ 11,718,163 | $ 35,800,558 |
| Short-term investments | 145,569,481 | 87,312,111 | 74,626,817 |
| Accounts and notes receivable, net | 135,311,028 | 135,287,669 | 54,597,972 |
| Other | 40,176,187 | 37,316,053 | 36,411,856 |
| Noncurrent assets | | | |
| Endowment, life income and other investments | 719,503,093 | 821,804,269 | 708,691,882 |
| Capital assets, net | 835,790,255 | 777,148,748 | 732,525,105 |
| Other | 54,967,402 | 64,529,464 | 67,970,413 |
| Total assets | 1,932,777,749 | 1,935,116,477 | 1,710,624,603 |
| Current liabilities | 214,265,532 | 171,681,873 | 163,942,468 |
| Noncurrent liabilities | 378,004,547 | 383,512,591 | 388,316,092 |
| Total liabilities | 592,270,079 | 555,194,464 | 552,258,560 |
| Net assets | | | |
| Invested in capital assets, net of related debt | 478,161,759 | 418,421,868 | 408,136,653 |
| Restricted | 575,335,152 | 651,427,112 | 504,988,230 |
| Unrestricted | 287,010,759 | 310,073,033 | 245,241,160 |
| Total net assets | $ 1,340,507,670 | $ 1,379,922,013 | $ 1,158,366,043 |

## The University's Assets

The University's cash and cash equivalents include both current and noncurrent balances of $1.5 million and $4.4 million, respectively, at the end of 2008. Noncurrent cash and cash equivalents are reported in Other Noncurrent Assets in the Condensed Statements of Net Assets. Noncurrent cash and cash equivalents are comprised of restricted cash balances of endowment funds. The University considers all highly liquid investments with an original maturity of three months or less to be cash or cash equivalents. Total cash and cash equivalents decreased $11.8 million in 2008 from the prior year.

Accounts and notes receivable experienced an increase of approximately $23,000 in fiscal year 2008, largely as a result of a decrease in the receivable from the Crimson Tide Foundation ("CTF") of $32.4 million, netted by an increase in the short-term loan to the 1831 Foundation of $21.1 million, and an increase in student accounts of $4.4 million. In 2007, a $33.5 million receivable was established as a short-term note, funded from plant funds, which is expected to be reimbursed by the 1831 Foundation upon a bond issuance in 2009. Additionally, a $32.4 million receivable was established for CTF as of June 30, 2007 from the University related to revenue streams from gifts, concessions, advertising and other athletically related income. Consequently, as a result of the differing fiscal year ends between the University and CTF, a blended component unit of the University, CTF reflected this amount as a receivable in their June 30 statements. In 2007 receivables increased $11.1 million for loans receivable related to fraternity construction. The majority of the remaining 2007 increase was attributable to student accounts and the student population growth. In fiscal year 2006, accounts receivable largely consisted of billed and unbilled contracts and grants and student receivables.

Total investments decreased $44.0 million from 2007 to 2008, primarily as a result of market conditions that resulted in unrealized losses of $130.0 million. In 2007, total investments increased $46.3 million over 2006 as a result of new investments and investment results from the System Pooled Endowment Fund.

Investments classified as current are used for operating purposes while noncurrent investments relate to endowment, annuity and life income agreements and capital purposes. The University's investment portfolio is primarily invested in three separate investment pools sponsored by the System. The University's investment approach maximizes current investment returns consistent with annual liquidity needs while protecting principal. The University adopts the broad objective of investing assets as to preserving their real value, enhancing the purchasing power of income, and keeping pace with inflation and evolving University needs.

In fiscal year 2008, The University early implemented GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. 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. As a result $79.5 million was added to investments in 2007 for timberland and mineral rights held previously at a historical cost of $1.8 million.

Contributing to the make-up of other noncurrent assets, the Eminent Scholars Program, established by the State of Alabama Act No. 85-759 and administered by the ACHE, provides that donor gifts of $600,000 held in a foundation affiliated with the University are eligible for $400,000 in State matching funds. In prior years, the University received funds from donors intended to be matched in accordance with this program and transferred the corpus of these funds to The Capstone Foundation to be invested by The Capstone Foundation as agent for the University. In fiscal year 2008, the University's receivable from The Capstone Foundation Investment for the Eminent Scholars Program decreased $2.0 million from $11.7 million in 2007 to $9.7 million in 2008. This follows a $1.2 million increase in 2007 and a $2.7 million increase in 2006. The decrease in 2008 and increases in 2007 and 2006 result from unrealized losses and gains which increase or decrease the corpus of the payable to the University. Intangible assets of $5.1 million at September 30, 2008 and 2007 also make up a portion of other noncurrent assets.

On April 8, 2006, The University announced a $500 million capital campaign that focuses on student scholarships, faculty support, campus facilities and priority needs. As of July 2008, the "Our Students. Our Future." campaign had raised $512 million. The campaign is scheduled to conclude in June 2009. More than half of the campaign funds raised will go to scholarships and $175 million of that will be endowed to commemorate the University's 175th anniversary. To date, the University has received 108 gifts of $1 million or more. The campaign has received gifts from 102,274 donors. Faculty and staff have given or pledged more than $7.5 million. The University's last capital campaign concluded in 1998, raising $224 million.

Through participation in our alumni association and with generous donations that fund scholarships, endowed chairs and other needs, our alumni and friends continue to demonstrate their support for the University's long-standing commitment to excellence. Pledges receivable (current and noncurrent) decreased $7.3 million in 2008 to $27.9 million from $35.2 million in 2007 and $40.9 million in 2006. The University is still a state-assisted institution, but the percentage of its annual budget provided by the taxes of Alabama's citizens decreases every year. In order to carry out our chartered mission of teaching, research, and service, the University relies on private giving as a dependable and important source of funding.

Capital assets include land and land improvements, infrastructure, buildings and improvements, equipment, construction in progress, and library materials and collections. Capital assets increased $58.6 million in 2008, net of annual depreciation, from $777.2 million in 2007 to $835.8 million in 2008. Capital assets increased $44.6 million in 2007 and $128.8 million in 2006.

Capital spending peaked in 2006 while construction was at a brisk pace to provide the necessary facilities needed to accommodate both present and future enrollment growth. Capital spending tapered off somewhat in 2007 and 2008 as compared to the 2006 fiscal year, however, the University continues to invest in capital expenditures to maintain a stable balance between prudent fiscal management, preservation and maintenance of facilities, and a competitive edge for the recruitment of students. Major capital expenditures in 2008 include the Freshman Science Building ($40.9 million) and the Ridgecrest South Parking Deck ($12.7 million). Major capital expenditures in 2007 included land improvements and infrastructure ($12.0 million), Lakeside Dining ($8.3 million), fraternity renovations ($7.9 million), the Brewer Porch Children's Center addition ($7.4 million), Lloyd Hall renovation ($4.5 million), and the Science and Engineering addition ($3.7 million) among others. Major capital expenditures during 2006 included athletic renovations/construction ($50.3 million), construction of Lakeside Residence Halls ($23.3 million), Law School addition ($9.5 million), renovation and improvements to Graves Hall and Fifth Avenue ($6.8 million collectively), and construction of the Central Warehouse ($4.2 million).

## The University's Liabilities

Current liabilities consist primarily of accounts payable, accrued liabilities and deferred revenue related to operations. The majority of accounts payable and accrued liabilities represent amounts owed for salaries, wages and benefits and supplies and services. Deferred revenue consists primarily of 2009 tuition and dorm revenues and athletic ticket revenue for the portion of the fall semester that occurs after September 30, 2008. Current liabilities totaled $214.3 million in 2008 compared to $171.7 million in 2007, an increase of $42.6 million resulting primarily from a rise in deferred revenue. Fiscal year 2007 saw a similar increase of $7.8 million from $163.9 million in 2006; this increase also results primarily from a rise in deferred revenue.

During 2008, noncurrent liabilities decreased $5.5 million from $383.5 million in 2007 to $378.0 million in 2008. This is a direct result in the reduction of net outstanding long term debt. The interest rates on this debt generally range from 2.75% to 7.0%. During 2007, noncurrent liabilities decreased $4.8 million from $388.3 million in 2006 to $383.5 million. This decrease, also, resulted from a reduction of net outstanding long-term debt.

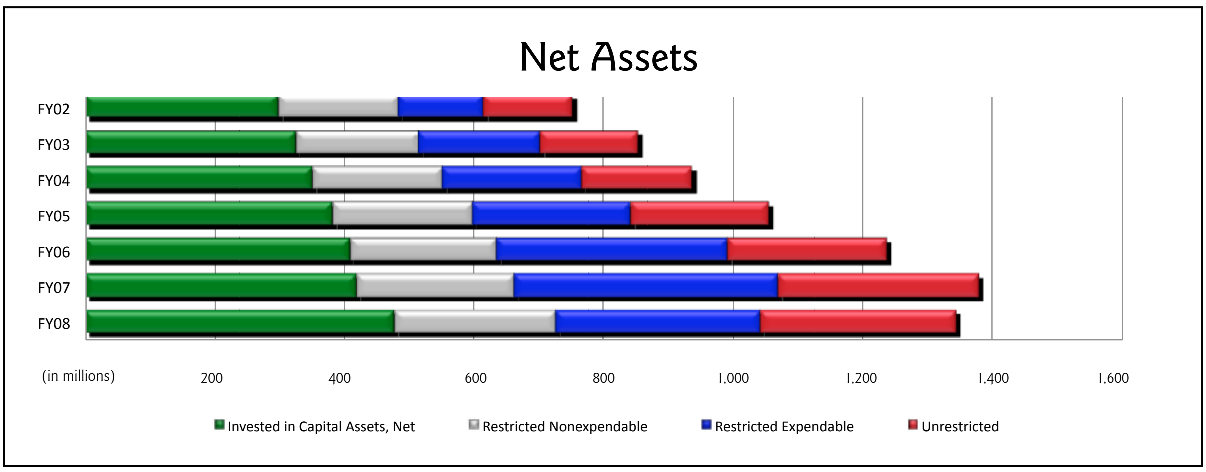
## The University's Net Assets

Net assets represent the residual interest in the University's assets after all liabilities are deducted. The University's net assets decreased $39.4 million, 2.86%, during the year to $1.34 billion. This follows a 11.5% increase of $142.0 million in 2007.

Net assets invested in capital assets, net of accumulated depreciation and the related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, increased $59.7 million in 2008 and $10.3 million in 2007.

Restricted nonexpendable net assets increased approximately $16.3 million. This net asset type encompasses endowments and life income/annuities. In the prior year, restricted nonexpendable net assets experienced growth of $15.9 million from 2006. Restricted expendable net assets of $407.5 million in 2007 decreased $92.4 million to $315.1 million in 2008. This decrease is a result of three primary factors. University restricted expendable endowments declined $6.6 million while true endowment gains experienced a $74.8 million decrease. Finally, CTF restricted expendable net assets decreased $5.8 million.

Unrestricted net assets also declined $23.1 million during the year 2008 primarily due to unrealized losses recorded in unrestricted funds.

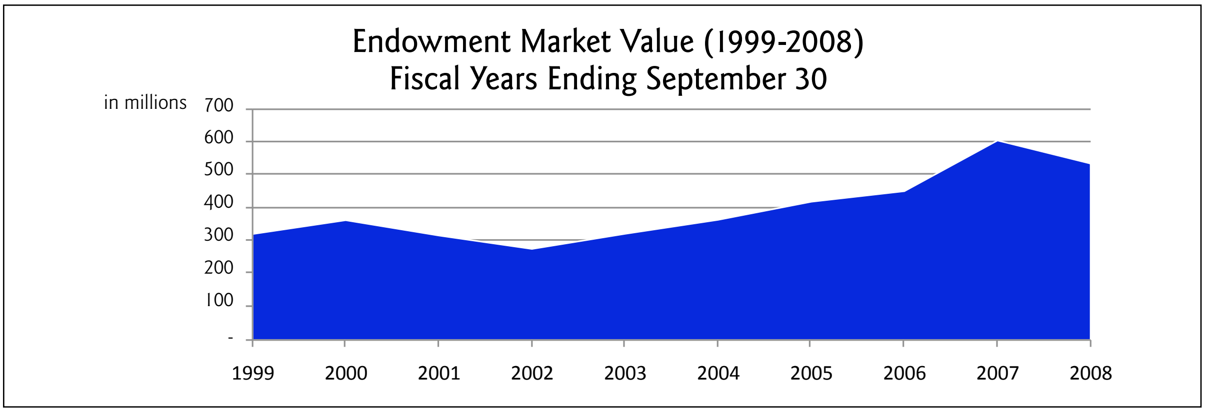


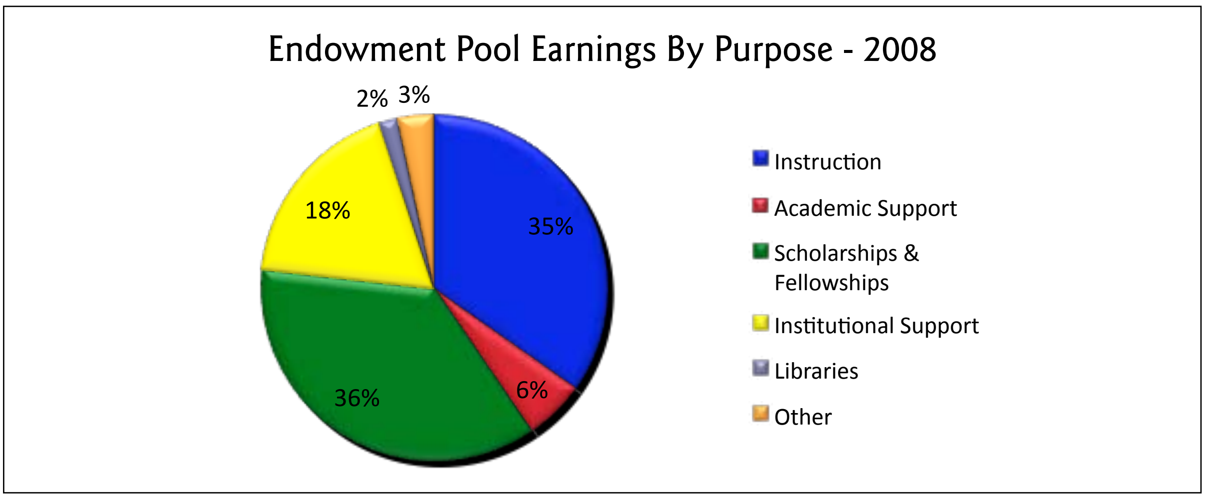
## University Endowments

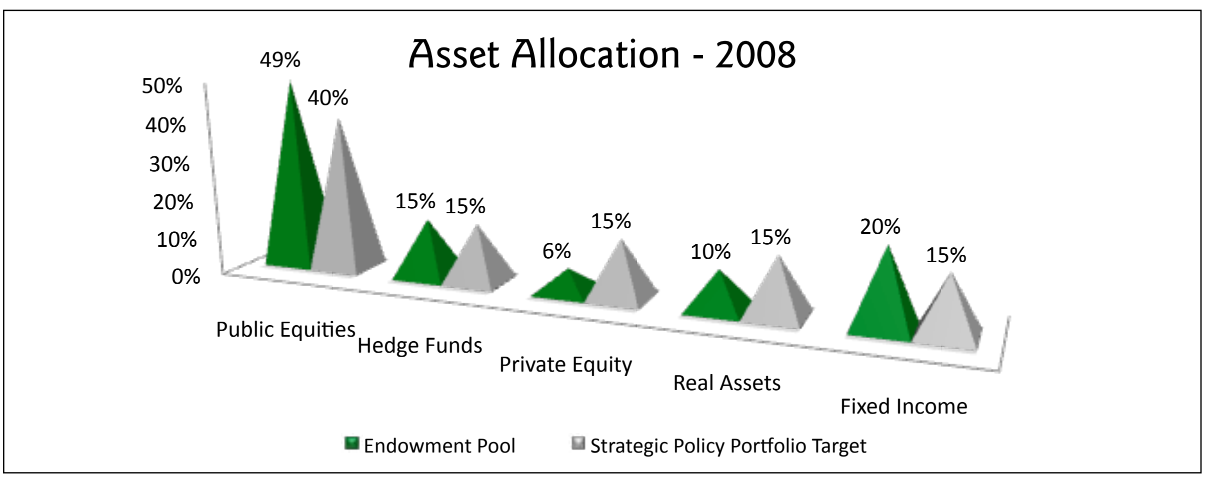
The University endowments remain strong notwithstanding market conditions. Endowment market value declined $70.0 million during 2008. The charts below outline market value performance, spending purposes and asset allocation for the year ended September 30, 2008.

77% of all endowment earnings during the 2008 fiscal year were restricted for instruction, academic support and scholarship/fellowship purposes. Earnings restricted for institutional support are primarily a result of the Federal Land Grants awarded to the University that support the Office of Land and Timber Management.

While strong investment returns have allowed endowments to grow significantly over the past decade, and increases in spending have had a significant impact on the unique experience that is the University of Alabama, prudent management and investing strategies remain of utmost importance. With a continual commitment to excellence, funding given by the University's generous donors will continue to grow, leveraging those gifts for the benefit of our students for many years to come.



## 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 displayed in the statement of revenues, expenses and changes in net assets. The purpose of this statement is to present the revenues received by the University, both operating and nonoperating, and the expenses paid by the University, both operating and nonoperating, and any other revenues, expenses, gains and losses received or expended by the University.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the University. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues and to carry out the mission of the University. Nonoperating revenues are revenues received for which goods and services are not provided. For example, 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. As noted below, without the nonoperating revenues, in particular the state appropriations and private gifts, 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 programs.

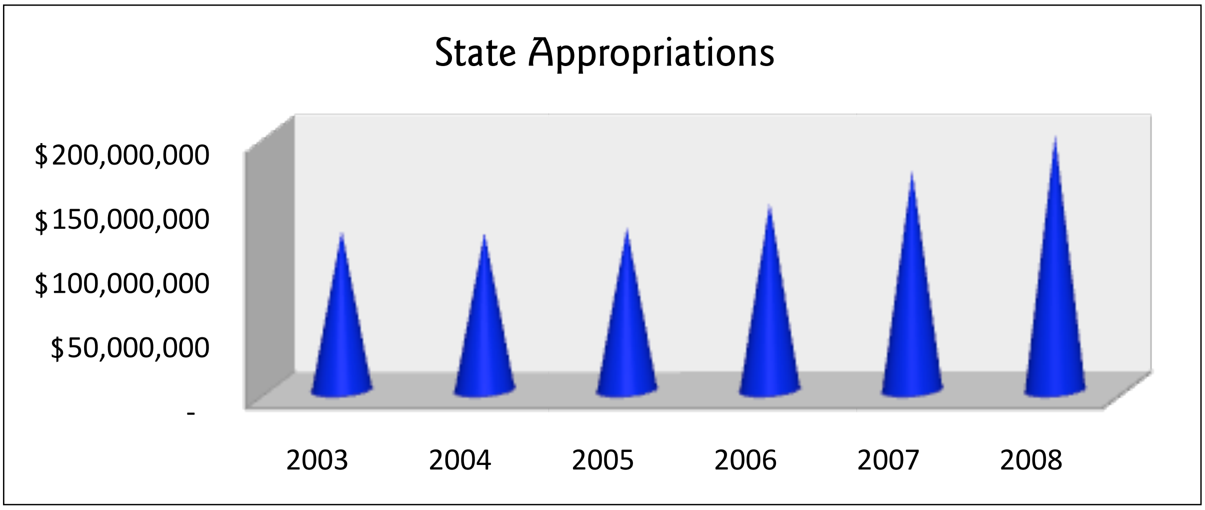
A summary of the University's revenues, expenses and changes in net assets follows:

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

| | Year ended September 30, | | |
|---|---|---|---|
| | 2008 | 2007<br>As Adjusted (Note 1) | 2006 |
| Operating revenues | | | |
| Tuition and fees | $ 239,247,877 | $ 203,220,871 | $ 168,337,662 |
| Less: scholarship allowances | (45,731,438) | (40,604,147) | (32,917,319) |
| Tuition and fees, net | 193,516,439 | 162,616,724 | 135,420,343 |
| Sponsored programs | 73,123,717 | 80,572,866 | 65,092,207 |
| Auxiliary sales and services, net | 80,215,194 | 88,346,775 | 104,203,777 |
| Sales and services of educational activities | 13,619,694 | 12,666,111 | 9,973,238 |
| Other | 29,363,102 | 20,840,601 | 11,463,330 |
| Total operating revenues | 389,838,146 | 365,043,077 | 326,152,895 |
| Operating expenses | 608,833,853 | 549,153,273 | 486,263,506 |
| Operating loss | (218,995,707) | (184,110,196) | (160,110,611) |
| Nonoperating revenues (expenses) | | | |
| State appropriations | 199,417,373 | 171,299,493 | 145,930,652 |
| Gifts | 35,997,781 | 31,311,397 | 41,007,849 |
| Grants | 1,945,304 | 1,656,633 | 1,315,148 |
| Investments, net | (96,804,836) | 112,172,853 | 56,484,511 |
| Interest expense | (18,027,317) | (15,838,791) | (8,885,356) |
| Other nonoperating expenses, net | (1,941,951) | (435,604) | (1,407,278) |
| Net nonoperating revenues | 120,586,354 | 300,165,981 | 234,445,526 |
| (Loss) Income before other changes in net assets | (98,409,353) | 116,055,785 | 74,334,915 |
| Other changes in net assets | | | |
| Capital gifts and grants | 37,960,384 | 7,423,318 | 16,113,911 |
| Additions to permanent endowments | 18,965,286 | 15,922,925 | 11,913,805 |
| Intergovernmental Transfers | 2,069,340 | 2,605,516 | - |
| (Decrease) Increase in net assets | (39,414,343) | 142,007,544 | 102,362,631 |
| Net assets, beginning of year, as previously reported | 1,379,922,013 | 1,158,366,043 | 1,056,003,412 |
| Adoption of GASB 52 Adjustment (See Note 1) | - | 79,548,426 | - |
| Net assets, beginning of year, as adjusted | 1,379,922,013 | 1,237,914,469 | 1,056,003,412 |
| Net assets, end of year | $ 1,340,507,670 | $ 1,379,922,013 | $ 1,158,366,043 |

The statement of revenues, expenses and changes in net assets (the "SRECNA") presents the decrease in net assets of $39.4 million, and the increases in net assets of $142.0 million and $102.4 million for the fiscal years ended September 30, 2008, 2007 and 2006, respectively. As noted in the SRECNA, the University experienced operating losses in all fiscal years presented of $219.0 million, $184.1 million and $160.1 million. These operating losses highlight the University's dependency on nonoperating revenues, such as state appropriations and private gifts, to meet its cost of operations and provide funds for the acquisition of capital assets.

In fiscal year 2008, the University received $199.4 million in State appropriations to be used for operations and $36.0 million in private gifts. These revenues assisted in offsetting the University's operating loss of $219.0 million. In 2008, the University experienced a net loss in investment income, contrary to prior years discussed below. The University received $171.3 million in State appropriations, $31.3 million in gifts and had $112.2 million in net investment income which assisted in offsetting the $184.1 million operating loss experienced in 2007. In fiscal year 2006, the University received $145.9 million in State appropriations, $41.0 million in gifts and had $56.5 million in net investment income which contributed to offset the $160.1 million operating loss.




Tuition and fees revenue, net of scholarship allowances, increased $30.9 million to $193.5 million in 2008 from $162.6 million in 2007 due to student enrollment growth in the Fall 2007 and Spring 2008 semesters in addition to a tuition rate increase of 8%. The University's current initiative to increase enrollment to 28,000 by 2010 will result in tuition revenue increases in correlation to the population growth. In 2007, tuition and fees, net of scholarship allowances increased $27.2 million from $135.4 million in 2006. Tuition rates are reviewed annually by the University and presented to the Board of Trustees for approval.

The University receives grant and contract revenue from federal, state and local governments and private agencies. Federal grants and contracts experienced a decrease in fiscal year 2008 of $6.8 million from $57.3 million in 2007 to $50.5 million. State and private grants and contracts decreased $723,000 collectively, while local grants and contracts increased $85,000.

The University's auxiliary activities are comprised of athletics, food service, housing, supply store, telecommunications, and other miscellaneous auxiliary enterprises. Auxiliary income decreased $8.1 million in 2008 over the prior year. In 2008, the University resumed its prior practice of deferring athletic ticket revenue for events occurring post September 30 year-end. Consequently, $15.0 million in football ticket sales are deferred to the upcoming year with no offsetting reversal from the prior year. Deferred revenue and auxiliary sales and services will be minimally affected by this entry in fiscal year 2009 and all subsequent years. Residence halls, the supply store, telecommunications and food services all experienced increases in revenue due to growth in the student population. During the course of 2007, several student activity funds changed from auxiliary units to education and general; thus their operating revenue is now reported in other income as opposed to auxiliary sales and services. This change, affecting University Recreation, the Student Government Association and others, was prompted by a change in revenue sources which resulted in these organizations losing the ability to be self-supporting. Additionally, the University entered into a trust agreement with the CTF during 2007 in which much of the revenue generated by Intercollegiate Athletics is now held by the Foundation. These revenue streams in prior years have been recorded as auxiliary sales and services for the University and are now recorded as other revenue under the CTF. As a result, Auxiliary revenue decreased $15.9 million to $88.3 million in 2007 from $104.2 million in 2006.

Gift revenues increased slightly by $4.7 million to $36.0 million from $31.3 million in 2007. During fiscal year 2007, gifts decreased $9.7 million from $41.0 million in 2006. The majority of the 2007 decrease results from a decline in restricted gifts.

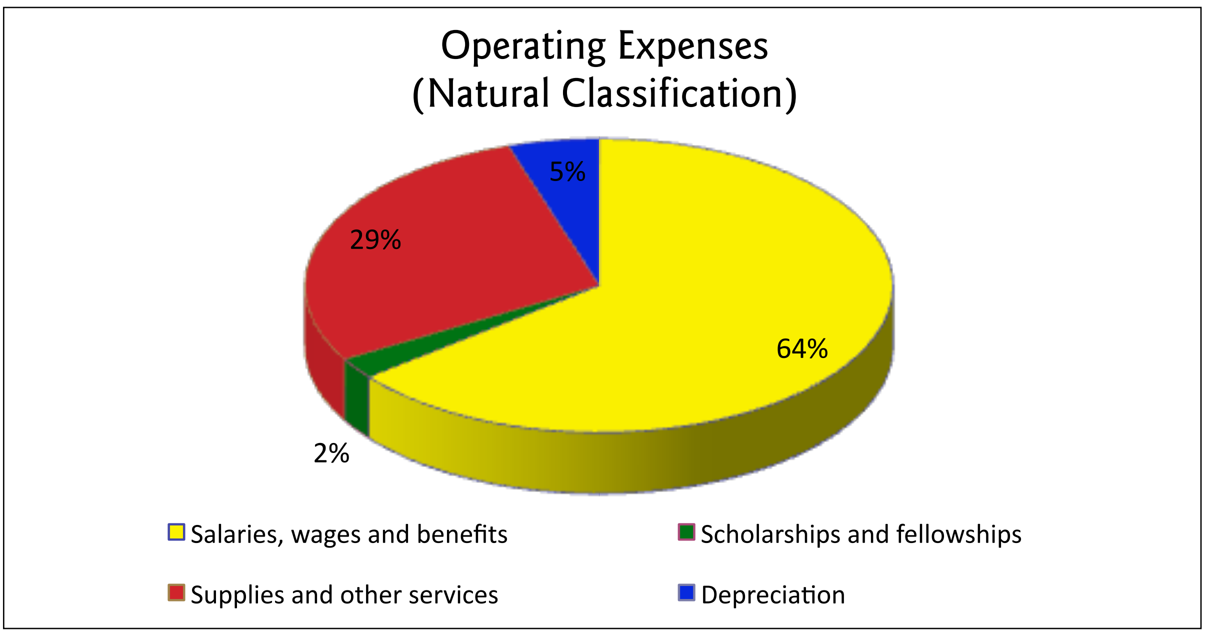
Investment income suffered significantly in 2008 as considerable unrealized losses were recorded due to unfavorable market conditions. Investment activity produced a net decrease of $209.0 million from the prior year. Investment income experienced a net decrease of $59.4 million while endowment income experienced a net decrease of $149.6 million in 2008. Unrealized losses for the University exceeded $130.0 million. Fiscal year 2007 saw an overall increase of $55.7 million in investment income, $39.8 million of which was allocable to endowment income and $15.9 million of which was attributed to investment income. Unrealized gains in 2007 totaled $28.1 million and realized gains totaled $20.6 million.

Interest expense incurred by the University in 2008 totaled $18.0 million, netted to $17.7 million by interest capitalized for various construction projects. Interest expense increased $2.1 million between 2008 and 2007 due to lower capitalized interest as many projects near completion.

Capital gifts and grants experienced significant growth of $30.5 million in 2008 over the prior year. This increase is primarily contributed to federal grants awarded for the Freshman Science building and Ridgecrest South Parking Deck currently under construction.

## Operating Expenses (by natural classification)

| | Year ended September 30, 2008 | 2007 | 2006 |
|---|---|---|---|
| Salaries, wages and benefits | $ 391,332,813 | $ 346,844,716 | $ 304,103,690 |
| Scholarships and fellowships | 14,214,342 | 14,507,194 | 10,817,099 |
| Supplies and other services | 172,740,771 | 160,714,289 | 132,872,356 |
| Depreciation | 30,545,927 | 27,087,074 | 38,470,361 |
| Total operating expenses | $ 608,833,853 | $ 549,153,273 | $ 486,263,506 |




Salaries, wages and benefits increased $44.5 million to $391.3 million in 2008 from $346.8 million in 2007, which was a $42.7 million increase over 2006. The University maintains a competitive salary base to attract and retain talented faculty, staff, and graduate students. During fiscal year 2008, $22.6 million of this increase stemmed from salaries and wages while the remaining $21.9 million resulted from increases in benefit expense.

Supplies and other services increased $12.0 million of which $2.6 million is attributable to an increase in utility costs. Depreciation expense increased $3.5 million in 2008 from 2007.

In addition to their natural classification, operating expenses are also reported by their functional classification as defined by the National Association of College and University Business Officers ("NACUBO"). The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. This method reflects, by function of the University, amounts expended in areas such as Instruction, Research and Operations and Maintenance and is used most commonly for comparative reporting purposes among colleges and universitites.

## 2008 Operating Expenses (by functional classification)

| | Salaries, wages and benefits | Scholarships and fellowships | Supplies and other services | Depreciation | Total |
|---|---|---|---|---|---|
| Instruction | $ 161,756,938 | $ - | $ 29,868,372 | $ - | $191,625,310 |
| Research | 15,869,099 | - | 19,662,802 | - | 35,531,901 |
| Public service | 29,040,001 | - | 11,623,762 | - | 40,663,763 |
| Academic support | 43,551,451 | - | 18,406,532 | - | 61,957,983 |
| Student services | 19,853,868 | - | 9,485,481 | - | 29,339,349 |
| Institutional support | 49,447,385 | - | 10,508,906 | - | 59,956,291 |
| Operations and maintenance | 33,780,321 | - | 20,959,824 | - | 54,740,145 |
| Scholarships and fellowships | - | 11,684,962 | - | - | 11,684,962 |
| Auxiliary enterprises | 38,033,750 | 2,529,380 | 52,225,092 | - | 92,788,222 |
| Depreciation | - | - | - | 30,545,927 | 30,545,927 |
| | $ 391,332,813 | $ 14,214,342 | $ 172,740,771 | $ 30,545,927 | $608,833,853 |

## 2007 Operating Expenses (by functional classification)

| | Salaries, wages and benefits | Scholarships and fellowships | Supplies and other services | Depreciation | Total |
|---|---|---|---|---|---|
| Instruction | $ 143,021,656 | $ - | $ 25,511,261 | $ - | $168,532,917 |
| Research | 13,827,288 | - | 17,963,732 | - | 31,791,020 |
| Public service | 26,456,508 | - | 10,949,018 | - | 37,405,526 |
| Academic support | 41,389,072 | - | 18,072,397 | - | 59,461,469 |
| Student services | 17,214,799 | - | 8,080,829 | - | 25,295,628 |
| Institutional support | 39,179,968 | - | 13,736,323 | - | 52,916,291 |
| Operations and maintenance | 31,614,315 | - | 13,436,145 | - | 45,050,460 |
| Scholarships and fellowships | - | 11,308,743 | - | - | 11,308,743 |
| Auxiliary enterprises | 34,141,110 | 3,198,451 | 52,964,584 | - | 90,304,145 |
| Depreciation | - | - | - | 27,087,074 | 27,087,074 |
| | $ 346,844,716 | $ 14,507,194 | $ 160,714,289 | $ 27,087,074 | $549,153,273 |

## Capital Assets and Debt Administration

At September 30, 2008, the University had $1.2 billion invested in capital assets, net of accumulated depreciation of $395.0 million. Depreciation charges totaled $30.5 million for the current fiscal year. Net of depreciation, land improvements increased $7.3 million, buildings and fixed equipment increased $12.5 million while Construction in Progress increased $38.0 million.

The University owns all of its campus property. The principal physical facilities of the University include 7,279,757 net assignable square feet of building space located in approximately 282 campus and off-campus buildings.

The following schedule summarizes the University's capital assets, net of accumulated depreciation:

### Capital Assets, Net of Accumulated Depreciation

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Land | $ 12,875,689 | $ 10,851,689 | $ 9,216,339 |
| Land improvements | 17,928,256 | 10,605,528 | 3,181,139 |
| Infrastructure | 10,490,650 | 7,489,873 | 6,908,300 |
| Buildings and fixed equipment | 629,164,267 | 616,640,546 | 541,347,236 |
| Construction in Progress | 110,865,600 | 72,897,147 | 112,312,973 |
| Equipment | 32,699,118 | 34,459,470 | 36,134,592 |
| Library materials | 21,766,675 | 24,204,495 | 23,424,526 |
| | $ 835,790,255 | $ 777,148,748 | $ 732,525,105 |

The University continues to invest in various capital projects on campus to maintain competitiveness in academic arenas and attract and retain students.

Capital asset expenditures for fiscal year 2008 (in millions):

- Science & Engineering Building $40.9
- Ridgecrest South Parking Deck $12.7
- Fraternity Renovations $6.7
- NE Campus Utilities & Infrastructure $4.6
- Brewer Porch Children's Center $1.8
- Lloyd Hall Renovation $1.2
- Law School Roof $1.1

Capital asset expenditures for fiscal year 2007 included (in millions):

- Land Improvements and Infrastructure $12.0
- Lakeside Dining $8.3
- Fraternity renovations $7.9
- Brewer Porch Children's Center addition $7.4
- Lloyd Hall renovation $4.5
- Science & Engineering addition $3.7
- Graves Hall renovation $2.6
- Law School addition $1.7

The University plans to fund ongoing construction projects with debt proceeds, private gifts and various Federal and State grants.

In August, 2008, the University issued Series 2008A fixed rate bonds for $45,425,000 to refund the outstanding debt remaining in Series 2004C variable rate bonds. Standard & Poor's Credit Markets Service and Moody's Investors Service have assigned the respective ratings of 'AA-' and 'Aa3' for the 2008A series.

At September 30, 2008, the University had $367.0 million of debt outstanding. The large majority of debt obligations bear interest at fixed rates ranging from 2.75% to 7.0% and mature at various dates through fiscal year 2036.

The University's outstanding debt obligations, exclusive of debt discount, are summarized below:

## Schedule of Long Term Debt

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Bonds payable | $ 356,805,000 | $ 366,860,000 | $ 373,800,000 |
| Notes payable | 9,907,024 | 11,092,795 | 8,974,240 |
| Capital leases payable | 284,012 | 409,123 | 217,013 |
| | $ 366,996,036 | $ 378,361,918 | $ 382,991,253 |

## Statement of Cash Flows

The statement of cash flows presents the significant sources and uses of cash. The University's cash is analyzed on a daily basis and any excess is swept into investment accounts, thus minimizing the cash on hand and optimizing earnings.

## Condensed Statement of Cash Flows

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Cash received from operations | $ 451,369,501 | $ 377,873,481 | $ 313,285,139 |
| Cash payments from operations | (573,087,220) | (557,075,287) | (434,097,125) |
| Net cash used in operating activities | (121,717,719) | (179,201,806) | (120,811,986) |
| Net cash provided by noncapital financing activities | 266,158,647 | 225,937,382 | 190,971,195 |
| Net cash used in capital and related financing activities | (80,147,085) | (99,980,004) | (102,494,782) |
| Net (used in) provided by investing activities | (76,092,270) | 29,724,436 | 42,580,624 |
| Net (decrease) increase in cash and cash equivalents | (11,798,427) | (23,519,992) | 10,245,051 |
| Cash and cash equivalents, beginning of year | 17,646,712 | 41,166,704 | 30,921,653 |
| Cash and cash equivalents, end of year | $ 5,848,285 | $ 17,646,712 | $ 41,166,704 |

In 2008, the University used $121.7 million of cash for operating activities, while $266.2 million was received from 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. The University used $179.2 million of cash for operating activities in 2007, offset by approximately $225.9 million of cash provided by noncapital financing activities. Similarly, in 2006, $120.8 million of cash used for operating activities was offset by $191.0 million in cash provided by noncapital financing activities.

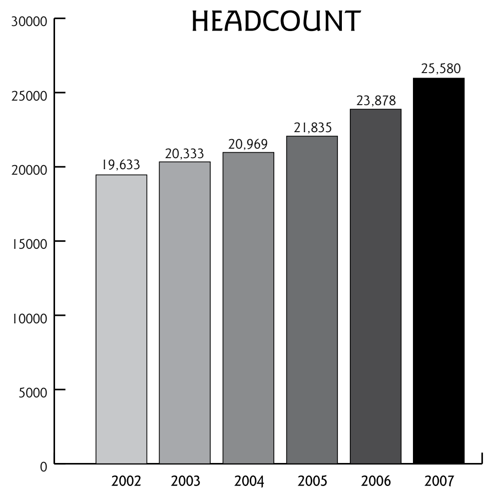
Cash of $80.1 million, $100.0 million, and $102.5 million in 2008, 2007 and 2006, respectively, was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that included bond proceeds, gifts, grants and contracts for capital purposes. Cash used in investing activities totaled $76.1 million in 2008. Cash provided by investing activities totaled $29.7 million in 2007 and $42.6 million in 2006.

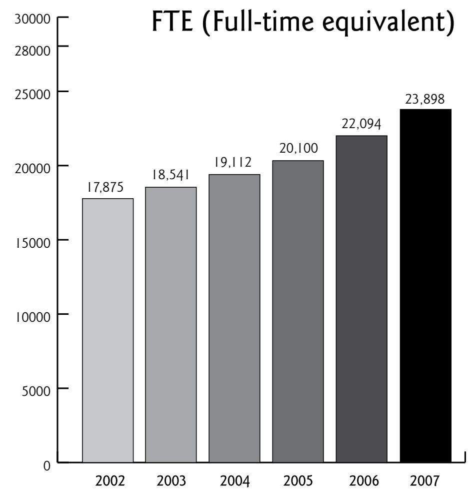

## The University of Alabama Statistical Highlights
## Fall Semester

| Fall Enrollment | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
|---|---|---|---|---|---|---|
| Undergraduate | 21,082 | 19,474 | 17,553 | 16,571 | 15,892 | 15,452 |
| Graduate | 3,851 | 3,781 | 3,687 | 3,756 | 3,763 | 3,542 |
| Professional | 647 | 623 | 595 | 642 | 678 | 601 |
| Total Fall Enrollment | 25,580 | 23,878 | 21,835 | 20,969 | 20,333 | 19,595 |
| | | | | | | |
| Fall First-Time Freshman Admissions | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 |
| Applications | 14,313 | 12,513 | 10,707 | 9,106 | 8,298 | 7,322 |
| Admits | 9,140 | 8,766 | 7,755 | 7,021 | 7,194 | 6,196 |
| Enrolled | 4,538 | 4,378 | 3,735 | 3,367 | 3,077 | 2,655 |
| Percent Admitted | 63.9% | 70.1% | 72.4% | 77.1% | 86.7% | 84.6 |
| Percent Enrolled | 49.6% | 49.9% | 48.2% | 48.0% | 42.8% | 42.9% |
| | | | | | | |
| Degrees Conferred | 2007-08 | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 |
| Baccalaureate | 3,398 | 3,131 | 2,815 | 2,931 | 3,024 | 2,892 |
| Master's | 1,237 | 1,183 | 1,151 | 1,283 | 1,072 | 1,070 |
| Educational Specialist | 84 | 62 | 50 | 107 | 103 | 60 |
| First Professional | 154 | 152 | 172 | 183 | 172 | 165 |
| Doctoral | 191 | 160 | 181 | 154 | 158 | 178 |
| Total Degrees Conferred | 5,064 | 4,688 | 4,369 | 4,658 | 4,529 | 4,365 |
| | | | | | | |
| Academic Years Ending May | 2007-08 | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 |
| Undergraduate In-State Tuition | $5,700 | $5,278 | $4,864 | $4,630 | $4,134 | $3,556 |
| Percent Increase Over Prior Year | 8.0% | 8.5% | 5.1% | 12.0% | 16.3% | 8.0% |

## Enrollment

Headcount enrollment at the University reached 25,580 in 2008, a significant increase of 1,702, while Full-time equivalent ("FTE") enrollment approached 23,900. This increase advances the University closer to its goal of reaching enrollment of 28,000 by the fall of 2010. The chart below displays counts taken for each fall semester; the last of which (2007), demonstrates enrollment figures occurring for the fall semester of the 2008 fiscal year.




## Economic Factors That Will Affect the Future

A crucial element to the University's future will continue to be our relationship with the State of Alabama as we work to maintain competitive tuition while providing an outstanding college education for our students. We continuously strive to attract the best students while increasing the intrinsic and marketable value of education offered at The University of Alabama.

There is a direct relationship between the growth of State support and the University's ability to control tuition growth as declines in State appropriations adversely affect tuition levels. Major financial strengths of the University include a diverse source of revenues, including State appropriations, tuition and fees (net of scholarship allowances), auxiliary units' revenue, private support and federally sponsored grants and contracts.

The University must have campus facilities that are competitive in order to facilitate its mission of education, research and public service and to meet student enrollment goals. The University continues to execute its long-term plan to modernize and expand its teaching, research and student facilities with a balance of new construction and technology.

The continuous improvement of the University's aesthetic appeal offers visitors, current and prospective students, employees and the surrounding communities an attractive and appealing atmosphere in which to live and work.

The University's private support is fundamental in meeting budgetary needs. Gifts received are testaments to the high regard in which its alumni, corporations, foundations and other supporters hold the University. The level of private support underscores the continued confidence among donors in the quality of the University's programs and the importance of its mission. At the same time, economic pressures affecting donors may also affect the future level of support the University receives from corporate and individual giving.

## Requests for Information

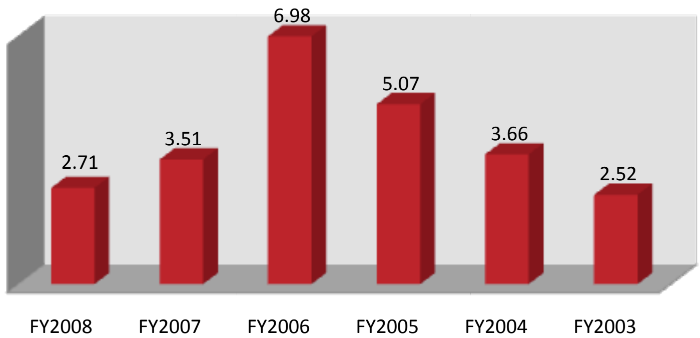
These financial statements are designed to provide a general overview of the University of Alabama and its component units' financial activities and to demonstrate the University's accountability. Questions concerning any of the information provided in this report or requests for additional information, including the separate financial reports of the discretely presented and blended component units of the University, should be addressed to the Office of Finance, The University of Alabama, Box 870136, Tuscaloosa, Alabama, 35487.

# Financial Ratios

## Debt Service Coverage Ratio

The debt service coverage ratio measures the ability to cover debt service requirements from continuing operations. This ratio identifies whether or not the institution has a net revenue stream available to meet its debt burden should economic conditions change. A higher ratio is more desirable than a lower ratio.

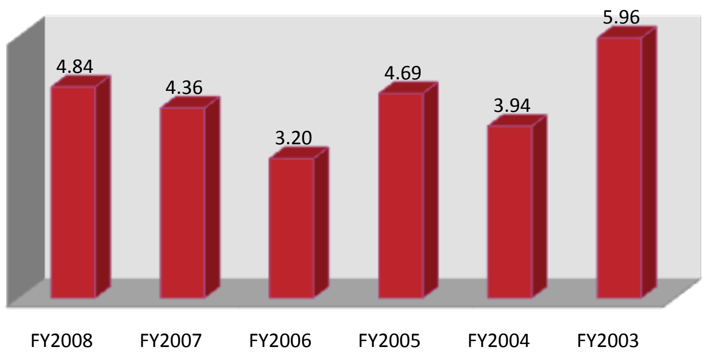
**At the University:** The University has maintained a healthy ratio for debt service coverage. The results for 2008 were negatively affected by an increased operating loss and decreased nonoperating income.




## Debt Service Burden

This measurement is defined by normalized annual debt service as a percentage of the university's total operating expenses. This ratio examines the University's dependence on borrowed funds as a financing source and the relative cost of borrowing to overall expenditures. The target ratio is seven or less.

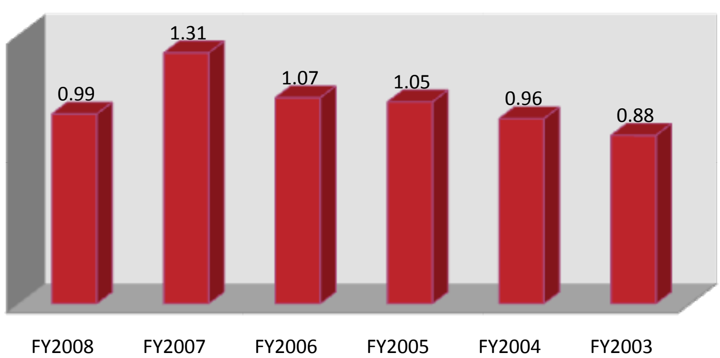
**At the University:** The ratio is sufficiently less than the target of seven in all years portrayed here in spite of new debt issuances to finance capital activity.




## Primary Reserve Ratio

The Primary Reserve Ratio measures the financial strength of the institution by comparing expendable net assets to total expenses and indicates the ability of the institution to support current operations from net assets (reserves) without depending on additional revenue. There is no set target or range for this ratio. It should be viewed as a trend over time with a negative trend indicating a weakening financial condition with expenditures growing faster than reserves and a positive trend indicating an improving financial condition with reserves.

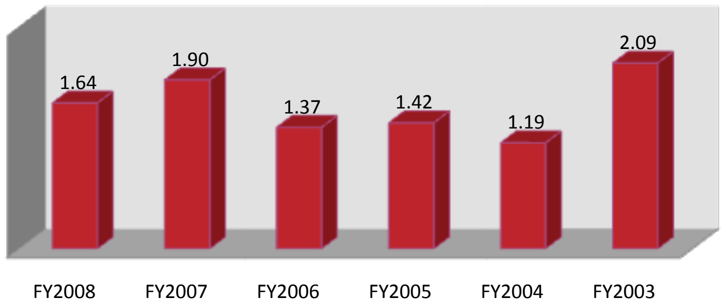
**At the University:** Although this ratio has fluctuated slightly during the six years presented, the ratio remains strong. The University consistently strives to remain competitive in the areas of compensation/benefits and scholarship/fellowship awards, both of which are factors directly impacting the Primary Reserve Ratio.



## Viability Ratio

Viability Ratio measures one of the most basic determinants of financial health: the availability of expendable net assets to cover debt obligations as of the date of the balance sheet. A ratio of 1.0 indicates that the institution could pay off all debts.

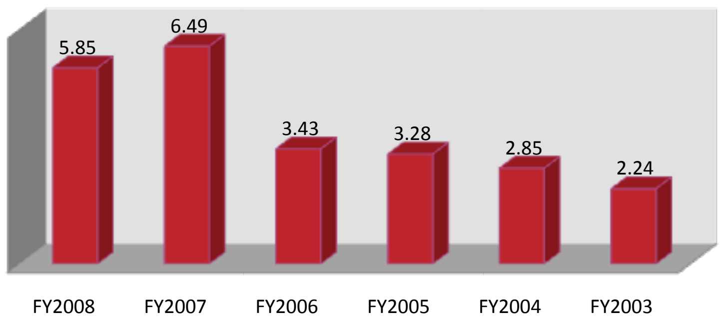
**At the University:** The Viability Ratio has varied somewhat recently due to significant additions of long-term debt consistent with strategic capital plans. In spite of the variance, the ratio has remained substantially higher than the recommended target of 1.0, even in 2008 when market conditions negatively impacted the University's investment earnings. This further underscores the University's conservative fiscal management policy.




## Capital Expenditures to Depreciation

This ratio indicates the rate of capitalization occurring at an institution. A ratio above 1.0x indicates that a university is in a growth mode. A ratio below 1.0x indicates that a university may not be investing in its equipment and facilities at a rate fast enough to maintain its plant condition.

**At the University:** The Capital Expenditures to Depreciation ratio at the University reflects a healthy ratio for each year displayed; significantly greater than the recommended target ratio of 1 or more.




Fiscal years 2008 and 2004 saw the defeasement of debt to obtain better interest rates and secure additional funding for capital projects needed to keep pace with student population growth and competitiveness. Results for those two years are portrayed with contractual principal amounts only, and exclude defeased activity for comparative purposes.

# The University of Alabama

## Statements of Net Assets
## September 30, 2008 and 2007

| Assets | 2008 | 2007 As Adjusted (Note 1) |
|---|---|---|
| Current assets | | |
| Cash and cash equivalents | $ 1,460,303 | $ 11,718,163 |
| Short-term investments | 145,569,481 | 87,312,111 |
| Accounts receivable, net | 135,311,028 | 135,287,669 |
| Current portion of student loans receivable | 2,880,003 | 3,071,569 |
| Current portion of pledges receivable | 7,685,605 | 8,015,170 |
| Inventories | 5,534,729 | 5,080,737 |
| Prepaid and deferred expenses | 22,471,155 | 19,386,564 |
| Other current assets | 1,604,695 | 1,762,013 |
| Total current assets | 322,516,999 | 271,633,996 |
| Noncurrent assets | | |
| Restricted cash and cash equivalents | 4,387,982 | 5,928,549 |
| Endowment, and life income investments | 535,305,247 | 605,347,801 |
| Investments for capital activities | 71,617,821 | 85,561,249 |
| Other long-term investments | 112,580,025 | 130,895,219 |
| Student loans receivable, net | 10,234,766 | 9,170,995 |
| Pledges receivable, net | 20,198,873 | 27,150,187 |
| Capital assets, net | 835,790,255 | 777,148,748 |
| Other noncurrent assets | 20,145,781 | 22,279,733 |
| Total noncurrent assets | 1,610,260,750 | 1,663,482,481 |
| Total assets | $ 1,932,777,749 | $ 1,935,116,477 |
| | | |
| Liabilities and net assets | | |
| | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | $ 83,509,745 | $ 73,485,577 |
| Deferred revenue | 115,356,608 | 83,823,918 |
| Deposits | 10,531,634 | 5,923,238 |
| Current portion of long-term debt | 4,867,545 | 8,449,140 |
| Total current liabilities | 214,265,532 | 171,681,873 |
| Noncurrent liabilities | | |
| Federal refundable loans | 9,792,124 | 9,382,815 |
| Other liabilities | 6,455,796 | 5,433,980 |
| Long-term debt, net | 361,756,627 | 368,695,796 |
| Total noncurrent liabilities | 378,004,547 | 383,512,591 |
| Total liabilities | 592,270,079 | 555,194,464 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 478,161,759 | 418,421,868 |
| Restricted | | |
| Nonexpendable | 260,258,054 | 243,961,838 |
| Expendable | 315,077,098 | 407,465,274 |
| Unrestricted | 287,010,759 | 310,073,033 |
| Total net assets | 1,340,507,670 | 1,379,922,013 |
| Total liabilities and net assets | $ 1,932,777,749 | $ 1,935,116,477 |

*See accompanying notes to financial statements.*

# The University of Alabama

## Statements of Revenues, Expenses and Changes in Net Assets
## For the Years Ended September 30, 2008 and 2007

| | 2008 | 2007 As Adjusted (Note 1) |
|---|---|---|
| Operating revenues | | |
| Tuition and fees | $ 239,247,877 | $ 203,220,871 |
| Less: scholarship allowances | (45,731,438) | (40,604,147) |
| Tuition and fees, net | 193,516,439 | 162,616,724 |
| Federal grants and contracts | 50,480,412 | 57,291,890 |
| State grants and contracts | 18,551,686 | 18,610,072 |
| Local grants and contracts | 333,804 | 248,386 |
| Private grants and contracts | 3,757,815 | 4,422,518 |
| Sales and services of educational activities | 13,619,694 | 12,666,111 |
| Auxiliary sales & services, net of $6,359,496 in 2008 and $5,380,550 in 2007 of scholarship allowances | 80,215,194 | 88,346,775 |
| Other operating revenues | 29,363,102 | 20,840,601 |
| Total operating revenues | 389,838,146 | 365,043,077 |
| Operating expenses | | |
| Salaries, wages and benefits | 391,332,813 | 346,844,716 |
| Scholarships and fellowships | 14,214,342 | 14,507,194 |
| Supplies and other services | 172,740,771 | 160,714,289 |
| Depreciation | 30,545,927 | 27,087,074 |
| Total operating expenses | 608,833,853 | 549,153,273 |
| Operating loss | (218,995,707) | (184,110,196) |
| Nonoperating revenues (expenses) | | |
| State appropriations | 199,417,373 | 171,299,493 |
| Gifts | 35,997,781 | 31,311,397 |
| Grants | 1,945,304 | 1,656,633 |
| Investments, net | (96,804,836) | 112,172,853 |
| Interest expense | (18,027,317) | (15,838,791) |
| Other nonoperating expenses, net | (1,941,951) | (435,604) |
| Net nonoperating revenues | 120,586,354 | 300,165,981 |
| (Loss) Income before other changes in net assets | (98,409,353) | 116,055,785 |
| Other changes in net assets | | |
| Capital gifts and grants | 37,960,384 | 7,423,318 |
| Additions to permanent endowments | 18,965,286 | 15,922,925 |
| Intergovernmental Transfers | 2,069,340 | 2,605,516 |
| (Decrease) Increase in net assets | (39,414,343) | 142,007,544 |
| Net assets, beginning of year, as previously reported | 1,379,922,013 | 1,158,366,043 |
| Adoption of GASB 52 Adjustment (see note 1) | - | 79,548,426 |
| Net assets, beginning of year, as adjusted | 1,379,922,013 | 1,237,914,469 |
| Net assets, end of year | $ 1,340,507,670 | $ 1,379,922,013 |

*See accompanying notes to financial statements.*

# The University of Alabama

## Statements of Cash Flows
## For the Years Ended September 30, 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Cash flows from operating activities | | |
| Student tuition and fees, net | $ 198,924,542 | $ 168,001,580 |
| Grants and contracts | 78,795,086 | 80,203,795 |
| Receipts from sales and services of: | | |
| Educational activities | 16,123,839 | 15,016,236 |
| Other receipts | 27,190,440 | 24,906,437 |
| Other receipts (disbursements) | 34,053,004 | (36,165,707) |
| Payments to suppliers | (163,714,439) | (168,568,920) |
| Payments to employees | (391,337,821) | (335,620,518) |
| Payments for scholarships and fellowships | (17,162,754) | (16,720,142) |
| Student loan (disbursements) collections | (872,206) | 266,411 |
| Auxiliary enterprises | 96,282,590 | 89,479,022 |
| Net cash used in operating activities | (121,717,719) | (179,201,806) |
| Cash flows from noncapital financing activities | | |
| State appropriations | 199,417,373 | 171,299,493 |
| Private gifts | 60,334,281 | 52,351,800 |
| Grants | 1,945,304 | 1,656,633 |
| (Payments) proceeds received from note payable | (750,000) | 750,000 |
| Student direct lending receipts | 103,922,869 | 84,668,321 |
| Student direct lending disbursements | (104,832,026) | (85,204,718) |
| Deposits from (to) affiliates, net | 5,926,863 | (151,818) |
| Other disbursements, net | (182,528) | (387,323) |
| Intergovernmental Transfers | 376,511 | 954,994 |
| Net cash provided by noncapital financing activities | 266,158,647 | 225,937,382 |
| Cash flows from capital and related financing activities | | |
| Proceeds from issuance of notes and bonds payable | 45,425,000 | 2,900,000 |
| Capital gifts, grants and contracts | 37,960,384 | 3,734,536 |
| Purchase of capital assets | (90,907,540) | (82,371,381) |
| Principal payments on capital debt | (56,790,882) | (7,849,460) |
| Interest payments on capital debt | (17,526,876) | (18,044,221) |
| Intergovernmental Transfers | 1,692,829 | 1,650,522 |
| Net cash used in capital and related financing activities | (80,147,085) | (99,980,004) |
| Cash flows from investing activities | | |
| Interest and dividends on investments | 34,901,629 | 33,365,508 |
| Purchase of investments | (601,537,508) | (93,115,296) |
| Proceeds from sales and maturities of investments | 511,621,705 | 123,526,718 |
| Issuance of note to 1831 Foundation | (21,078,096) | (34,052,494) |
| Net cash (used in) provided by investing activities | (76,092,270) | 29,724,436 |
| Net decrease in cash and cash equivalents | (11,798,427) | (23,519,992) |
| Cash and cash equivalents, beginning of year | 17,646,712 | 41,166,704 |
| Cash and cash equivalents, end of year | $ 5,848,285 | $ 17,646,712 |
| Reconcilation of cash and cash equivalents to the statement of net assets | | |
| Cash and cash equivalents-current | $ 1,460,303 | $ 11,718,163 |
| Restricted cash and cash equivalents-noncurrent | 4,387,982 | 5,928,549 |
| Total cash and cash equivalents | $ 5,848,285 | $ 17,646,712 |

*See accompanying notes to financial statements.*

| | 2008 | 2007 |
|---|---|---|
| Reconciliation of operating loss to net cash used in operating activities | | |
| Operating loss | $ (218,995,707) | $ (184,110,196) |
| Adjustments to reconcile operating loss to net cash used in operating actvities | | |
| Depreciation expense | 30,545,927 | 27,087,074 |
| Bad debt expense | 139,457 | 406,153 |
| Changes in assets and liabilities | | |
| Accounts and other receivables | (3,823,231) | (5,110,957) |
| Inventories and other assets | 31,383,837 | (30,586,983) |
| Accounts payable and accrued liabilities | 7,499,308 | (1,874,030) |
| Deferred revenue | 31,532,690 | 14,987,133 |
| Net cash used in operating activities | $ (121,717,719) | $ (179,201,806) |
| Supplemental noncash activities information | | |
| Gift of capital assets | $ 6,415,193 | $ 3,142,664 |
| Capital assets acquired with a liability | 2,713,872 | 3,136,418 |
| (Loss) on the disposal of capital assets | - | (2,670) |

*See accompanying notes to financial statements.*

# The University of Alabama

## Discretely Presented Component Units
## Statements of Financial Position
## 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 5,207,150 | $ 2,628,732 |
| Investments | 79,684,943 | 81,096,303 |
| Contributions receivable, net | 1,500,827 | 1,622,361 |
| Other receivables | 1,345,012 | 1,744,100 |
| Other assets | 1,311,626 | 789,116 |
| Property, plant and equipment, net | 52,120,758 | 34,107,943 |
| Total assets | $ 141,170,316 | $ 121,988,555 |
| **Liabilities and net assets** | | |
| Accounts payable and accrued liabilities | $ 228,176 | $ 574,707 |
| Deferred revenue | 1,225,109 | 1,079,018 |
| Annuities payable | 5,074,260 | 4,774,059 |
| Notes payable | 54,623,974 | 33,545,878 |
| Other liabilities | 10,468,389 | 12,255,640 |
| Total liabilities | 71,619,908 | 52,229,302 |
| **Net Assets** | | |
| Unrestricted | 14,237,663 | 15,723,439 |
| Temporarily restricted | 23,407,894 | 27,708,593 |
| Permanently restricted | 31,904,851 | 26,327,221 |
| Total net assets | 69,550,408 | 69,759,253 |
| Total liabilities and net assets | $ 141,170,316 | $ 121,988,555 |

*See accompanying notes to financial statements.*

# The University of Alabama

## Discretely Presented Component Units
## Statements of Activities and Changes in Net Assets
## For the Years Ended 2008 and 2007

| | 2008 | 2007 |
|---|---|---|
| Revenues, gains and other support | | |
| Gifts | $ 13,105,736 | $ 11,675,454 |
| Investment (loss) income | (3,604,359) | 9,862,732 |
| Royalties | 1,221,094 | 1,212,530 |
| Rental income | 3,600,290 | 589,351 |
| Other | 1,678,079 | 1,738,956 |
| Total revenues, gains and other support | 16,000,840 | 25,079,023 |
| Expenses and losses | | |
| Program services | 9,648,483 | 12,330,491 |
| Fundraising | 605,494 | 504,782 |
| General and administrative | 1,866,454 | 1,892,424 |
| Supplies and services | 1,154,466 | 126,441 |
| Depreciation | 745,641 | 115,490 |
| Interest Expense | 1,824,654 | - |
| Change in value of split-interest agreements | 364,493 | 185,346 |
| Total expenses and losses | 16,209,685 | 15,154,974 |
| (Decrease) Increase in net assets | (208,845) | 9,924,049 |
| Net assets, beginning of year | 69,759,253 | 59,835,204 |
| Net assets, end of year | $ 69,550,408 | $ 69,759,253 |

*See accompanying notes to financial statements.*

# THE UNIVERSITY OF ALABAMA
# NOTES TO FINANCIAL STATEMENTS
Years Ended September 30, 2008 and 2007

## Note 1 – Summary of Significant Accounting Policies

The University of Alabama (the "University"), Tuscaloosa, Alabama is one of three campuses of The University of Alabama System (the "System") which is a component unit of the State of Alabama. These 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 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 System that are attributable to the transactions of the University. 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.

The University, as a public institution, prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"), including all applicable effective statements of the GASB and all statements of the Financial Accounting Standards Board ("FASB") through November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB pronouncements issued after November 30, 1989.

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

- **Invested in capital assets, net of related debt:** Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- **Restricted:**

  **Nonexpendable** – Net assets subject to externally imposed stipulations that they be maintained permanently by 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 internally designated for academic, research and capital programs.

**Reclassifications** – Certain amounts in the financial statements for the prior period have been reclassified to conform to the current year presentation.

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. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

The University's policy for defining operating activities as reported on the statements of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, including state appropriations, private gifts and investment income.

Auxiliary enterprise revenues primarily represent revenues generated by university housing, intercollegiate athletics and the supply store. Revenues received for capital activities are considered neither operating nor nonoperating activities and are presented after nonoperating activities on the accompanying statements of revenues, expenses and changes in net assets.

All internal sales between University departments from sales and service units (fleet services, postal services, telecommunications, etc.) have been eliminated in the accompanying financial statements.

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

**Change in Method of Accounting for Land and Other Real Estate Held as Investments by Endowments** – During 2008, the University elected to change its method of valuing land and other real estate held as investments by endowments to market value, whereas in all prior years such investments were carried at cost. The new method of accounting for land and other real estate held as investments by endowments was applied, effective October 1, 2006, pursuant to GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, of the Governmental Accounting Standards Board ("GASB 52") and comparative financial statements for 2007 have been adjusted to apply the new method retrospectively. The following financial statement line items for fiscal year 2007 were affected by the change in accounting principle.

| | As Originally Reported | As Adjusted for GASB 52 | Effect of Change |
|---|---|---|---|
| **Statements of Net Assets 2007** | | | |
| Endowment, and life income investments | $ 525,799,375 | $ 605,347,801 | $ 79,548,426 |
| Total net assets | $ 1,300,373,587 | $ 1,379,922,013 | $ 79,548,426 |
| **Statements of Revenues, Expenses and Changes in Net Assets 2007** | | | |
| Net assets, beginning of year | $ 1,158,366,043 | $ 1,237,914,469 | $ 79,548,426 |

**Scope of Statements** – GASB Statement No. 14, *The Financial Reporting Entity*, as amended, requires governmental entities to include in their financial statements as a component unit, organizations that are legally separate entities for which the governmental entity, as a primary organization, is financially accountable.

The Alabama Shakespeare Festival, Inc. (the "Festival") has been presented as a blended component unit within the University's financial statements. The Festival's financial statements include the financial data of its discretely presented component unit, The Alabama Shakespeare Endowment Trust (the "Endowment Trust"). The Endowment Trust, a legally separate entity, was established to support the Festival's activities. The Festival is a regional theater dedicated to providing both classical and artistic endeavors and to promote and contribute to the educational resources available in these areas. The University has sole voting power and acts through its chosen designees, the Festival's current Board of Directors.

Summary financial information of the Festival for the years ended September 30, 2008 and 2007 is included in the University's financial statements as follows:

| | 2008 | 2007 |
|---|---|---|
| Assets | | |
| Cash | $ 576,979 | $ 1,160,055 |
| Other current assets | 1,030,202 | 1,610,823 |
| Endowment investments | 10,447,806 | 15,487,487 |
| Other long-term investments | - | 10,800 |
| Other noncurrent assets | 1,867,998 | 2,228,988 |
| Total assets | $ 13,922,985 | $ 20,498,153 |
| Liabilities and net assets | | |
| Current liabilities | $ 2,168,482 | $ 3,458,205 |
| Noncurrent liabilities | 741,546 | 769,730 |
| Net assets | 11,012,957 | 16,270,218 |
| Total liabilities and net assets | $ 13,922,985 | $ 20,498,153 |
| Major components of revenues, expenses and changes in net assets | | |
| Operating revenues | $ 4,123,605 | $ 4,260,635 |
| Operating expenses | (10,294,005) | (10,316,232) |
| Net nonoperating revenues | 913,139 | 5,501,159 |
| Change in net assets | $ (5,257,261) | $ (554,438) |

In October 1985, the Festival moved to new facilities owned by the Alabama Shakespeare Festival Theatre Finance Authority (the "Authority"). As of September 30, 2008, the Festival and the Authority have not executed a written lease agreement. A verbal agreement allows the Festival the use of the facilities and certain furnishings and equipment in return for their maintenance. Festival expenses include the cost of the insurance, utilities, and general maintenance of the facilities. The value of donated facilities, however, is not included in gift revenue because the fair rental value cannot be reasonably determined.

The Crimson Tide Foundation ("CTF"), chartered on October 1, 2004 with a fiscal year end of June 30, has also been presented as a blended component unit within the University's financial statements. CTF is a nonprofit corporation organized exclusively to promote and encourage a continuing interest in and loyalty to the intercollegiate athletics program at the University; to promote, encourage and support the construction, improvement and renovation of athletic facilities; to encourage alumni and friends of the University to generously support the University and its Athletics Department by gifts, devises and bequests; to support, promote and encourage the education of University students; to provide and contribute to scholarship funding to the University for the University's student-athletes, both men and women, in all of the University's intercollegiate sports; and to conduct any and all appropriate activities, in accordance with National Collegiate Athletic Association and Southeastern Conference policies on institutional control, in order to accomplish the above objects and purposes. The foundation is governed by a Board of Directors that is appointed by the University's Board.

During fiscal year 2007, CTF and the University entered into a trust agreement to better support the University's athletic programs. Under the guidance of the trust, CTF will coordinate and administer the application and expenditure of certain athletic revenues for the Intercollegiate Athletic facilities and programs, subject to the pledge of all athletic revenues under the University's master trust indenture dated July 1, 2004. In 2007, cash collections generated by CTF were initially held and invested by the University, as agent, and later transferred to and invested by CTF. Consequently, as a result of the differing fiscal year ends between the University and CTF, a receivable was established by CTF for this transfer in their fiscal year 2007 statements, and is reported as such on the consolidated financial statements. The transfer occured after June 30, 2007 and prior to September 30, so there is no payable included in the University's 2007 Statements.

CTF financial information for the years ended June 30, 2008 and June 30, 2007 is summarized and included in the University's financial statements as follows:

| | 2008 | 2007 |
|---|---|---|
| Assets | | |
| Cash | $ 883,324 | $ 1,133,315 |
| Investments | 49,296,747 | 6,320,697 |
| Current contributions receivable | 5,835,436 | 5,732,272 |
| Receivable from the University | - | 33,310,860 |
| Other receivables | 909,065 | - |
| Restricted cash | 42,608 | 14,033 |
| Endowment investments | 1,814,826 | 817,652 |
| Noncurrent contributions receivable | 10,401,255 | 16,666,133 |
| Equipment, net | 4,168,926 | 4,604,298 |
| Total assets | $ 73,352,187 | $ 68,599,260 |
| Liabilities and Net Assets | | |
| Current liabilities | $ 8,395,038 | $ 7,173,339 |
| Noncurrent liabilities | 3,324,839 | 3,775,321 |
| Net assets | 61,632,310 | 57,650,600 |
| Total liabilities and net assets | $ 73,352,187 | $ 68,599,260 |
| Major components of revenues, expenses and changes in net assets | | |
| Operating revenues | $ 37,164,159 | $ 24,253,955 |
| Operating expenditures | (3,766,938) | (2,667,230) |
| Net nonoperating (expenses) revenues | (71,090) | 952,177 |
| Intergovernmental Transfers | (29,344,421) | (3,552,887) |
| Increase in net assets | $ 3,981,710 | $ 18,986,015 |

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, is an amendment to GASB Statement No. 14, *The Financial Reporting Entity*. The primary objective of Statement No. 14 is to determine whether all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. Statement No. 39 amended Statement No. 14 and provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit.

The University has four foundations which have been organized exclusively for charitable, scientific and educational purposes for the benefit of the University. The four foundations are The National Alumni Association of The University of Alabama, The Capstone Foundation, The 1831 Foundation and The University of Alabama Law School Foundation (the "Foundations"). Because of the relationship between the University and the Foundations, the Foundations are considered component units of the University and are discretely presented in the accompanying financial statements in accordance with GASB Statement No. 39.

The Foundations are not-for-profit organizations that report financial results under principles prescribed by the FASB except for The 1831 Foundation which reports financial results under principles prescribed under the GASB. Most significant to the FASB–reporting Foundations operations and reporting model are FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, 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 and presentation features. No modifications have been made to the FASB reporting Foundations' financial information in the University's financial reporting entity for these differences.

Summary information for the Foundations, the University's discretely presented component units, is as follows:

Statements of Financial Position

| | National Alumni Association June 30, 2008 | Law School Foundation June 30, 2008 | Capstone Foundation Sept. 30, 2008 | 1831 Foundation Sept. 30, 2008 | Total 2008 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and cash equivalents | $ 624,525 | $ 287,374 | $ 19,337 | $ 4,275,914 | $ 5,207,150 |
| Investments | 30,595,232 | 25,096,618 | 23,368,893 | 624,200 | 79,684,943 |
| Contributions receivable | - | 959,107 | 541,720 | - | 1,500,827 |
| Other receivables | - | 19,980 | 1,325,032 | - | 1,345,012 |
| Other assets | 337,622 | 655,397 | 318,607 | - | 1,311,626 |
| Property, plant and equipment | - | - | 182,569 | 51,938,189 | 52,120,758 |
| Total assets | $ 31,557,379 | $ 27,018,476 | $ 25,756,158 | $ 56,838,303 | $ 141,170,316 |
| Liabilities and net assets | | | | | |
| Accounts payable and accrued liabilities | $ 92,462 | $ 20,527 | $ 108,319 | $ 6,868 | $ 228,176 |
| Deferred revenue | - | - | - | 1,225,109 | 1,225,109 |
| Annuities payable | - | - | 5,074,260 | - | 5,074,260 |
| Note Payable | - | - | - | 54,623,974 | 54,623,974 |
| Other liabilities | - | - | 10,375,283 | 93,106 | 10,468,389 |
| Total liabilities | 92,462 | 20,527 | 15,557,862 | 55,949,057 | 71,619,908 |
| Net Assets | | | | | |
| Unrestricted | 9,829,848 | 3,052,248 | 466,321 | 889,246 | 14,237,663 |
| Temporarily restricted | 6,332,526 | 7,361,254 | 9,714,114 | - | 23,407,894 |
| Permanently restricted | 15,302,543 | 16,584,447 | 17,861 | - | 31,904,851 |
| Total net assets | 31,464,917 | 26,997,949 | 10,198,296 | 889,246 | 69,550,408 |
| Total liabilities and net assets | $ 31,557,379 | $ 27,018,476 | $ 25,756,158 | $ 56,838,303 | $ 141,170,316 |

| | National Alumni Association June 30, 2007 | Law School Foundation June 30, 2007 | Capstone Foundation Sept. 30, 2007 | 1831 Foundation Sept. 30, 2007 | Total 2007 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash and cash equivalents | $ 435,075 | $ 238,292 | $ 339,125 | $ 1,616,240 | $ 2,628,732 |
| Investments | 27,419,018 | 26,274,556 | 27,402,729 | - | 81,096,303 |
| Contributions receivable | - | 1,062,630 | 559,731 | - | 1,622,361 |
| Other receivables | 381,318 | 25,850 | 1,336,932 | - | 1,744,100 |
| Other assets | 294,802 | 408,515 | 85,799 | - | 789,116 |
| Property, plant and equipment | - | - | 187,058 | 33,920,885 | 34,107,943 |
| Total assets | $ 28,530,213 | $ 28,009,843 | $ 29,911,374 | $ 35,537,125 | $ 121,988,555 |
| Liabilities and net assets | | | | | |
| Accounts payable and accrued liabilities | $ 80,392 | $ 82,914 | $ 408,922 | $ 2,479 | $ 574,707 |
| Deferred revenue | - | - | - | 1,079,018 | 1,079,018 |
| Annuities payable | - | - | 4,774,059 | - | 4,774,059 |
| Note Payable | - | - | - | 33,545,878 | 33,545,878 |
| Other liabilities | - | - | 11,693,915 | 561,725 | 12,255,640 |
| Total liabilities | 80,392 | 82,914 | 16,876,896 | 35,189,100 | 52,229,302 |
| Net Assets | | | | | |
| Unrestricted | 10,710,465 | 3,601,489 | 1,063,460 | 348,025 | 15,723,439 |
| Temporarily restricted | 6,415,268 | 9,340,168 | 11,953,157 | - | 27,708,593 |
| Permanently restricted | 11,324,088 | 14,985,272 | 17,861 | - | 26,327,221 |
| Total net assets | 28,449,821 | 27,926,929 | 13,034,478 | 348,025 | 69,759,253 |
| Total liabilities and net assets | $ 28,530,213 | $ 28,009,843 | $ 29,911,374 | $ 35,537,125 | $ 121,988,555 |

## Statements of Activities and Changes in Net Assets

| | National Alumni Association June 30, 2008 | Law School Foundation June 30, 2008 | Capstone Foundation Sept. 30, 2008 | 1831 Foundation Sept. 30, 2008 | Total 2008 |
|---|---|---|---|---|---|
| Revenues, gains and other support | | | | | |
| Gifts | $ 6,036,951 | $ 2,271,100 | $ 4,173,485 | $ 624,200 | $ 13,105,736 |
| Investment income | 1,177,994 | 1,085,944 | 547,823 | - | 2,811,761 |
| Unrealized and realized losses on investments, net | (1,928,784) | (1,298,767) | (3,188,569) | - | (6,416,120) |
| Royalties | 1,221,094 | - | - | - | 1,221,094 |
| Rental income | - | - | - | 3,600,290 | 3,600,290 |
| Other | 24,280 | 132,103 | 1,480,204 | 41,492 | 1,678,079 |
| Total revenues, gains and other support | 6,531,535 | 2,190,380 | 3,012,943 | 4,265,982 | 16,000,840 |
| Expenses and losses | | | | | |
| Program services | 2,086,754 | 2,417,817 | 5,143,912 | - | 9,648,483 |
| Fundraising | 545,262 | 60,232 | - | - | 605,494 |
| General and administrative | 884,423 | 641,311 | 340,720 | - | 1,866,454 |
| Supplies and services | - | - | - | 1,154,466 | 1,154,466 |
| Depreciation | - | - | - | 745,641 | 745,641 |
| Interest Expense | - | - | - | 1,824,654 | 1,824,654 |
| Change in value of split-interest agreements | - | - | 364,493 | - | 364,493 |
| Total expenses and losses | 3,516,439 | 3,119,360 | 5,849,125 | 3,724,761 | 16,209,685 |
| Change in net assets | 3,015,096 | (928,980) | (2,836,182) | 541,221 | (208,845) |
| Net assets, beginning of year | 28,449,821 | 27,926,929 | 13,034,478 | 348,025 | 69,759,253 |
| Net assets, end of year | $ 31,464,917 | $ 26,997,949 | $ 10,198,296 | $ 889,246 | $ 69,550,408 |

| | National Alumni Association June 30, 2007 | Law School Foundation June 30, 2007 | Capstone Foundation Sept. 30, 2007 | 1831 Foundation Sept. 30, 2007 | Total 2007 |
|---|---|---|---|---|---|
| Revenues, gains and other support | | | | | |
| Gifts | $ 2,876,172 | $ 2,805,739 | $ 5,993,543 | $ - | $ 11,675,454 |
| Investment income | 986,557 | 1,388,450 | 403,583 | - | 2,778,590 |
| Unrealized and realized gains on investments, net | 3,073,374 | 2,568,392 | 1,442,376 | - | 7,084,142 |
| Royalties | 1,212,530 | - | - | - | 1,212,530 |
| Rental income | - | - | - | 589,351 | 589,351 |
| Other | 22,511 | 210,026 | 1,505,814 | 605 | 1,738,956 |
| Total revenues, gains and other support | 8,171,144 | 6,972,607 | 9,345,316 | 589,956 | 25,079,023 |
| Expenses and losses | | | | | |
| Program services | 2,137,346 | 4,763,973 | 5,429,172 | - | 12,330,491 |
| Fundraising | 486,937 | 17,845 | - | - | 504,782 |
| General and administrative | 860,351 | 573,856 | 458,217 | - | 1,892,424 |
| Supplies and services | - | - | - | 126,441 | 126,441 |
| Depreciation | - | - | - | 115,490 | 115,490 |
| Change in value of split-interest agreements | - | - | 185,346 | - | 185,346 |
| Total expenses and losses | 3,484,634 | 5,355,674 | 6,072,735 | 241,931 | 15,154,974 |
| Change in net assets | 4,686,510 | 1,616,933 | 3,272,581 | 348,025 | 9,924,049 |
| Net assets, beginning of year | 23,763,311 | 26,309,996 | 9,761,897 | - | 59,835,204 |
| Net assets, end of year | $ 28,449,821 | $ 27,926,929 | $ 13,034,478 | $ 348,025 | $ 69,759,253 |

**Basis of Accounting-Discretely Presented Component Units** – The financial statements of the Foundations have been prepared on the accrual basis.

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundations 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 included 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 the Foundations 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 the University. 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 or the absence thereof.

**Investments - Discretely Presented Component Units**
In accordance with FASB Statement No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*, the FASB–reporting Foundations' investments in debt securities, equity securities and mutual funds with readily determinable market values are reported at their fair market values based on published market prices. These Foundations invest certain amounts in a System-sponsored investment pool, the Endowment Fund (Note 3). The value of the investment in the pool is determined by the System and based on the Foundations' proportionate shares of the net asset value of the pool. The pool invests in various investment securities, including both marketable and non-readily marketable securities. The pool values investments that do not have readily determinable market values at cost, unless impaired.

Investments received by gift are stated at fair value at date of receipt. Changes in market values are reported as unrealized gains or losses on the statement of activities and changes in net assets. All interest income and realized and unrealized gains and losses are reported in the statement of activities and changes in net assets.

**Contributions Receivable - Discretely Presented Component Units**
In accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, contributions received, including unconditional promises to give, are recognized as revenues at their fair values in the period received. For financial reporting purposes, the FASB–reporting Foundations distinguish between contributions of unrestricted assets, temporarily restricted assets and permanently restricted assets. Contributions for which donors have imposed restrictions which limit the use of the donated assets are reported as restricted support if the restrictions are not met in the same reporting period. When such donor-imposed restrictions are met in subsequent reporting periods, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions when the purpose or time restrictions are met. Contributions of assets which donors have stipulated must be maintained permanently, with only the income earned thereon available for current use, are classified as permanently restricted assets. Contributions for which donors have not stipulated restrictions are reported as unrestricted support.

Unconditional promises to give with payments due in future periods are reported as restricted support. Gifts of land, buildings and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulation, the Foundations report expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.


Other significant accounting policies of the University are as follows:

**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, including restricted cash and 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 majority of the University's investment portfolio is 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 investment pool are carried at cost. Fair value for equity securities, debt securities, mutual funds and U.S. government and agency obligations held by the University is determined from quoted market prices or market prices of similar instruments. Investments received by gift are reported at fair value at date of receipt. Net investment income, including realized and unrealized gains and losses, are reported as nonoperating revenues (expenses) in the statements of revenues, expenses and changes in net assets.

Investments are reported in four categories in the statement of net assets. Investments recorded as endowment and life income are those invested funds that cannot be used to fund current operations and thus are included in noncurrent assets. Investments held for future capital projects are included in noncurrent assets, except for amounts included in current assets to offset current construction-related payables. Other long-term investments are those invested funds with maturities greater than one year or are considered by management to be of a long duration that are not an investment of the endowment and life income fund or the plant fund. All other investments are included as short-term investments.

**Loans Receivable:** Loans receivable represent all amounts owed on promissory notes from debtors including campus-based and Federal student loans.

**Inventories:** Inventories are carried at the lower of cost or market and consist primarily of the University Supply Store inventory.

**Accounts and Notes Receivable:** Accounts receivable consist primarily of tuition charged to students and amounts due from federal, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's contracts and grants. Accounts receivable are recorded net of estimated uncollectible amounts. The University has certain notes receivable, principally from campus fraternities for construction and a short-term note from The 1831 Foundation.

**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. 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 is incurred.

The University capitalizes certain software and development costs associated with obtaining and developing internal-use computer software. Training costs and data conversion 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, as applicable, for certain qualifying 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 and infrastructure (20-50 years), land improvements (5-25 years), library collection (10 years) and inventoried equipment (5-20 years) is computed on a straight-line basis.

**Pledges:** The University receives pledges and bequests of financial support. Revenue is recognized when a pledge representing an unconditional promise to give is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. Pledges are recorded at their gross, undiscounted amount. Endowment pledges do not meet eligibility requirements and are not recorded as assets until the related gift is received. Due to uncertainties with regard to their realization and valuation, bequest intentions and other conditional promises are not recognized as assets until the specified conditions are met. The University's trust policies do not differ in nature from endowment policies.

**Charitable Remainder Trusts:** The University is the beneficiary of various charitable remainder trust funds administered by unaffiliated organizations. Under the terms of the agreements, the University has the irrevocable right to receive the remaining assets of the trusts upon the death of a specified beneficiary or beneficiaries in exchange for a stipulated amount to be paid periodically to the donor or their designee until the death of the beneficiary. Following the death of the beneficiary, the remainder is transferred to the University as either unrestricted or restricted funds depending on donor-imposed purpose restrictions. The assets received at the inception of a charitable remainder trust agreement are recorded at fair value at the date of gift. The fair value of charitable remainder trust assets is approximately $6.8 million and $9.3 million at September 30, 2008 and 2007, respectively. Any change in value related to these trusts is recorded as investment income in the statements of revenues, expenses and changes in net assets.

The liability associated with these agreements is recorded at the present value based on IRS mortality tables and prevailing interest rates. The liability is reduced for distributions made to the beneficiaries and is adjusted annually for revaluations of expected future payments to the beneficiaries based on changes in life expectancy. The present value of the liability associated with these agreements is approximately $5.2 million and $4.0 million at September 30, 2008 and 2007, respectively.

**Beneficial Interest in Perpetual Trusts:** Perpetual trusts are trusts under which the University will receive income distributions in perpetuity, but will never receive the corpus of the trust assets (principal). Income received from perpetual trusts is recognized as unrestricted or restricted expendable investment income depending on donor restrictions.

**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 with the endowment after the spending rate distributions. The Board approved a spending rate for the fiscal years ending September 30, 2008 and 2007 of 5.0% of a moving three-year average of the market (unit) value.

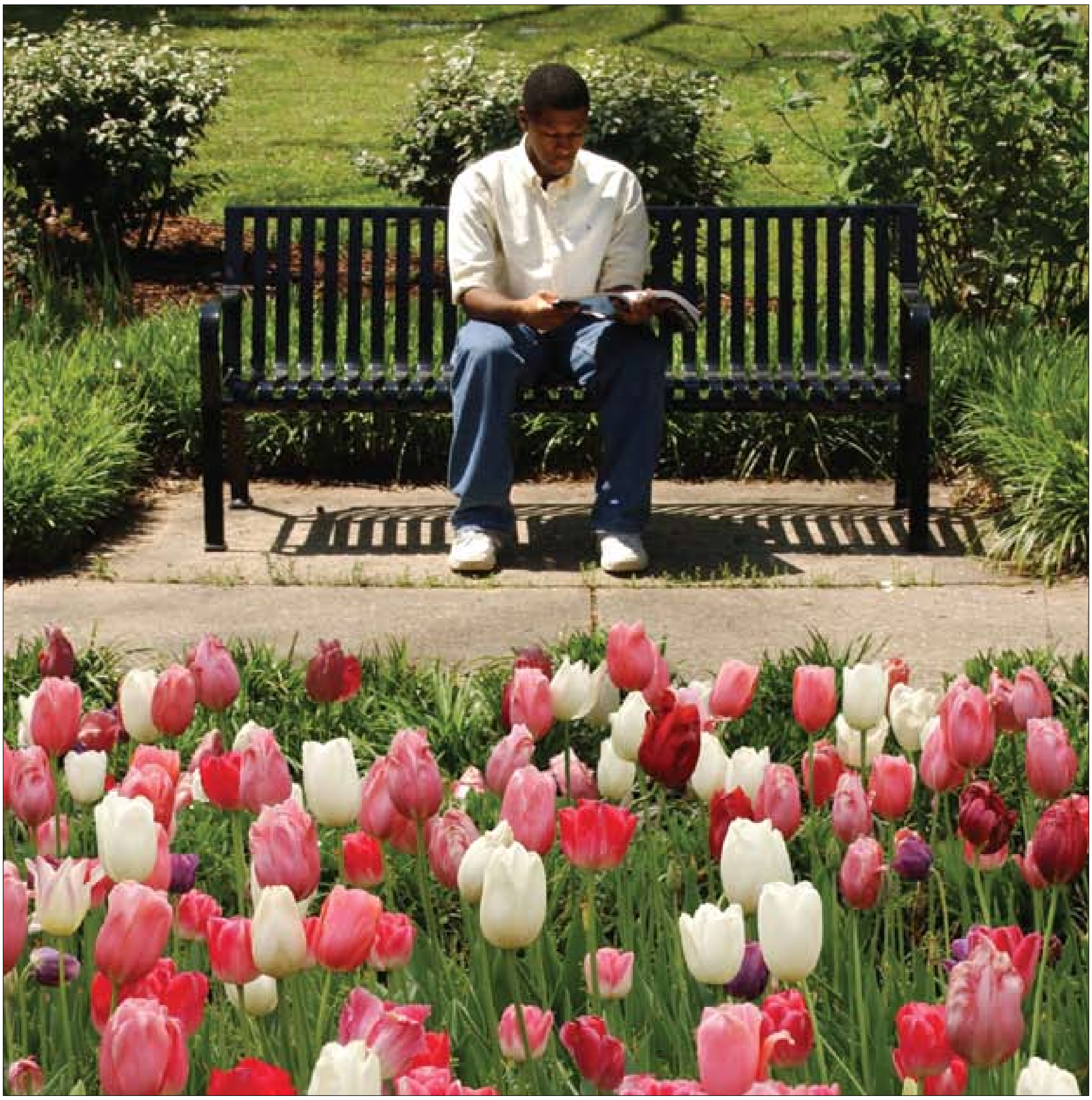
**Deferred Revenues:** Deferred revenues consist primarily of tuition and athletic ticket revenue related predominantly to future fiscal years.

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

**Compensated Absences:** The University accrues liabilities for employees' annual and sick leave balances. The accrual rates are formulated calculations based on length of service, job classification, and hours worked. Adjustments to the accrual are recorded annually.

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

**Grant and Contract Revenue:** The University receives grant and contract revenue from governmental and private sources. The University recognizes revenue associated with the sponsored programs in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on the terms of the individual grant or contract.



## Note 2 – Cash and Cash Equivalents

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.

The System sponsors an investment pool, the Short-Term Fund, for the System entities to invest operating cash reserves. As of September 30, 2008 and 2007, the Short-Term Fund invested exclusively in a bank common trust, the Commonfund. On September 29, 2008, the trustee of the Commonfund, Wachovia Bank, N.A., froze withdrawals from the Commonfund and announced its decision to terminate the fund through an orderly liquidation. As a consequence, the trustee limited withdrawals based on investors' proportional interests as assets of the Commonfund, mature or are sold. Given the aforementioned event, the liquidity of the Commonfund no longer met the University's criteria for the holdings in the Short-Term Fund to be considered a cash equivalent. As of September 30, 2008, \$34.9 million of the University's holding in the Short-Term Fund was reclassified as short-term investments while \$9.9 million was reclassified as other long-term investments, thus decreasing cash and cash equivalents for the year ended September 30, 2008 to \$5.8 million. As of September 30, 2007, the University had approximately \$15.0 million in the Short-Term Fund, which is presented in cash and cash equivalents on the statements of net assets. See Note 3 for further disclosure regarding the Short-Term Fund pool.

## Note 3 – Investments

The Board has the responsibility for the establishment of the investment policy and the oversight of the investments for the various System and related entities. In order to facilitate system-wide investment economies and objectives, the Board has established four distinct investment pools based primarily on the projected investment time-horizons for cash reserves. These investment pools are the Endowment Fund, Prime Fund, Intermediate Fund and the Short-Term Fund (collectively, the "System Pools"). Pursuant to Board investment policies, each System or related entity may include all or a portion of their investments within the System-sponsored investment pools. These investment funds are considered 'internal' investment pools under GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*", with the assets pooled on a market value basis. Separately managed funds that are resident with each entity are to be invested consistent with the asset mix of the corresponding System investment pool. 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. As discussed in Note 1, certain investments within the Endowment Fund are valued at cost. The University's portion of investments in the Endowment Fund which are measured at cost totaled approximately \$37.1 million and \$23.8 million at September 30, 2008 and 2007, respectively.

**Prime Fund**
The Prime Fund is a longer-term pool 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 Intermediate Fund investment managers must be a large mutual fund providing daily liquidity.

**Short-Term Fund**
The Short-Term Fund contains the short-term cash reserves of the various System entities. Because of the different income and disbursement requirements of each entity, consolidation of these funds reduces daily cash fluctuations and minimizes the amount of short-term cash reserves needed. Assets held in the Short-Term Fund are invested with the primary objectives of stability of principal and liquidity. Such investments are restricted to high quality, liquid, money market funds and other fixed income obligations with a maturity of one year or less. Refer to Note 2 for additional information related to the Short-Term Fund.

**Land and Other Real Estate Held as Investments by Endowments**
The University holds 171 tracts of land located in twelve counties of north Alabama totaling 27,782 acres. Of the total land, 15,220 acres are upland pine, 11,759 acres are hardwood and 803 acres are nonforest land. Timber production and related commercial recreation is the highest and best use for the 171 tracts individually and as a whole. The property is located in an area with a favorable climate for growing trees and contains good markets for forest products. Timber production is the predominant land use in the counties that contain the property. Economic trends suggest that forestry will continue to be an important land use in future years. The fee simple market value of $61.7 million was derived through the application of the cost, sales comparison and income capitalization approaches to value. Fee, mineral and surface mining rights for 35,880 acres are valued at $17.8 million. The fair value of these rights were determined using non-quantitative "menus" of incremental value, enhanced values for perceived early exploitation, risk discounted cash flow, and rules-of-thumb developed over time in appraising mineral assets.

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

The composition of investments, by investment type, for the System Pools, at September 30, 2008 and 2007 is as follows:

| | Endowment Fund | | Prime Fund | | Intermediate Fund | | Short Term Fund | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Receivables: | | | | | | | | |
| Accrued Income Receivables | $ 999,238 | $ 1,221,001 | $ 750,868 | $ 956,769 | $ 2,665,378 | $ 2,502,358 | $ - | $ - |
| **Total Receivables** | 999,238 | 1,221,001 | 750,868 | 956,769 | 2,665,378 | 2,502,358 | - | - |
| Cash Equivalents: | | | | | | | | |
| Certificates of Deposit | - | - | - | - | 329,820 | 336,375 | - | - |
| Commercial Paper | - | - | - | - | 1,119,712 | 12,063,608 | - | - |
| Bank Common Trust Fund | - | - | - | - | - | - | - | 108,234,665 |
| Money Market Funds | 5,615,914 | 25,301,538 | 10,060,065 | 10,095,989 | 71,165,106 | 16,988,051 | - | - |
| **Total Cash Equivalents** | 5,615,914 | 25,301,538 | 10,060,065 | 10,095,989 | 72,614,638 | 29,388,034 | - | 108,234,665 |
| Equities: | | | | | | | | |
| U. S. Common Stock | 55,668,249 | 67,292,860 | 41,908,374 | 48,178,137 | - | - | - | - |
| Non-U.S. Stock | 5,684,166 | 7,347,139 | 4,175,631 | 7,312,988 | - | - | - | - |
| **Total Equities** | 61,352,415 | 74,639,999 | 46,084,005 | 55,491,125 | - | - | - | - |
| Fixed Income Securities: | | | | | | | | |
| U.S. Government Obligations | 11,602,531 | 10,835,836 | 8,106,008 | 9,338,399 | 70,477,571 | 61,111,575 | - | - |
| Mortgage Backed Securities | 27,790,776 | 18,017,647 | 21,397,318 | 13,665,433 | 37,701,180 | 38,875,997 | - | - |
| Collateralized Mortgage Obligations | 3,755,744 | 3,472,960 | 3,382,381 | 3,499,996 | 128,683,240 | 161,573,068 | - | - |
| Corporate Bonds | 17,049,235 | 8,871,505 | 12,611,963 | 6,639,734 | 77,691,890 | 86,153,759 | - | - |
| Non-U. S. Bonds | - | - | - | - | 2,073,278 | 1,308,096 | - | - |
| **Total Fixed Income Securities** | 60,198,286 | 41,197,948 | 45,497,670 | 33,143,562 | 316,627,159 | 349,022,495 | - | - |
| Commingled Funds: | | | | | | | | |
| Bank Common Trust Fund | - | - | - | - | - | - | 169,596,433 | - |
| U. S. Equity Funds | 159,917,048 | 213,441,109 | 115,921,624 | 146,713,790 | - | - | - | - |
| Non-U. S. Equity Funds | 199,693,579 | 256,757,331 | 152,668,048 | 193,752,550 | - | - | - | - |
| U. S. Bond Funds | 57,529,479 | 83,077,595 | 77,708,466 | 123,807,583 | - | 26,998,578 | - | - |
| Non-U. S. Bond Funds | 53,291,125 | 49,402,104 | 40,219,402 | 34,312,212 | - | - | - | - |
| Hedge Funds | 128,532,775 | 141,886,286 | 99,689,372 | 115,940,569 | - | - | - | - |
| Private Equity Funds | 42,024,540 | 26,113,788 | - | - | - | - | - | - |
| Timberland Funds | 8,527,229 | 9,675,974 | - | - | - | - | - | - |
| Real Estate Funds | 70,317,580 | 51,231,303 | 57,320,225 | 31,461,221 | - | - | - | - |
| **Total Commingled Funds** | 719,833,355 | 831,585,490 | 543,527,137 | 645,987,925 | - | 26,998,578 | 169,596,433 | - |
| Total Fund Investments | 846,999,970 | 972,724,975 | 645,168,877 | 744,718,601 | 389,241,797 | 405,409,107 | 169,596,433 | 108,234,665 |
| Total Fund Assets | 847,999,208 | 973,945,976 | 645,919,745 | 745,675,370 | 391,907,175 | 407,911,465 | 169,596,433 | 108,234,665 |
| **Total Fund Liabilities** | (183,225) | (180,246) | (141,142) | (154,188) | (229,248) | (202,841) | - | - |
| Affiliated Entity Investments | (103,271,212) | (102,467,093) | - | - | - | - | - | - |
| **Total Net Asset Value** | $ 744,544,771 | $ 871,298,637 | $ 645,778,603 | $ 745,521,182 | $ 391,677,927 | $407,708,624 | $ 169,596,433 | $ 108,234,665 |


The composition of investments, by investment type and excluding Short-Term Fund amounts, for the University's separately held investments, at September 30, 2008 and 2007 is as follows:

| | 2008 | 2007 |
|---|---|---|
| Cash and Equivalents | | |
| Certificates of Deposit | $ 232,998 | $ 281,023 |
| Money Market Funds | 985,660 | 809,422 |
| Other | 26,415 | - |
| Accrued Income Receivables | 1,604 | 1,355 |
| Total Cash, Receivables and Equivalents | 1,246,677 | 1,091,800 |
| Equities | | |
| Common Stock | 6,561,797 | 8,141,495 |
| Preferred Stock | - | 140,486 |
| Total Equities | 6,561,797 | 8,281,981 |
| Fixed Income Securities | | |
| U.S. Government Obligations | 313,650 | 302,094 |
| Corporate Bonds | 257,614 | 282,154 |
| Foreign Bonds | 40,026 | 40,022 |
| Total Fixed Income Securities | 611,290 | 624,270 |
| Commingled Funds | | |
| U.S. Equity Funds | 8,316,910 | 13,271,603 |
| U.S. Bond Funds | 61,554,446 | 32,683,607 |
| Private Equity Funds | 198,872 | 164,497 |
| Total Commingled Funds | 70,070,228 | 46,119,707 |
| Total Real Estate | 81,951,833 | 81,964,333 |
| System Pooled Investments | | |
| Commonfund | 44,750,465 | - |
| Endowment Fund | 432,982,940 | 500,798,429 |
| Prime Fund | 148,307,006 | 177,917,869 |
| Intermediate Fund | 78,590,338 | 92,317,991 |
| Total System Pooled Investments | 704,630,749 | 771,034,289 |
| Total University Investments | $ 865,072,574 | $ 909,116,380 |

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

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

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

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

The investment policy recognizes that credit risk is appropriate in balanced investment pools such as the Endowment and Prime Funds, which are tracked against the Lehman Aggregate Bond Index benchmark for the fixed income portion of these pools. Fixed income investments within the Endowment and Prime Funds include corporate, mortgage backed, asset backed and U.S. treasury and/or agency bonds with a minimum BBB- rating and an average duration of four years. In addition, approximately $52,000,000 and $37,000,000 in the Endowment and Prime Funds, at September 30, 2008 and 2007, is invested in unrated fixed income securities, excluding fixed income commingled funds. Fixed income commingled funds were approximately $244,000,000 and $326,000,000 in the Endowment and Prime Funds, at September 30, 2008 and 2007, respectively.

The Intermediate Fund is benchmarked against the Lehman 1-3 Government Index with funds invested with four separate fund managers. Fixed income investments include corporate, mortgage backed, asset backed, collateralized mortgage and U.S. treasury and/or agency bonds with a minimum rating of BB or higher. For September 30, 2008 and 2007, approximately $36,000,000 and $500,000, respectively, were invested by the Intermediate Fund in unrated fixed income securities; excluding commingled bond funds, money market funds and commercial paper. Fixed income commingled funds and commercial paper totaled approximately $72,000,000 and $56,000,000 at September 30, 2008 and 2007, respectively.

The Short-Term Fund is committed to immediate liquidity to meet the operating needs of the System campuses and hospital. These funds are invested in a bank sponsored common trust fund, which in turn invests in money market, corporate, mortgage backed, asset backed and U.S. treasury and/or agency securities. These funds are all commingled with funds of other investors. Refer to Note 2 for additional information related to the Short-Term Fund.

The credit risk for fixed and variable income securities, for the System Pools, at September 30, 2008 and 2007 are as follows:

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

In accordance with the Board policy disclosed above, credit risk for the University's fixed and variable income securities held outside of the System Pools is managed by diversifying across issuers and limiting the amount of portfolio assets that are invested in non-investment grade securities.

The credit risk for fixed and variable income securities, for the University's separately held investments, at September 30, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| Fixed or Variable Income Securities | | |
| U.S. Government Guaranteed | $ 313,651 | $ 302,094 |
| Other U.S. Dollar and Commingled Bonds | | |
| AAA | 1,085,469 | 1,716,205 |
| AA | 51,239,871 | 8,558,731 |
| A | 166,553 | 188,032 |
| BBB | - | - |
| BB | 77,573 | 85,641 |
| B | 90,989 | 117,804 |
| Unrated | 10,177,291 | 23,148,793 |
| | $ 63,151,397 | $ 34,117,300 |

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

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

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

As previously mentioned, credit risk in each investment pool and the University's separately held investment portfolio is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2008 and 2007, there was no investment in a single issuer that represents 5% or more of total investments in the System Pools or the University's separately held investment portfolio.

**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 investment pool 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, 2008 and 2007 are as follows:

| | Endowment Fund | | Prime Fund | | Intermediate Fund | | Short Term Fund | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| U. S. Government Obligations | 3.4 | 4.7 | 3.5 | 4.8 | 2.0 | 2.1 | - | - |
| Corporate Bonds | 4.9 | 5.4 | 5.3 | 6.2 | 1.9 | 2.0 | - | - |
| Commingled Bond Funds | 4.2 | 4.6 | 4.5 | 5.3 | - | 2.3 | - | - |

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

While the Board does not have a specific policy relative to interest rate risk, the University has historically invested funds outside of the investments pools in fixed income and variable income securities with short maturity terms.

The effective durations for fixed or variable income securities, for the University's separately held investments, at September 30, 2008 and 2007 are as follows:

| | 2008 | 2007 |
|---|---|---|
| U.S. Government Obligations | 2.4 | 3.2 |
| Commingled Bond Funds | 3.5 | 1.7 |
| Corporate Bonds | 4.0 | 4.7 |

Investments may also include mortgage pass through securities and collateralized mortgage obligations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. At September 30, 2008 and 2007 the fair market value of these investments, for the System Pools, are as follows:

| | Endowment Fund | | Prime Fund | | Intermediate Fund | | Short Term Fund | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Mortgage Backed Securities | $ 27,790,776 | $ 18,017,647 | $ 21,397,318 | $ 13,665,433 | $ 37,701,180 | $ 38,875,997 | $ - | $ - |
| Collateralized Mortgage Obligations | 3,755,744 | 3,472,960 | 3,382,381 | 3,499,996 | 128,683,240 | 161,573,068 | - | - |
| Total Fixed | $ 31,546,520 | $ 21,490,607 | $ 24,779,699 | $ 17,165,429 | $ 166,384,420 | $ 200,449,065 | $ - | $ - |

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

| | Endowment Fund | | Prime Fund | | Intermediate Fund | | Short Term Fund | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Mortgage Backed Securities | 3.5 | 3.5 | 3.6 | 3.5 | 2.0 | 1.6 | - | - |
| Collateralized Mortgage Obligations | 3.4 | 3.8 | 2.8 | 2.9 | 2.0 | 2.5 | - | - |

At September 30, 2008 and 2007, the University did not hold any investments in these security types outside of the System Pools.

**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 10% of the investment manager's portfolio, and bonds denominated in currencies other than U.S. dollars are generally limited to 20% of the investment manager's portfolio, measured at market value. As of September 30, 2008 and 2007, all foreign investments in the System Pools are denominated in U.S. dollars and are in international commingled funds, which in turn invest in equity securities and bonds of foreign issuers except for approximately $2,100,000 and $1,300,000 of foreign bonds denominated in U.S. dollars and held by the Intermediate Fund at September 30, 2008 and 2007, respectively. At September 30, 2008 and 2007, the University did not hold any foreign securities in its separately held investment portfolio.

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

During the year ended September 30, 2008, System Pools ceased participation in a securities lending program managed by one of the System's custodial banks. The program was designed to allow the System to lend certain securities from the investment pools and receive a pledge of collateral sufficient to cover the market value of the securities lent. The collateral securities could not be pledged or sold by the System unless the borrower defaulted. At September 30, 2008 and 2007, there were $0 and approximately $3.4 million, respectively, of securities on loan from the investment pools.

## Note 4 – Accounts and Notes Receivable

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

| | 2008 | 2007 |
|---|---|---|
| Student accounts | $ 32,055,665 | $ 27,684,389 |
| Receivables from sponsoring agencies | 22,077,263 | 22,395,868 |
| Short-term note receivable from 1831 Foundation | 54,623,974 | 33,545,878 |
| CTF receivable from University at June 30 | - | 32,377,988 |
| Fraternity construction notes receivable | 19,142,099 | 11,137,129 |
| Accrued interest receivable | 6,162,314 | 5,953,484 |
| Other | 2,495,584 | 3,477,986 |
| | 136,556,899 | 136,572,722 |
| Less provision for doubtful accounts | (1,245,871) | (1,285,053) |
| Accounts receivable, net | $ 135,311,028 | $ 135,287,669 |

The short-term note receivable from The 1831 Foundation, a discretely presented component unit, represents a related party transaction to fund the construction of dormitories held by The 1831 Foundation. The note accrues interest at 5.50%.

The CTF receivable is a related party transaction discussed in Note 1.

## Note 5 – Loans and Pledges Receivable

Loans receivable represent all amounts owed on promissory notes from debtors, including student loans made under the Federal Perkins Loan Program and other loan programs. Pledges receivable represent unconditional promises to give from third party donors and are presented at their gross, undiscounted amount.

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

| | 2008 | 2007 |
|---|---|---|
| Loans receivable | | |
| Federal loan program | $ 15,892,019 | $ 15,012,688 |
| University loan funds | 919,467 | 926,593 |
| Less allowance for doubtful loans | (3,696,717) | (3,696,717) |
| Total loans outstanding, net | 13,114,769 | 12,242,564 |
| Less current portion | (2,880,003) | (3,071,569) |
| Total loans outstanding, noncurrent | $ 10,234,766 | $ 9,170,995 |
| Pledges outstanding | | |
| Operations | $ 22,519,231 | $ 27,205,457 |
| Capital | 5,365,247 | 7,959,900 |
| Total pledges, net | 27,884,478 | 35,165,357 |
| Less current portion | (7,685,605) | (8,015,170) |
| Total pledges, noncurrent | $ 20,198,873 | $ 27,150,187 |

## Note 6 – Capital Assets

Capital assets as of September 30, 2008 and 2007 is summarized as follows:

| | Balance 10/01/07 | Balance Additions | Retirements/ Transfers | Balance 09/30/08 |
|---|---|---|---|---|
| Land | $ 10,851,689 | $ 2,024,000 | $ - | $ 12,875,689 |
| Land improvements | 21,484,226 | 8,259,993 | (28,088) | 29,716,131 |
| Infrastructure | 25,237,076 | 3,852,499 | - | 29,089,575 |
| Buildings and improvements | 807,769,568 | 39,126,348 | (8,282,328) | 838,613,588 |
| Construction in progress | 72,897,147 | 80,947,121 | (42,978,668) | 110,865,600 |
| Equipment | 107,070,734 | 6,025,788 | (7,846,347) | 105,250,175 |
| Library materials and collections | 103,248,560 | 1,175,217 | (7,341) | 104,416,436 |
| Total cost of capital assets | 1,148,559,000 | 141,410,966 | (59,142,772) | 1,230,827,194 |
| Less accumulated depreciation | (371,410,252) | (30,545,927) | 6,919,240 | (395,036,939) |
| Capital assets,net | $ 777,148,748 | $ 110,865,039 | $ (52,223,532) | $ 835,790,255 |

| | Balance 10/01/06 | Additions | Retirements/ Transfers | Balance 09/30/07 |
|---|---|---|---|---|
| Land | $ 9,216,339 | $ 1,639,600 | $ (4,250) | $ 10,851,689 |
| Land improvements | 13,616,354 | 7,867,872 | - | 21,484,226 |
| Infrastructure | 23,921,462 | 1,358,102 | (42,488) | 25,237,076 |
| Buildings and improvements | 716,705,510 | 108,835,894 | (17,771,836) | 807,769,568 |
| Construction in progress | 112,312,973 | 95,287,026 | (134,702,852) | 72,897,147 |
| Equipment | 107,977,115 | 8,096,730 | (9,003,111) | 107,070,734 |
| Library materials and collections | 99,775,379 | 3,474,503 | (1,322) | 103,248,560 |
| Total cost of capital assets | 1,083,525,132 | 226,559,727 | (161,525,859) | 1,148,559,000 |
| Less accumulated depreciation | (351,000,027) | (27,087,074) | 6,676,849 | (371,410,252) |
| Capital assets,net | $ 732,525,105 | $ 199,472,653 | $(154,849,010) | $ 777,148,748 |

## Note 7 – Construction Commitments and Financing

The University has contracted for the construction and renovation of several facilities. At September 30, 2008 and 2007, the estimated remaining cost to complete the construction and renovation of these facilities was approximately $37.7 million and $15.0 million, respectively, which is expected to be financed from private gifts, grants, bond proceeds and University funds.

## Note 8 – Long-term Debt

Long-term debt activity for the years ended September 30, 2008 and 2007 is summarized as follows:

| Type/Supported by | Balance 10/01/07 | New Debt | Principal Repayment | Balance 09/30/08 |
|---|---|---|---|---|
| Leases payable | | | | |
| Departmental budgets | $ 409,123 | $ - | $ 125,111 | $ 284,012 |
| Notes payable | | | | |
| Crimson Tide Foundation gifts | 4,198,579 | - | 423,258 | 3,775,321 |
| Student housing revenue | 3,871,842 | - | 169,999 | 3,701,843 |
| Rental income | 3,022,374 | - | 592,514 | 2,429,860 |
| Bonds | | | | |
| Student housing revenue | 98,293,679 | 7,413,360 | 8,706,589 | 97,000,450 |
| Intercollegiate athletics | 125,446,790 | 18,024,640 | 20,633,714 | 122,837,716 |
| Auxiliaries | 25,778,463 | 1,612,588 | 5,309,302 | 22,081,749 |
| General fee | 117,341,068 | 18,374,412 | 20,830,395 | 114,885,085 |
| | 378,361,918 | $ 45,425,000 | $56,790,882 | 366,996,036 |
| Plus net unamortized bond premium/discount | 1,198,259 | | | 1,953,924 |
| Less deferred amount on refunding | (2,415,241) | | | (2,325,788) |
| Less current portion | (8,449,140) | | | (4,867,545) |
| | $368,695,796 | | | $ 361,756,627 |

| Type/Supported by | Revised Balance 10/01/06 | New Debt | Principal Repayment | Reclass | Balance 09/30/07 |
|---|---|---|---|---|---|
| Leases payable | | | | | |
| Departmental budgets | $ 217,013 | $ 320,125 | $ 128,015$ | $ - | $ 409,123 |
| Notes payable | | | | | |
| Crimson Tide Foundation airplane | 4,596,257 | - | 397,678 | - | 4,198,579 |
| Student housing revenue | 4,035,659 | - | 163,817 | - | 3,871,842 |
| Rental income | 342,324 | 2,900,000 | 219,950 | - | 3,022,374 |
| Bonds | | | | | |
| Student housing revenue | 99,365,627 | - | 1,065,072 | (6,876) | 98,293,679 |
| Intercollegiate athletics | 126,956,348 | - | 1,340,467 | (169,091) | 125,446,790 |
| Auxiliaries | 27,833,343 | - | 2,338,851 | 283,971 | 25,778,463 |
| General fee | 119,644,682 | - | 2,195,610 | (108,004) | 117,341,068 |
| | 382,991,253 | $ 3,220,125 | $ 7,849,460 | $ - | 378,361,918 |
| Plus net unamortized bond premium/discount | 1,240,536 | | | | 1,198,259 |
| Less deferred amount on refunding | (2,504,694) | | | | (2,415,241) |
| Less current portion | (7,642,003) | | | | (8,449,140) |
| | $374,085,092 | | | | $368,695,796 |

Debt obligations generally bear interest at fixed rates ranging from 2.75% to 7.0% and mature at various dates through fiscal year 2036.

Maturities and interest on notes, leases and bonds payable, using rates in effect at September 30, 2008, for the next five years and in subsequent five-year periods are as follows:

| | Notes & Leases Principal | Bonds Principal | Total Principal | Notes & Leases Interest | Bond Interest | Total Interest | Total Debt Service |
|---|---|---|---|---|---|---|---|
| 2009 | $ 977,545 | $ 3,890,000 | $ 4,867,545 | $ 540,390 | $ 17,486,580 | $ 18,026,970 | $ 22,894,515 |
| 2010 | 1,001,349 | 7,295,000 | 8,296,349 | 484,386 | 17,468,168 | 17,952,554 | 26,248,903 |
| 2011 | 1,044,391 | 7,635,000 | 8,679,391 | 425,945 | 17,127,968 | 17,553,913 | 26,233,304 |
| 2012 | 1,090,021 | 7,980,000 | 9,070,021 | 364,915 | 16,788,489 | 17,153,404 | 26,223,425 |
| 2013 | 918,399 | 8,340,000 | 9,258,399 | 301,137 | 16,425,102 | 16,726,239 | 25,984,638 |
| 2014-2018 | 3,091,786 | 48,170,000 | 51,261,786 | 878,444 | 75,718,849 | 76,597,293 | 127,859,079 |
| 2019-2023 | 1,149,292 | 61,935,000 | 63,084,292 | 394,706 | 62,026,059 | 62,420,765 | 125,505,057 |
| 2024-2028 | 676,751 | 79,335,000 | 80,011,751 | 172,932 | 44,722,650 | 44,895,582 | 124,907,333 |
| 2029-2033 | 241,502 | 101,095,000 | 101,336,502 | 13,403 | 23,069,250 | 23,082,653 | 124,419,155 |
| 2034-2036 | - | 31,130,000 | 31,130,000 | - | 2,028,375 | 2,028,375 | 33,158,375 |
| | $ 10,191,036 | $ 356,805,000 | $ 366,996,036 | $ 3,576,258 | $ 292,861,490 | $ 296,437,748 | $ 663,433,784 |

Pledged revenues for the years ended September 30, 2008 and 2007 as defined by outstanding bond covenants are as follows:

| | 2008 | 2007 |
|---|---|---|
| Tuition and fees | $ 239,247,877 | $ 203,220,871 |
| Sales and services of educational activities | 11,104,288 | 10,132,380 |
| Auxiliary sales and services | 95,260,205 | 88,346,775 |
| Investment income | 35,672,971 | 33,365,508 |
| Other operating revenue | 27,637,234 | 19,113,696 |
| Total pledged revenues | $ 408,922,575 | $ 354,179,230 |

The University defeased certain indebtedness during 1997, 2003, 2004 and 2008. For the 1997, 2003, and 2004 defeasences, funds were deposited in escrow trust accounts sufficient to provide for the subsequent payment of principal and interest on the defeased indebtedness. Under the trust agreements, funds deposited in the trust accounts were invested in obligations of the U.S. Government. The University estimates that the amounts on deposit will be sufficient to satisfy the debt service requirements on the defeased indebtedness and that the defeasance will result in lower overall debt service payments to the University. Should the amounts on deposit not be sufficient to retire the defeased indebtedness upon maturity, the University would be responsible to satisfy the shortfall. The University remains legally obligated for the repayment of the defeased indebtedness. Neither the assets of the trust accounts nor the defeased indebtedness are included in the accompanying statements of net assets. The principal outstanding on the 1997, 2003 and 2004 defeased indebtedness at September 30, 2008 and September 30, 2007 is approximately $32.3 million and $42.2 million, respectively.

The following is a detailed schedule of long-term debt as of September 30, 2008:

| Description | Date Issued | Final Maturity | Interest Rate-% | Original Debt | Outstanding Debt |
|---|---|---|---|---|---|
| Bonds Payable: | | | | | |
| General Fee Revenue Bond Series 1997 | 7/1/04 | 6/1/11 | 4.0-5.0 | $ 7,155,000 | $ 3,335,000 |
| General Fee Revenue Bond Series 2001 | 7/1/04 | 12/1/26 | 2.75-5.0 | 34,645,000 | 30,110,000 |
| General Fee Revenue Bond Series 2004A | 7/1/04 | 7/1/34 | 4.0-5.25 | 215,995,000 | 215,995,000 |
| General Fee Revenue Bond Series 2006A | 9/1/06 | 7/1/36 | 4.125-5.0 | 40,575,000 | 40,205,000 |
| General Fee Revenue Bond Series 2006B | 9/1/06 | 7/1/23 | 5.22-5.9 | 23,750,000 | 21,735,000 |
| General Fee Revenue Bond Series 2008A | 8/1/08 | 7/1/34 | 3.0-5.0 | 45,425,000 | 45,425,000 |
| Total Bonds Payable | | | | 367,545,000 | 356,805,000 |
| Notes Payable: | | | | | |
| U S Department of Education | 7/20/89 | 4/15/19 | 3.0 | 3,188,000 | 1,574,375 |
| Commercial Finance Co., CTF airplane | 5/10/05 | 5/10/15 | 6.25 | 5,000,000 | 3,775,321 |
| U.S. Department of Education | 3/23/00 | 7/1/29 | 5.5 | 2,483,000 | 2,127,468 |
| Geist LLC Promissory Note | 1/24/07 | 2/1/21 | 6.0 | 1,800,000 | 1,549,860 |
| CST LTD Promissory Note | 1/5/07 | 1/5/12 | 7.0 | 1,100,000 | 880,000 |
| Total Notes Payable | | | | 13,571,000 | 9,907,024 |
| Lease Obligations Payable: | | | | | |
| Miscellaneous leases | 3/1/99 | 3/31/17 | 0 | 854,372 | 284,012 |
| Total Lease Obligations | | | | 854,372 | 284,012 |
| | | | | $ 381,970,372 | $ 366,996,036 |

The University's general fee bonds are subject to certain covenants. These covenants, among other things, require the Board to adopt an annual budget; 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; and to comply with certain restrictions as to additional indebtedness. The University is in compliance with all appropriate debt covenants as of September 30, 2008.

## Note 9 – Self-Insurance

The University participates with other campuses in the System in a self-insurance program for general liability. 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 include a reserve of approximately $1,010,000 and $1,112,000 for general liability at September 30, 2008 and 2007, respectively.

The University is self-insured for health insurance. The liability for unpaid claims includes an accrual for an estimate of claims incurred but not reported.

The changes in the total reported self-insurance liabilities for the years ended September 30, 2008 and 2007 are summarized as follows:

| | 2008 | 2007 |
|---|---|---|
| Balance, beginning of year | $ 1,885,397 | $ 3,460,986 |
| Claims paid | (27,249,103) | (21,395,040) |
| Contributions | 27,209,706 | 19,819,451 |
| Balance, end of year | $ 1,846,000 | $ 1,885,397 |

## Note 10 – Retirement Plan

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 an optional program 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.

The TRS was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by the state-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control.

Participants in TRS who retire at age 60 with 10 years of credited service, or after completing 25 years of credited service, regardless of age, are entitled to an annual benefit, payable monthly for life. Service retirement benefits are calculated by three methods with the participants receiving payments under the method which yields the highest monthly benefit. These methods include (1) minimum guaranteed, (2) money purchase or (3) formula. Under the formula method, participants are allowed 2.1025% 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 statute to contribute to TRS. In addition, the University, as the employer, contributes to TRS. The total contribution requirement for fiscal year 2008, 2007, and 2006 was approximately $39,828,000, $31,001,000 and $26,287,000, respectively, which consisted of $27,929,000 from the University and $11,899,000 from employees in 2008, $20,207,000 from the University and $10,794,000 from employees in 2007, and $16,307,000 from the University and $9,980,000 from employees in 2006. The University's contribution rate for fiscal year ended September 30, 2008 is 11.75% for fiscal year ended September 30, 2007 was 9.36%, and for September 30, 2006 was 8.17% of salaries and wages for covered employees. Covered employees are required by statute to contribute 5% of earned compensation to TRS. All regular employees of the University are members of TRS with the exception of temporary employees.

The actuarial accrued liability ("AAL"), which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The actuarial value of assets, which is the actuarial present value of assets, is a standardized disclosure measure of the present value of accumulated assets, adjusted for projected investment performance and contributions. TRS does not make separate measurements of assets and the AAL for individual employers. The AAL and the actuarial valuation of assets at September 30, 2007 (the most recent valuation date) for TRS as a whole, determined through actuarial valuations performed as of that date, were $25,971,500,000 and $20,650,900,000, respectively, resulting in an under-funded AAL of $5,320,600,000. Complete financial presentation and disclosure of the financial position and activities of the TRS is presented in the September 30, 2007 annual financial report of TRS. That report is publicly available and may be obtained by contacting TRS.

As previously noted, some employees participate in the optional TIAA-CREF programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All full time regular monthly 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 2008 and 2007, excluding amounts not eligible for matching, was approximately $13,351,000 and $12,089,000, which included approximately $6,675,500 and $6,044,500 each from the University and its employees.

The University's total salaries and wages for fiscal years 2008 and 2007 were approximately $284,002,000 and $261,567,000, respectively. The total salaries and wages during the fiscal years 2008 and 2007, respectively, for covered employees participating in TRS and TIAA – CREF were approximately $237,779,000 and $215,882,000 and $147,508,000 and $132,139,000, respectively.

## Note 11 – Post-Employment Benefits

The University offers postemployment health care benefits ("OPEB") to all employees who officially retire from the University. Health care benefits are offered through the Alabaman Retired Education Employees' Health Care Trust ("PEEHIP") with TRS or certain retired employees may elect to continue to participate in the University's group health plan until they are 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 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.

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.

The University adopted 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. This statement requires governmental entities to recognize and match other postretirement benefit costs with related services received and also to provide information regarding the actuarially calculated liability and funding level of the benefits associated with past services. The adoption of 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.

PEEHIP is a cost-sharing multiple-employer defined benefit health care plan administered by the Public Education Employee Health Insurance Board. PEEHIP offers a basic hospital/medical plan that provides basic medical coverage for up to 365 days of care during each hospital confinement. The basic hospital/medical plan also provides for physicians' benefits, outpatient care, prescription drugs, and mental health benefits. Major medical benefits under the basic hospital/medical plan are subject to a lifetime contract maximum of $1,000,000 for each covered individual. The Code of Alabama 1975, Section 16-25A-8 provides the authority to set the contribution requirements for retirees and employers.

The required rates of retirees are as follows as of September 30, 2008:

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

The required contribution rate of the employer was $367 per employee per month in the year ended September 30, 2008. The University paid $6.2 million and $6.7 million for 1,378 and 1,342 retirees for the year ended September 30, 2008 and 2007, respectively. The required contribution rate is determined by PEEHIP in accordance with state statute. The complete financial report for PEEHIP can be obtained by contacting the TRS Communication Department at 1-800-214-2158.

## Note 12 – 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. Depending on their payroll classification, some employees are also paid one-half of their unused accrued sick leave at their regular rate of pay. The statement of net assets includes an accrual of approximately $15,686,000 and $14,590,000 as of September 30, 2008 and 2007, respectively, primarily for accrued vacation and sick leave.

## Note 13 – 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. During the years ended September 30, 2008 and 2007, respectively, the University disbursed approximately $104,800,000 and $85,200,00, respectively, under the FDSLP.

## Note 14 – Contingencies and Commitments

The University has sovereign immunity and is therefore, in the opinion of University 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.

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

The University is a guarantor of a third party obligation totaling approximately $2,300,000 both at September 30, 2008 and 2007.

## Note 15 – Operating Expenses by Function

In addition to their natural classifications, expenses are also classified by their functional classifications. Functional classifications are assigned to departments based on the nature of their activity, such as instruction, public service, institutional support, etc.

Operating expenses by functional classification for the years ended September 30, 2008 and 2007 are summarized as follows:

| | Salaries, wages and benefits | Scholarships and fellowships | Supplies and other services | Depreciation | Total 2008 |
|---|---|---|---|---|---|
| Instruction | $ 161,756,938 | $ - | $ 29,868,372 | $ - | $ 191,625,310 |
| Research | 15,869,099 | - | 19,662,802 | - | 35,351,901 |
| Public service | 29,040,001 | - | 11,623,762 | - | 40,663,763 |
| Academic support | 43,551,451 | - | 18,406,532 | - | 61,957,983 |
| Student services | 19,853,868 | - | 9,485,481 | - | 29,339,349 |
| Institutional support | 49,447,385 | - | 10,508,906 | - | 59,956,291 |
| Operations and maintenance | 33,780,321 | - | 20,959,824 | - | 54,740,145 |
| Scholarships and fellowships | - | 11,684,962 | - | - | 11,684,962 |
| Auxiliary enterprises | 38,033,750 | 2,529,380 | 52,225,092 | - | 92,788,222 |
| Depreciation | - | - | - | 30,545,927 | 30,545,927 |
| | $ 391,332,813 | $ 14,214,342 | $172,740,771 | $ 30,545,927 | $ 608,833,853 |

| | Salaries, wages and benefits | Scholarships and fellowships | Supplies and other services | Depreciation | Total 2007 |
|---|---|---|---|---|---|
| Instruction | $ 143,021,656 | $ - | $ 25,511,261 | $ - | $168,532,917 |
| Research | 13,827,288 | - | 17,963,732 | - | 31,791,020 |
| Public service | 26,456,508 | - | 10,949,018 | - | 37,405,526 |
| Academic support | 41,389,072 | - | 18,072,397 | - | 59,461,469 |
| Student services | 17,214,799 | - | 8,080,829 | - | 25,295,628 |
| Institutional support | 39,179,968 | - | 13,736,323 | - | 52,916,291 |
| Operations and maintenance | 31,614,315 | - | 13,436,145 | - | 45,050,460 |
| Scholarships and fellowships | - | 11,308,743 | - | - | 11,308,743 |
| Auxiliary enterprises | 34,141,110 | 3,198,451 | 52,964,584 | - | 90,304,145 |
| Depreciation | - | - | - | 27,087,074 | 27,087,074 |
| | $ 346,844,716 | $ 14,507,194 | $160,714,289 | $ 27,087,074 | $549,153,273 |

## Note 16 – Other Noncurrent Assets and Liabilities

The composition of other noncurrent assets at September 30, 2008 and 2007 is summarized as follows:

| | 2008 | 2007 |
|---|---|---|
| Receivable from The Capstone Foundation | $ 9,726,740 | $ 11,693,915 |
| Intangible assets | 5,182,905 | 5,148,771 |
| ASF noncurrent assets | 1,819,158 | 2,065,007 |
| Other | 3,416,978 | 3,372,040 |
| | $ 20,145,781 | $ 22,279,733 |

The receivable from The Capstone Foundation relates to the Eminent Scholars Program established by the State of Alabama Act No. 85-759 and administered by the Alabama Commission on Higher Education. The program provides that donor gifts of $600,000 held in a foundation affiliated with the University are eligible for $400,000 in State matching funds. In prior years, the University received funds from donors intended to be matched in accordance with this program. Consistent with the provision of the program, the University transferred the corpus of these funds to The Capstone Foundation, as agent for the University, whereby the State would match these donations. The program has been inactive since 1997, and no matching funds have been provided to date. These funds held by the Capstone Foundation include both the corpus and any unrealized gains earned thereon and are shown as a receivable from the Capstone Foundation. Unrealized gains earned each year on the corpus are added to the receivable and reported as investment income by the University. Realized gains and investment income earned each year on the corpus amount are distributed to the University and reported as investment income.

The activity with respect to other noncurrent liabilities for the years ended September 30, 2008 and 2007, is as follows:

| | 2008 | 2007 |
|---|---|---|
| Federal loan funds | | |
| Federal refundable loans, beginning of year | $ 9,382,815 | $ 9,653,244 |
| Deposits received | 574,705 | 240,614 |
| Deposits disbursed | (165,396) | (511,043) |
| Federal refundable loans, end of year | $ 9,792,124 | $ 9,382,815 |
| Other liabilities | | |
| Split interest agreement obligations, beginning of year | $ 3,978,410 | $ 3,043,685 |
| New annuities | - | 1,121,657 |
| Terminated annuities | (120,821) | (60,909) |
| Investment income | 332,624 | 200,280 |
| Payments on obligations | (477,572) | (485,791) |
| Actuarial change in obligations | 1,517,986 | 159,488 |
| Total split interest agreement obligations | 5,230,627 | 3,978,410 |
| Less current portion | (526,312) | (426,131) |
| Split interest agreement obligations, end of year | 4,704,315 | 3,552,279 |
| General liability trust fund liability | 1,009,936 | 1,111,971 |
| Other liabilities | 741,545 | 769,730 |
| Total other liabilities | $ 6,455,796 | $ 5,433,980 |

## Note 17 – Grants and Contracts

At September 30, 2008, the University had been awarded approximately $96,866,000 in grants and contracts which had not been expended. These awards, which represent commitments of sponsors to provide funds for specific research, training, and service projects, have not been reflected in the financial statements as of and for the year ended September 30, 2008.

## Note 18 – Subsequent Events

Governor Bob Riley declared proration in state education spending on December 15, 2008. Initially, this declaration called for cuts of 12.5 percent. However, the impact of the revenue shortfall was reduced to approximately 9 percent due to the passage of the Alabama Rainy Day Amendment 1 as it appeared on the November 4, 2008 ballot.

The 1831 Foundation issued the Student Housing Revenue Bonds (Ridgecrest Student Housing LLC/ University of Alabama Ridgecrest Residential Project) Series 2008 on December 23, 2008. Upon issuance, the outstanding short-term note receivable due the University was satisfied in full.

Effective January 1, 2009, the University assumed the assets, liabilities and operations of The University Club, a 174-year-old mansion which was gifted to the University in 1944. Although, the building and land are owned by the University, the facility was leased to The University Club, an incorporated nonprofit organization with its own board. The University has assumed the $2.3 million debt for which it was formally guarantor of which was used for renovations to the building in 2003.

In 2008, the State of Alabama adopted the Uniform Management of Institutional Funds Act ("UPMIFA") with an effective date of January 1, 2009. Under this act, the University will no longer be required to reinvest earnings on underwater endowments.

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

## Note 19 – Recently Issued Pronouncements

The GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, 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 over a five year period, in addition to the expense for each current year. The impact of GASB Statement No. 45 includes increases to operating expenses and liabilities, with resulting decreases in unrestricted net assets. The adoption of GASB Statement No. 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 Statement No. 45 did not materially affect the Univeristy's accounting for the PEEHIP. Refer to Note 11 for further discussion on the University's other post-retirement benefit plans.

The GASB issued Statement No. 48, *Sales and Pledges of Receivable and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, in September 2006. This Statement establishes criteria to ascertain whether certain transactions should be regarded as a sale or a collateralized borrowing. GASB Statement No. 48 is effective for financial statement periods beginning after December 15, 2006. The University adopted this statement effective October 1, 2007; the adoption of this statement did not have a material impact on the University's financial statements.

The GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in December 2006. This Statement requires that governments provide more detailed information regarding the effect of environmental cleanups and will be effective for the financial periods beginning after December 15, 2007. The University is currently evaluating the impact, if any, that GASB Statement No. 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*, in May 2007. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits 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 contain information resulting from actuarial valuations as of June 15, 2007, or later. The University adopted this statement effective October 1, 2007 and it's impact was immaterial to the University's financial statements. Refer to Note 10 for the applicable disclosures made in accordance with this statement.

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

The GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, in November 2007. Accounting standards have historically required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes–pension and other postemployment benefit plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans–however, report land and other real estate held as investments at their fair value. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. The Statement is effective for financial statements for periods beginning after June 15, 2008. The University chose to early implement GASB 52. The impact of this implementation is discussed at length in Notes 1 and 3.

## THE UNIVERSITY OF ALABAMA

### EXECUTIVE OFFICERS

Robert E. Witt, Ph.D.
President

Judy L. Bonner, Ph.D.
Executive Vice President and Provost

Lynda Gilbert, Ph.D., CPA, CGFM
Vice President for Financial Affairs and Treasurer

Pamela H. Parker, Ph.D.
Vice President for Advancement

Samory T. Pruitt, Ph.D.
Vice President for Community Affairs

### PRINCIPAL FINANCE AND ACCOUNTING OFFICIALS

Reba J. Essary
Associate Vice President for Finance

Julie L. Shelton, CPA
Director, Financial Accounting and Reporting

Pamela D. Tilley, CPA
Assistant Director,
Financial Accounting and Reporting

Melissa H. Barnett, CGFM
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# APPENDIX C

## Summary of the Indenture

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## SUMMARY OF THE INDENTURE

The following constitutes a summary of certain portions of the Indenture pursuant to which the Series 2009 Bonds were issued and any Parity Bonds will be issued. This summary should be qualified by reference to other provisions of the Indenture referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Indenture in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Indenture, a copy of which may be obtained from the Board. All references herein to the "Bonds" include (a) General Revenue Bonds, The University of Alabama Series 2004-A, General Revenue Bonds, The University of Alabama Series 2006-A, General Revenue Bonds, The University of Alabama Taxable Series 2006-B and General Revenue Bonds, The University of Alabama Series 2009-A, which are currently Outstanding under the Indenture, (b) the Series 2009 Bonds, and (c) any Parity Bonds that may be issued from time to time under the terms and conditions of the Indenture.

### Definitions

This section of Appendix C contains the definitions of certain capitalized terms used frequently in this Appendix. In addition, certain capitalized terms used in this Official Statement and not defined in this section are defined in "Glossary" in this Official Statement.

**"Additional Indebtedness"** means any Indebtedness (including without limitation Bonds) incurred subsequent to the issuance of Bonds under the First Supplemental Indenture dated as of October 1, 2004.

**"Annual Debt Service Requirement"** means, as of any time, the amount of principal maturing and interest becoming due with respect to the then outstanding Bonds in a Fiscal Year; provided, that for purposes of this definition, (a) principal shall be deemed to mature on the Mandatory Redemption Date on which it is scheduled for redemption under any Mandatory Redemption Provision, (b) principal maturing and interest becoming due with respect to the Bonds in a Fiscal Year which is (i) refunded out of the proceeds of Parity Bonds or other indebtedness permitted by the Indenture, or (ii) paid out of any funds of the Board other than Pledged Revenues, shall be disregarded, and (c) calculations shall be made in accordance with the following provisions:

(i) In the case of Balloon Bonds, it shall be assumed that such Balloon Bonds are payable on a level annual debt service basis over the longer of (a) the stated original term of such Balloon Bonds or (b) [the useful life of the Capital Improvements (if any) financed by such Balloon Bonds.]

(ii) If the terms of any Bonds (whether outstanding or proposed to be issued) are such that interest thereon for any future period of time is expressed to be calculated at a varying rate per annum, a formula rate or a fixed rate per annum based on a varying index, interest on such Bonds (herein called "Variable Rate Bonds") for such period (the "Determination Period") shall be computed by assuming that the rate of interest applicable to the Determination Period is equal to the average rate of interest (calculated in the manner in which the rate of interest for the Determination Period is expressed to be calculated) which would have been in effect during a twelve-month period ending within ninety days immediately preceding the date on which such calculation is made.

(iii) Interest on Bonds to the extent provision is made for capitalization of interest shall be disregarded.

(iv) The conversion to a fixed rate of the interest rate applicable to a Variable Rate Bond shall not be deemed to be a new issue of Parity Bonds, but such fixed rate shall be applied in all computations from the date of conversion.

(v) Commitment Indebtedness shall be disregarded in any such computation until funding occurs, and thereafter only to the extent of debt service with respect to Bonds held by the obligee of, and evidencing, such indebtedness.

(vi) The principal of and interest on Bonds (including, without limitation, Cross-Over Refunding Bonds and Cross-Over Refunded Bonds) shall be excluded from such calculation to the extent that amounts in cash or Escrow Securities are on deposit in an irrevocable escrow (whether or not such escrow and the amounts held thereunder comply with the provisions of the Indenture described under "Defeasance" in this Appendix C) and such amounts (including, where appropriate, the earnings or other increments to accrue on such Escrow Securities) are required to be applied and are sufficient to pay such principal and interest.

(vii) In the case of Balloon Bonds to which subsection (i) above applies, Debt Service with respect to such Bonds for future periods shall be calculated on the assumption that such Bonds are being issued simultaneously with such calculations.

**"Auditor"** means a firm engaged in the profession of accounting, qualified as a certified public accountant and having a favorable reputation for skill and experience in accounting for colleges and universities, who shall be appointed by the Board.

**"Authorized Board Representative"** means, separately and severally, the President of the University, the Chief Financial Officer and any other person or persons designated as such in a written certificate furnished to the Trustee, signed on behalf of the Board by said President or Chief Financial Officer and containing a specimen signature of such person or persons.

"**Balloon Bonds"** means Bonds, 25% or more of the original principal of which matures during any one Fiscal Year, if such maturing principal amount is not required to be amortized below such percentage by a Mandatory Redemption Provision prior to such Fiscal Year. A Put Bond shall be deemed to mature on the stated maturity date thereof and not on a date on which such Bond is subject to purchase by the Board at the option of the Holder thereof.

**"Bond"** means any bond, note or other evidence of indebtedness issued, authenticated and delivered under the Indenture, it being understood that unless, in the judgment of the Board, the circumstances make it necessary or desirable to denominate any bond, note or other evidence of indebtedness issued hereunder as other than a "Bond," then such bond, note or other evidence of indebtedness shall be denominated as a "Bond." References to Bonds of a series shall mean the Bonds issued pursuant to a single related Supplemental Indenture.

"**Bond Counsel"** means Independent Counsel having nationally recognized standing in matters relating to the validity of securities issued by or on behalf of states or political subdivisions thereof.

**"Bond Register"** means the register or registers for the transfer and registration of Bonds maintained by the Board pursuant to the Indenture.

**"Bondholder"** means the Holder of any Bond.

**"Business Day"** means any day other than (i) a Saturday or Sunday; (ii) a day on which banking institutions are required or authorized to remain closed in the city in which the designated office of the Trustee is located, or (iii) a day on which the payment system of the Federal Reserve System is not operational.

"**Capital Appreciation Bonds"** means any Bonds that provide for the addition to the principal due thereon of all or any part of the accrued and unpaid interest thereon.

**"Capital Improvements"** means improvements, extensions and additions to the facilities of the Board located at the University that are properly chargeable to fixed capital account by generally accepted accounting practice and includes real estate (and easements and other interests therein) on, under or over which any such improvements, extensions or additions are, or are proposed to be, located.

**"Chief Financial Officer"** means the Treasurer of the University or other chief financial officer of the University.

"**Code"** means the Internal Revenue Code of 1986, as amended.

**"Commitment Indebtedness"** means the obligation of the Board to repay amounts disbursed pursuant to a commitment from a financial institution to pay, refinance or purchase Bonds when due, when tendered or when required to be purchased and the obligation of the Board to pay interest payable on amounts disbursed for such purposes, plus any fees payable to such financial institution for, under or in connection with such commitment or in the event of any disbursement pursuant to such commitment or in connection with the enforcement by such financial institution of rights under such commitment.

"**Completion Bonds"** means any Parity Bonds that constitute Completion Indebtedness.

"**Completion Indebtedness"** means any Long-Term Indebtedness incurred by the Board for the purpose of financing the completion of facilities for which Long-Term Indebtedness, or Indebtedness in anticipation thereof, has already been incurred.

"**Compounded Amount"** means for any date with respect to any Bond that is a Capital Appreciation Bond, the amount set forth in the Supplemental Indenture pursuant to which such Capital Appreciation Bond is issued as the Compounded Amount for such Bond on such date.

"**Consultant"** means a firm whose members are qualified to pass upon questions relating to the financial affairs of colleges and universities and having a favorable national reputation for skill and experience in the financial affairs of colleges and universities and who shall be appointed by the Board.

"**Counsel"** means a Person qualified to practice law in any State of the United States or in the District of Columbia, who shall be appointed by the Board and acceptable to the Trustee.

"**Credit Enhancer"** means any Person providing a Credit Facility with respect to any Indebtedness.

"**Credit Facility"** means a line of credit, letter of credit, insurance policy, stand by purchase agreement or other similar obligation of a third party guaranteeing or providing for payment of all or any portion of the debt service on Indebtedness or the purchase price of Indebtedness.

"**Cross-Over Date,"** with respect to Cross-Over Refunding Bonds, means the date on which the principal portion of the Cross-Over Refunded Bonds is anticipated to be paid or redeemed from the proceeds of such Cross-Over Refunding Bonds.

"**Cross-Over Refunded Bonds"** means Bonds refunded by Cross-Over Refunding Bonds.

"**Cross-Over Refunding Bonds"** means Bonds issued for the purpose of refunding other Bonds if the proceeds of such Cross-Over Refunding Bonds are irrevocably deposited in escrow to secure the payment on the applicable Cross-Over Date of the Cross-Over Refunded Bonds, and the earning on such escrow deposit are required to be applied to pay interest on either or both of such Cross-Over Refunding Bonds or such Cross-Over Refunded Bonds until the Cross-Over Date.

"**Debt Service"** means the principal, premium (if any) and interest payable on Indebtedness.

"**Debt Service Coverage Ratio"** means the ratio of Pledged Revenues for the Fiscal Year in question to Maximum Annual Debt Service.

**"Derivative Agreement"** means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the Obligated Entity entering into such contract or Indebtedness, to convert any element of Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

"**Derivative Indebtedness"** means Indebtedness for which an Obligated Entity shall have entered into a Derivative Agreement in respect of all or a portion of such Indebtedness.

"**Derivative Period"** means the period during which a Derivative Agreement is in effect.

"**Eligible Certificates**" means certificates of deposit issued by any bank or thrift institution organized under the laws of the United States of America or any state thereof the deposits in which are insured by the FDIC and in whose certificates of deposit the moneys of an insurance company organized under the laws of the State of Alabama may be invested.

"**Eligible Investments**" means (i) Eligible Certificates; (ii) Federal Securities; (iii) any debt securities that are direct, general obligations of any of the following agencies of the United States of America: (1) the federal land banks or federal intermediate credit banks established under the Federal Farm Loan Act, as amended, or the Farm Credit Act of 1971, (2) the banks for cooperatives established under the Farm Credit Act of 1933, as amended, or the Farm Credit Act of 1971, (3) the federal home loan banks established under the Federal Home Loan Bank Act (including any joint obligations of any two or more of the foregoing agencies), and (4) the Government National Mortgage Association (including participation certificates of the last named agency); and (iv) repurchase or reverse repurchase agreements with any bank which is a member of FDIC or with any government bond dealer reporting to and trading with the Federal Reserve Bank of New York, provided that such agreement is secured by obligations or securities described in clauses (i), (ii) or (iii) of this definition.

"**Escrow Securities**" shall mean Federal Securities or any other security or obligation which, at the time of investment therein, is rated in the highest rating category by each Rating Agency that maintains a rating with respect to any outstanding Long-Term Indebtedness of the Board (or, if no Long-Term Indebtedness of the Board is rated, by a nationally recognized Rating Agency acceptable to the Trustee).

"**Event of Default**" has the meaning set forth under "Events of Default and Remedies" in this Appendix C. An Event of Default shall "exist" if an Event of Default shall have occurred and be continuing.

"**FDIC**" means the Federal Deposit Insurance Corporation or any department, agency or instrumentality of the United States of America that may succeed to the functions of such corporation.

"**Federal Securities**" means (i) any debt securities that are direct obligations of the United States of America, and (ii) any debt securities payment of the principal of and the interest and premium (if any) on which is unconditionally guaranteed by the United States of America.

"**Fiscal Year**" means the fiscal year of the Board, as established from time to time by requisite corporate action.

"**Fixed Rate Indebtedness**" means any portion of Indebtedness the interest rate on which has been established at a fixed or constant rate to maturity.

"**Governmental Issuer**" means any state of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority of any of the foregoing empowered to issue obligations on behalf thereof, but not including the Board.

"**Guaranteed Indebtedness**" means all guaranties, endorsements, assumptions and other contingent liabilities in respect of, or to purchase or otherwise acquire, Indebtedness of any Person other than an Obligated Entity.

"**Holder**" means the Person in whose name a Bond is registered on the Bond Register.

"**Indebtedness**" means (i) all indebtedness, whether or not represented by bonds, notes (including without limitation Bonds issued hereunder) or other securities, for the repayment of borrowed money, (ii) all capitalized leases, installment sale agreements and other similar obligations for the payment of the purchase price of property or assets purchased and (iii) all guaranties, endorsements, assumptions and other contingent liabilities in respect of, or to purchase or otherwise acquire, indebtedness of others.

"**Indenture Indebtedness**" means all Indebtedness of the Board at the time secured by the Indenture, including, without limitation, (i) all Debt Service on the Parity Bonds and (ii) all reasonable and proper fees, charges and disbursements of the Trustee for services performed and disbursements made under this Indenture.

"**Independent**", when used with respect to any Person having no interest, direct or indirect, in the Board and, in the case of an individual, not being a member, officer or employee of the Board and, in the case of a firm, not having a partner, member, director, officer or employee who is a member, officer or employee of the Board. An arms-length contract with the Board for the performance of services shall not be regarded as creating an interest in or an employee relationship with the Board.

"**Interest Payment Date"** means such date or dates as shall be specified in the Supplemental Indenture pertaining to a series of the Bonds as the dates for the payment of interest on such series of the Bonds.

"**Interim Indebtedness"** means Indebtedness having a term of five (5) years or less incurred in anticipation of permanent financing of facilities.

"**Lien"** means any mortgage or pledge of, security interest in or encumbrance on property of the Board which secures any Indebtedness or any other obligation of the Board or any other Person, other than an obligation to the Board.

"**Long-Term Indebtedness"** means Indebtedness which matures by its terms, or is renewable at the option of the obligor to a date, more than one year after the date of the original creation, assumption or guarantee of such Indebtedness.

"**Mandatory Redemption Date"** means the date specified for the redemption of Bonds pursuant to a Mandatory Redemption Provision.

"**Mandatory Redemption Provision"** means any provisions that may be set forth in a Supplemental Indenture for mandatory redemption of any Parity Bonds at a Redemption Price equal to the principal amount or Compounded Amount thereof.

"**Maturity Amount"** means the amount of principal and interest maturing with respect to a Capital Appreciation Bond at its stated maturity.

"**Maximum Annual Debt Service"** shall mean the maximum aggregate amount of principal and interest payable during the then current or any subsequent Fiscal Year on Long-Term Indebtedness of the Board (other than Subordinated Indebtedness or Non-Recourse Indebtedness) and Guaranteed Long-Term Indebtedness; provided, that for purposes of determining Maximum Annual Debt Service:

(a) the interest payable on any Long-Term Indebtedness incurred to finance the acquisition or construction of facilities shall be excluded from interest payable until such facilities are placed in service, if and to the extent that funds dedicated to the payment of such interest are held by or under the control of a person other than an Obligated Entity;

(b) the principal amount of Long-Term Indebtedness required to be redeemed in any Fiscal Year shall be deemed to be payable in such Fiscal Year rather than the Fiscal Year of its stated maturity;

(c) with respect to Long-Term Indebtedness that is Variable Rate Indebtedness, the amount of interest payable during any period for which the actual rate cannot be determined shall (except as otherwise provided below) be projected using the Prevailing Rate;

(d) with respect to Put Indebtedness, Debt Service payable on such Indebtedness shall be projected assuming (i) that the principal balance of such Indebtedness on the next Put Date will be refinanced, (ii) that such principal balance will be payable over a term equal to the number of years (counting fractions of a year as a whole year) from such Put Date until the final maturity of such Indebtedness or 20 years, whichever is less, (iii) that such principal balance will bear interest at the Prevailing Rate, and (iv) that debt service on such Indebtedness after such Put Date will be payable in equal annual installments sufficient to pay both principal and interest;

(e) with respect to Interim Indebtedness, debt service payable on such Indebtedness shall be projected assuming (i) that the principal balance of such Indebtedness due at maturity will be refinanced, (ii) that such principal balance will be payable over a term of 25 years less the number of whole years from the date the facilities financed were (or are expected to be) placed in service until the maturity of such Indebtedness, (iii) that such principal balance will bear interest at the Prevailing Rate, and (iv) that debt service on such Indebtedness after the scheduled maturity will be payable in equal annual installments sufficient to pay both principal and interest;

(f) with respect to Guaranteed Long-Term Indebtedness, the amount of principal and interest payable during each Fiscal Year (the "annual debt service requirements") on such Indebtedness shall be determined in the same manner herein provided with respect to direct Indebtedness of the Board, and 100% of the annual debt service requirements on such Guaranteed Long-Term Indebtedness shall be included in annual debt service requirements of the Board.

(g) if cash or Escrow Securities have been deposited in escrow or trust in an amount which, together with earnings thereon (but without reinvestment at a rate greater than 0.0%), is sufficient to pay the principal of or interest on Indebtedness as it comes due, such principal or interest, as the case may be, shall not be included in the calculation of Maximum Annual Debt Service; and

(h) with respect to any Derivative Indebtedness, the interest on such Indebtedness during any Derivative Period, for so long as the provider of the Derivative Agreement has not been terminated, shall be calculated by adding (x) the amount of interest payable by an Obligated Entity on such Derivative Indebtedness pursuant to its terms and (y) the amount of interest payable by such Obligated Entity under the Derivative Agreement and subtracting (z) the amount of interest payment by the provider of the Derivative Agreement at the rate specified in the Derivative Agreement; provided, however, that from and after the termination of any Derivative Agreement, the amount of interest payable by the Obligated Entity shall be the interest calculated as if such Derivative Agreement had not been executed.

"**Non-Recourse Indebtedness"** means any Indebtedness secured by a Lien, liability for which is effectively limited to the property subject to such Lien with no recourse, directly or indirectly, to any other property of the Board.

"**Obligated Entity" or "Obligated Entities",** as applicable, means the Board and all other Persons that become liable for the performance and observance of the Board's covenants and agreements under the Indenture.

"**Officer's Certificate"** means a certificate signed by the Chairman or Vice Chairman of the Board or any other officer or agent of the Board authorized to execute such certificate by the Board.

"**Other Senior Indebtedness"** shall mean any bonds, notes, certificates of indebtedness or other obligations for the payment of money that are issued or incurred by the Board in accordance with the applicable provisions of the Indenture and that are, under certain circumstances, entitled to a claim on the Pledged Revenues on a parity with the claim of the Bonds thereon, but if and only if there is endorsed on the appropriate and applicable Other Senior Indebtedness Document the legend prescribed in the Indenture. See "Conditions Precedent to Issuance of Parity Bonds and Other Senior Indebtedness" in this Appendix C.

"**Other Senior Indebtedness Document"** shall mean with respect to any bonds, notes, certificates of indebtedness or other obligations for the payment of money, the resolution, indenture or other similar document authorizing such bonds, notes, certificates of indebtedness or other obligations and specifying the terms and conditions thereof.

"**Outstanding"**, when used in connection with Indebtedness (including Bonds) means, as of any time, issued or incurred and not paid, and when used with reference to any of the Bonds, means, at any date as of which the amount of such Bonds outstanding is to be determined, all such Bonds which have been theretofore authenticated and delivered by the Trustee under the Indenture, except (i) those of such Bonds purchased for retirement which have been delivered to and canceled by the Trustee, (ii) those of such Bonds canceled by the Trustee because of payment at or after their respective maturities or redemption prior to their respective maturities, (iii) those of such Bonds for the payment or redemption of which provisions shall have been made with the Trustee as provided in the portion of the Indenture described under "Defeasance" in this Appendix C, and (iv) those of such Bonds in exchange for which, or in lieu of which, other Bonds have been authenticated and delivered under the Indenture. In determining whether the Holders of a requisite aggregate principal amount of outstanding bonds have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions of the

Indenture, Bonds which are owned by the Board shall be disregarded and deemed not to be outstanding hereunder for the purpose of any such determination.

"**Parity Bonds"** means those Bonds authorized to be issued as such under the Indenture. See "Conditions Precedent to Issuance of Parity Bonds and Other Senior Indebtedness" in this Appendix C.

"**Person"** means any natural person, Board, partnership, joint venture, trust, government or governmental body, political subdivision or other legal entity as in the context may be possible or appropriate.

**"Prevailing Rate"**, when used in connection with the determination of Maximum Annual Debt Service, (i) in the case of Bonds or Related Bonds the interest on which is Tax-Exempt, shall mean the "Bond Buyer Revenue Bond Index" rate for 30-year tax-exempt revenue bonds, as published by The Bond Buyer on any date selected by the Board that is within 30 days prior to the date of such determination, and (ii) in the case of Bonds or Related Bonds the interest on which is Taxable, shall mean the rate determined in accordance with the proceeding clause (i) plus 100 basis points; provided, however, that if The Bond Buyer (or a successor publication) ceases to publish such rate, the Prevailing Rate shall be established by an independent nationally recognized securities dealer selected by the Board and acceptable to the Trustee, shall be established on any date selected by the Board that is within 30 days prior to the date of such determination, and shall be the rate at which the Board could issue such Bonds or Related Bonds at par, taking into account whether the interest on such Bonds or Related Bonds is Taxable or Tax-Exempt, relevant market conditions and credit rating factors as they exist on the date the Prevailing Rate is so established.

"**Principal Requirements"** means the aggregate principal amount of Long-Term Indebtedness maturing or required to be called by mandatory redemption prior to the first day of the next succeeding Fiscal Year.

"**Property"** means any interest in any kind of property or asset, whether real, personal or mixed, and whether tangible or intangible.

"**Put Bonds"** means Bonds that are required to be purchased on behalf of the Board, at the option of the Holders thereof, prior to their respective maturities; provided, however, that if no such option is thereafter exercisable, such Bond shall no longer be considered a Put Bond.

"**Rating Agency"** means a nationally recognized securities rating agency.

"**Redemption Date"** means the date fixed for redemption of Bonds in any promulgated notice of redemption.

"**Redemption Price"** means the price at which Bonds called for redemption may be redeemed on the Redemption Date.

"**Refunding Indebtedness"** means any Long-Term Indebtedness issued for the purpose of Refunding or refinancing any Outstanding Long-Term Indebtedness.

"**Refunding Bonds"** means any Bonds that constitute Refunding Indebtedness.

"**Related Bonds"** means the bonds, notes or other evidences of indebtedness issued by any Governmental Issuer pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to the Board in consideration of the execution, authentication and delivery of a Note to such Governmental Issuer.

"**Related Bond Indenture"** means any indenture pursuant to which a series of Related Bonds are issued.

"**Related Bond Trustee"** means the trustee and its successors in the trusts created under any Related Bond Indenture.

"**Resolution"** means a resolution duly adopted by the Board.

"**Responsible Officer of the Trustee"** means (i) any corporate trust officer or other officer of the Trustee customarily performing functions similar to those performed by a corporate trust officer, (ii) any officer of the Trustee to whom any corporate trust matter is referred because of his knowledge of, and familiarity with, a particular matter, and (iii) any other officer or agent of the Trustee designated in writing and authorized to act with respect to a particular matter by the governing body of the Trustee.

"**Senior Indebtedness"** means the Parity Bonds and Other Senior Indebtedness.

"**Short-Term Indebtedness"** means Indebtedness which matures by its terms within, and is not renewable at the option of the obligor to a date later than, one (1) year from the date of original creation, assumption or guarantee of such Indebtedness.

"**State"** means the State of Alabama.

"**Subordinated Indebtedness"** shall mean Indebtedness as to which payment of the principal thereof and interest (and premium, if any) thereon is, by the terms of such Indebtedness and any instrument evidencing or securing the same

(a) subordinated and subject in right of payment to the prior payment in full of all amounts due upon the Bonds or Other Senior Indebtedness, and

(b) required to be deferred until payment in full of the Bonds or Other Senior Indebtedness if any Event of Default exists under the Indenture (including without limitation the initiation of bankruptcy, reorganization or similar proceedings by or against the Board).

"**Supplemental Indenture"** means any indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Trust Indenture for the purpose of creating a particular series of Bonds.

"**Taxable"** means not Tax-Exempt.

"**Tax-Exempt"** means, with respect to interest on any obligations of a state or local government, including any series of Bonds or Related Bonds, that such interest is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating other tax liabilities, including any alternative minimum tax, foreign branch profit tax or any other type of taxation other than the regular tax imposed on gross income under the Code.

**"Trust Estate"** means all property and rights of every kind and description, whether real, personal or mixed, and whether tangible or intangible, hereby and hereafter (by Supplemental Indenture or otherwise) granted, bargained, sold, aliened, remised, released, conveyed, assigned, transferred, mortgaged, pledged, set over or confirmed to the Trustee, or intended, agreed or covenanted so to be, together with all appurtenances thereto appertaining.

"**Trustee"** means The Bank of New York Mellon Trust Company, N.A., a national banking association, in its capacity as trustee under the Indenture, until a successor Trustee shall have become such pursuant to the applicable provisions of the Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"**University"** means the institution of higher learning operated by the Board in Tuscaloosa, Alabama, and known as The University of Alabama.

"**Variable Rate Indebtedness"** means any portion of Indebtedness the interest rate on which has not been established at a fixed or constant rate to maturity.

**Purposes of the Indenture**

The Indenture and the agreements set forth therein have been entered into to afford security for the Bonds and to set forth the agreements of the parties.

**Issuance of Bonds**

The Indenture authorizes the issuance of Bonds in series. All the Bonds issued under the Indenture shall be equally and ratably secured by the Indenture and the pledges set forth therein.

**Security Provided**

In the Indenture, the Board pledges for payment of principal of and interest on the Bonds issued thereunder so much as may be necessary therefor of the Pledged Revenues. The Indenture does not create a lien or other charge on any assets, funds or properties of the Board other than the Pledged Revenues.

**Restrictions as to Additional Indebtedness**

The Indenture will provide that the Board will not incur, or otherwise become liable in respect of, any Additional Indebtedness unless either:

(a) the Debt Service Coverage Ratio (taking into account the Indebtedness to be incurred) for the most recently completed Fiscal Year was not less than 2.0, or

(b) prior to incurring such Indebtedness the Board shall deliver to the Trustee a forecast of revenues and expenses indicating that the Debt Service Coverage Ratio (taking into account the Indebtedness to be incurred) for each of the two (2) Fiscal Years immediately following the Fiscal Year in which such Indebtedness is incurred (or, if the acquisition or construction of facilities is being financed by such Indebtedness, in each of the two (2) Fiscal Years following the Fiscal Year in which such Facilities are expected to be placed in service) will be not less than 3.0.

**Parity Bonds or Other Senior Indebtedness**

The Indenture will provide that in the event the Board desires

(a) to refund or retire all or any portion of any Debt then Outstanding, or

(b) to provide funds for any other lawful corporate function or purpose (including, without limitation, financing the costs of acquiring, by construction or otherwise, or of completing the acquisition of, additional facilities or improvements to existing facilities), or

(c) to accomplish two or more of the objectives referred to in the preceding clauses (a) and (b),

it may at any time and from time to time, if it is not to the knowledge of the Trustee in default under the Indenture, issue Parity Bonds or Other Senior Indebtedness for such purpose or purposes, within the limitations of and upon compliance with the provisions of the Indenture summarized under "Conditions Precedent to Issuance of Parity Bonds and Other Senior Indebtedness" in this Appendix C. Any such Parity Bonds or Other Senior Indebtedness shall be considered to have been issued for one of the aforesaid purposes notwithstanding the fact that a part of the proceeds derived by the Board from the sale thereof is required to be paid into a reserve fund to secure the payment of debt service thereon.

**Conditions Precedent to Issuance of Parity Bonds or Other Senior Indebtedness**

The Indenture will provide that prior to the issuance of any Parity Bonds or Other Senior Indebtedness, the Board shall deliver to the Trustee the following:

(a) Supplemental Indenture or Other Senior Indebtedness Document. A Supplemental Indenture, duly executed, sealed and acknowledged on behalf of the Board (if Parity Bonds are being issued) or a certified copy of the Other Senior Indebtedness Document (if Other Senior Indebtedness being incurred) containing the following: (1) a description of the obligations proposed to be issued, including the date, the aggregate principal amount, the denomination or denominations, the interest rate or rates (or provisions for the determination thereof), the maturity or maturities and the form or forms of such obligations, and any provisions for redemption or prepayment thereof prior to their respective maturities; (2) a statement of the purposes or purposes for which such obligations are proposed to be issued; and (3) any other provisions that do not conflict with the provisions hereof;

(b) Provisions. A certified copy of the proceedings taken by the Board authorizing the issuance of such Parity Bonds or the incurring of Other Senior Indebtedness and the execution and delivery of the Supplemental Indenture or Other Senior Indebtedness Document providing therefor, which proceedings shall include the following: (1) a representation that the Board is not at the time in default under the Indenture and that no such default is imminent; (2) the person or persons to whom such Parity Bonds or Other Senior Indebtedness shall be delivered and the consideration to be received by the Board for their issuance; and (3) a listing of all Senior Indebtedness theretofore incurred by the Board and at the time Outstanding;

(c) Evidence of Compliance with Additional Indebtedness Restrictions. Evidence satisfactory to the Trustee that in issuing the Parity Bonds or incurring the Other Senior Indebtedness, the Board is not in violation of the restrictions on incurring Additional Indebtedness summarized under "Restrictions as to Additional Indebtedness" in this Appendix C; and

(d) Opinion of Bond Counsel. An opinion dated the date of issuance of such Parity Bonds or the incurring of Other Senior Indebtedness, signed by Bond Counsel, stating that the issuance or incurring thereof will not result in the interest on any of the then outstanding bonds becoming subject to Federal or Alabama income taxation, and if Parity Bonds are being issued, approving the validity and legality of such Bonds.

Nothing in the Indenture prohibits the Board from issuing obligations secured by Pledged Revenues on a subordinate basis to the Bonds.

**Debt Service Fund**

The Indenture will create a General Revenue Bond Principal and Interest Fund (the "Debt Service Fund") to be held by the Trustee for the purpose of providing for the payment of the principal of and the interest on the Bonds as they mature and redemption price of Bonds called for mandatory redemption. On the last business day preceding any date on which such principal, interest or redemption price becomes payable or principal of Bonds shall be subject to a mandatory redemption requirement, the Board is required to transfer the required amount to the Trustee for deposit in the Debt Service Fund.

The Indenture requires that the Trustee, to the extent practical, cause all moneys on deposit in the Debt Service Fund to be kept continuously invested in Federal Securities or Eligible Certificates.

**Audits**

The Board will maintain complete books and records on a fiscal year basis pertaining to the Pledged Revenues. It will also cause an audit of its books and records to be made at least once each year either by an independent auditor or by an auditor that is an employee of the State of Alabama but not of the Board. Each such audit is required to contain a separate statement of the Pledged Revenues during each fiscal year. Within ten days following the receipt of each audit report, the Board will furnish a copy to the Trustee, the original purchasers of each series of Bonds, the national rating agencies and (upon written request) any holder of Bonds. Also see "CONTINUING DISCLOSURE" in the Official Statement.

**Agreements Respecting the Maintenance of Pledged Revenues**

The Board agrees in the Indenture that, so long as the principal of or the interest on any of the Bonds remains unpaid or until payment thereof shall have been provided for, the Board will, during each Fiscal Year, levy and collect Pledged Revenues against students enrolled at the University in such amounts as will produce Pledged Revenues during such Fiscal Year not less than 200% of Maximum Annual Debt Service.

**To Respect Priority of Pledge of Pledged Revenues**

The pledge of the Pledged Revenues made under the Indenture shall be prior to and superior to any pledge made for the benefit of any securities hereafter issued or any contract hereafter made by the Board, other than Additional Indebtedness (including Parity Bonds and Other Senior Indebtedness), and the Board agrees that in the event it should hereafter issue any securities or make any contract payable out of the Pledged Revenues, other than such Additional Indebtedness, or for which any part of said revenues may be pledged, the Board will recognize in the proceedings under which any such securities or contract are hereafter authorized the priority of the pledge of said revenues made for the benefit of the Bonds and Other Senior Indebtedness.

**Events of Default and Remedies on Default**

The following are events of default under the Indenture:

(a) default in the payment of any principal of, premium (if any) or interest on any Bonds when and as the same shall become due and payable, whether at maturity, by acceleration or otherwise, in accordance with the terms thereof or of the Indenture;

(b) failure of the Board to maintain a Debt Service Coverage Ratio of at least 2.00;

(c) default in the performance, or breach, of any covenant or agreement on the part of the Board contained in the Indenture (other than a covenant or agreement a default in the performance or breach of which is elsewhere in this section specifically dealt with) and the continuance of such default or breach for a period of thirty (30) days after the date on which written notice of such default or breach, requiring the same to be remedied, shall have been given to the Board by the Trustee, or to the Board and the Trustee by the Holders of at least 25% in aggregate principal amount of Bonds then Outstanding; or

(d) default in the payment of any Indebtedness (other than Bonds or Non-Recourse Indebtedness) and any period of grace with respect thereto shall have expired, or an event of default, as defined in any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness, shall occur, which default in payment or event of default shall result in such Indebtedness becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; or

(e) the entry of a decree or order by a court having jurisdiction in the premises for relief in respect of the Board, or adjudging the Board bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, adjustment or composition of or in respect of the Board under the United States Bankruptcy Code or any other similar Federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of or for the Board or any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of such decree or order unstayed and in effect for a period of ninety (90) days; or

(f) the Board shall institute proceedings to be adjudicated a voluntary bankrupt, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization, arrangement or relief under the United States Bankruptcy Code or any other similar Federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator (or other similar official) of the Board or any substantial part of its property or shall make assignment for the benefit of creditors, or shall admit in writing its inability or failure to pay its debts generally as they become due, or corporate action shall be taken by the Board in furtherance of any of the aforesaid purposes.

The Indenture provides that upon the occurrence of an event of default, the Trustee shall have the following rights and remedies:

(a) Acceleration: The Trustee may, by written notice to the Board, declare the principal of and accrued interest on all the Bonds forthwith due and payable, and such principal of and accrued interest on the Bonds shall thereupon become and be immediately due and payable. If, however, the Board makes good that default and every other default under the Indenture (except for those installments of principal declared due and payable that would, absent such declaration, not be due and payable), with interest on all overdue payments of principal and interest, and makes reimbursement of all the reasonable expenses of the Trustee, then the Trustee may (and, if requested in writing by the holders of a majority in principal amount of the then outstanding Bonds, shall), by written notice to the Board, waive such default and its consequences, but no such waiver shall affect any subsequent default or right relative thereto.

(b) Mandamus and Other Remedies: The Trustee shall have the right of mandamus or other lawful remedy in any court of competent jurisdiction to enforce its rights and the rights of the holders of the Bonds against the Board and any officers, agents, or employees of the Board, including but not limited to the right to require the

Board and its officers, agents or employees to perform and observe all of its or their duties under Section 16-3-28 of the Code of Alabama of 1975, as amended.

All remedies under the Indenture are vested exclusively in the Trustee for the equal and pro rata benefit of all holders of the Bonds, unless the Trustee refuses or neglects to act within a reasonable time after written request so to act addressed to the Trustee by the holders of twenty-five percent (25%) of the Bonds, accompanied by indemnity satisfactory to the Trustee, in which event the holder of any of the Bonds may thereupon so act in the name and behalf of the Trustee or may so act in his own name and behalf in lieu of action by or in the name and behalf of the Trustee. Except as provided in the preceding sentence, no holder of any of the Bonds shall have the right to enforce any remedy under the Indenture, and then only for the equal and pro rata benefit of the holders of all the Bonds. No remedy under the Indenture is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be in addition to every other remedy given under the Indenture existing at law or in equity or by statute.

**Concerning the Trustee**

**Limitation of Liability**. The Trustee shall not be liable under the Indenture except for its noncompliance with the provisions thereof, its willful misconduct or its gross negligence.

**Notice of Default**. The Trustee need not notice any default under the Indenture except a default in the payment of the principal of and the interest on the Bonds, unless requested to do so by the holders of twenty-five percent (25 %) in principal amount of the outstanding Bonds.

**Institution of Suit**. The Trustee may, in its own name and at any time, institute or intervene in any suit for the enforcement of all rights under the Indenture without the necessity of joining as parties to such suit or proceedings any holders of the Bonds. The holders of the Bonds appoint the Trustee as their irrevocable agent and attorney in fact for the purpose of enforcing all such rights of action, but such appointment does not include the power to agree to accept new securities of any nature in lieu of the Bonds or to alter or amend the terms of the Indenture except as therein provided.

**Resignation and Discharge**. The Trustee may resign and be discharged by written notice given to the Board and the registered Bondholders.

**Appointment of Successor Trustee**. If the Trustee resigns, is removed, is placed by a court or governmental authority under the control of a receiver or other public officer or is otherwise incapable of acting, a successor may be appointed by the holders of a majority in principal amount of the Bonds and in the interim by the Board.

**Modification of the Indenture**

**Supplemental Indentures Without Bondholder Consent**. The Board and the Trustee may at any time and from time to time enter into such supplemental indentures as shall not be inconsistent with the terms and provisions of the Indenture, for any one or more of the following purposes:

(a) to add to the covenants and agreements of the Board contained in the Indenture other covenants and agreements thereafter to be observed and performed by the Board, provided that such other covenants and agreements shall not either expressly or impliedly limit or restrict any of the obligations of the Board contained in the Indenture;

(b) to cure any ambiguity or to cure, correct or supplement any defect or inconsistent provision contained in the Indenture or in any supplemental indenture or to make any provisions with respect to matters arising under the Indenture or any supplemental indenture or any other purpose if such provisions are necessary or desirable and are not inconsistent with the provisions of the Indenture or any supplemental indenture and do not adversely affect the interests of the holders of the Bonds; or

(c) to subject to the pledge of the Indenture additional revenues or to identify more precisely any of the revenues of the Board subject thereto;

**Supplemental Indentures Requiring Bondholder Consent**. In addition to those supplemental indentures not requiring bondholder consent, the Board and the Trustee may, at any time and from time to time, with the written consent of the holders of not less than a majority in principal amount of Bonds then outstanding, enter into such supplemental indentures as shall be deemed necessary or desirable by the Board and the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture; provided that without the written consent of the holder of each Bond affected, no reduction in the principal amount of, rate of interest on, or the premium payable upon redemption of, any Bond shall be made; and provided, further, that without the written consent of the holders of all the Bonds, none of the following shall be permitted: (a) an extension of the maturity of any installment of principal of or interest on any Bond; (b) any change in the schedule of requiring sinking fund or other similar payments with respect to any series of the Bonds; (c) except in the case of the of Parity Bonds, the creation of a lien or charge on the Pledged Revenues ranking prior to or on a parity with the lien or charge thereon contained in the Indenture; (d) the establishment of preferences or priorities as between the Bonds; or (e) a reduction in the aggregate principal amount of Bonds the holders of which are required to consent to such supplemental indenture.

**Defeasance**

Whenever the entire indebtedness secured by the Indenture shall have been fully paid, the Trustee shall cancel, satisfy and discharge the Indenture. For purposes of the Indenture, any of the Bonds shall be deemed to have been paid when there shall have been irrevocably deposited with the Trustee for payment thereof the entire amount (principal, interest and premium, if any) due or to be due thereon until and at maturity, and, further, any of the Bonds shall also be deemed to have been paid when the Board shall have deposited with the Trustee the applicable redemption price of such Bonds, including the interest that will accrue thereon to the date on which it is to be redeemed.

In addition, any Bonds shall, for purposes of the Indenture, be considered as fully paid when there shall have been filed with the Trustee a trust agreement between the Board and the Trustee making provision for the retirement of such Bonds by creating for that purpose an irrevocable trust fund sufficient to provide for payment and retirement of such Bonds (including payment of the interest that will mature thereon until and on the dates they are retired, as such interest becomes due and payable), either by redemption prior to, by payment at maturity or by payment of part thereof at maturity and redemption of the remainder prior to maturity, which trust fund shall consist of (i) Escrow Securities which are not subject to redemption prior to their respective maturities at the option of the Board and which, if the principal thereof and the interest thereon are paid at their respective maturities, will produce funds sufficient so to provide for payment and retirement of such Bonds, or (ii) both cash and such Escrow Securities which together will produce funds sufficient for such purpose, or (iii) cash sufficient for such purpose.

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# APPENDIX D

## Proposed Opinion of Bond Counsel

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[Closing Date]

Holders of the Series 2009 Bonds
referred to below

Re: $135,425,000 General Revenue Bonds, Series 2009-A (Taxable Direct-Pay Build America Bonds) and $48,060,000 General Revenue Bonds, Series 2009-B (Taxable) issued by The Board of Trustees of the University of Alabama

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance of the above-referenced bonds (together, the "Series 2009 Bonds") by The Board of Trustees of The University of Alabama, a body corporate and instrumentality of the State of Alabama (the "Board"). The Series 2009 Bonds were issued pursuant to a Master Trust Indenture dated as of October 1, 2004, as supplemented and amended (the "Indenture"), between the Board and The Bank of New York Mellon Trust Company, N.A. (formerly The Bank of New York Trust Company, N.A.), a national banking association, as successor trustee (the "Trustee").

The Board operates educational facilities in Tuscaloosa, Alabama through its division, The University of Alabama (the "University"). The Series 2009 Bonds are limited obligations of the Board payable solely from, and secured by a pledge of, all legally available gross revenues derived by the Board from the operation of the University other than State appropriations and certain restricted contributions, grants and other revenues (the "Pledged Revenues"), subject to certain prior pledges. Pursuant to the Indenture the Board has pledged and assigned the Pledged Revenues to the Trustee as security for the payment of the Series 2009 Bonds.

We have examined executed counterparts of the Indenture and the supplemental indentures with respect thereto and such certificates, proceedings, proofs and documents as we have deemed necessary in connection with the opinions hereinafter set forth.

As to questions of fact material to our opinion, we have relied upon the representations of the Board or the University contained in the Indenture and in the certified proceedings and other certifications of officials of the Board and University and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Board has been duly organized and is validly existing as a public corporation and instrumentality of the State of Alabama under Section 264 of the Constitution of Alabama of 1901, as amended, and Chapter 47 of Title 16 of the Code of Alabama of 1975.

2. The Board has power and authority to enter into and perform its obligations under the Indenture and to issue and deliver the Series 2009 Bonds. The execution, delivery and performance by the Board of its obligations under the Indenture and the issuance and delivery of the Series 2009 Bonds have been duly authorized by all requisite action of the Board, and the Series 2009 Bonds have been duly executed and delivered by the Board.

3. The Series 2009 Bonds constitute valid and binding special obligations of the Board, payable solely out of the Pledged Revenues.

4. The Indenture constitutes a valid and binding obligation of the Board and is enforceable against the Board in accordance with the terms of the Indenture.

5. The Indenture creates a valid pledge and assignment of the Pledged Revenues for the security of the Series 2009 Bonds on a parity with all other bonds (if any) issued under the Indenture.

6. Under existing law, interest on the Series 2009 Bonds is exempt from State of Alabama income taxation.

7. Under existing law, interest on the Series 2009 Bonds is includible in the gross income of the registered owners thereof for federal income tax purposes.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds. Further, we express no opinion regarding tax consequences arising with respect to the Bonds other than as expressly set forth herein.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

The rights of the holders of the Series 2009 Bonds and the enforceability thereof and of the Indenture may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and general principles of equity, including the exercise of judicial discretion in appropriate cases.

MAYNARD, COOPER & GALE, P.C.

* Assumes Series 2009-A Bonds are issued as traditional tax-exempt bonds. Subject to adjustment if Series 2009-A Bonds are issued as direct-pay Build America Bonds.